Nigerian Breweries Plc.

Q1-2017: Price Hike; Good Start to the Year

In our view, NB's reported Q1-17 result impressed on two main fronts: (1) 18% y/y revenue growth and (2) 255 bps q/q expansion of gross margin. Both were ahead of Cordros' (+3% y/y and +38 bps q/q respectively) and consensus (5% y/y revenue growth) estimates.

Revenue benefitted strongly from the high pricing regime. We recall that NB increased prices on some SKUs in January, in addition to the increases implemented in the second half of last year. Relative to Q1-16, NB's average prices are currently higher by about 20% (Cordros' estimate), sufficient to compensate for the mid single-digit decline in volume, as reported by the management. With the decline in volume significantly lagging percentage price increase, we look for a higher net-price effect on 2017F revenue (N367.4 billion) than previously expected (N325.1 billion).

Although gross margin was lower y/y, it was better than we expected, and also reasonably ahead of Q4-16's, which we consider a "litmus test" for our coverage of FMCG companies. While pricing continues to support margin recovery from the record-low Q3-16 level, the sharp appreciation of the Naira at the parallel market (where producers still meet considerable FX requirements) during the period, signaling possible productivity savings, may have underpinned the q/q margin improvement. That said, management's reiteration of challenging underlying trading conditions suggests that margin recovery will remain modest, amidst continued consumer preference for lower margin value brands.

Also on the positive, the lower y/y and q/q finance charges strongly validates easing FX headwind. In the interim, the risk of FX losses (resulting from potential devaluation of the local currency) over-bloating finance charges has been lessened by the obvious "resolute" of the central bank to hold the line on the Naira.

Overall, in our view, NB's sales volume, notwithstanding the modest decline, has shown resilience, considering the magnitude of price increases implemented thus far. And while this will combine with higher average price to drive double-digit revenue growth over 2017F, improving liquidity of FX (potentially reducing the amount of USD requirement purchased from alternative markets), if sustained with continued focus on cost efficiencies, will act as tailwinds for margin and profitability. We have revised NB's TP higher to N120.17 (previously N106.95), and upgrade recommendation to HOLD. The share price has declined by 5% since we last updated.

Income Statement (N'bn)	Q1-17a	Q2-17e	Q3-17e	Q4-17e
Turnover	91.29	95.85	76.68	103.52
Cost of Sales	-50.72	-53.68	-42.94	-57.97
Gross profit	40.56	42.18	33.74	45.55
Opex	-21.57	-23.96	-19.17	-25.88
Other income	0.20	0.18	0.18	0.18
Operating income	19.20	18.39	14.75	19.85
Interest Expenses	-1.81	-1.85	-1.85	-1.85
Interest income	0.05	0.12	0.12	0.12
Profit before tax	17.44	16.67	13.03	18.12
Taxation	-5.99	-5.00	-3.91	-5.44
Profit after tax	**11.45**	**11.67**	**9.12**	**12.69**

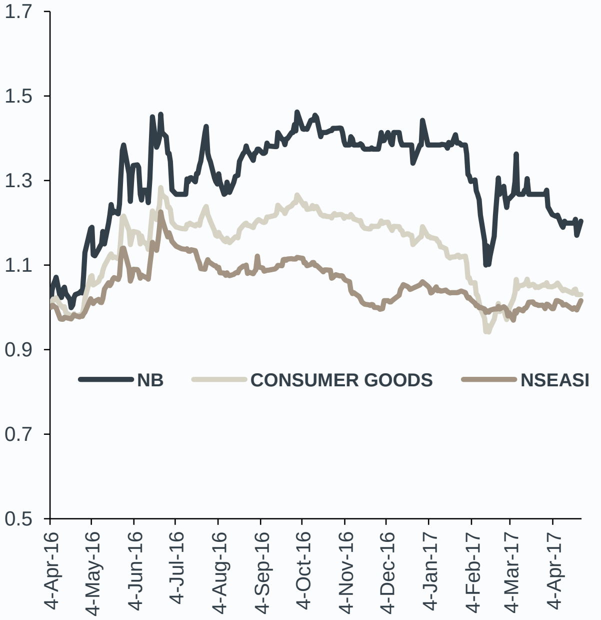
HOLD

Target Price (N)	120.15
Current Price (N)	123.50
Implied Return (%)	-2.71

Company Data	
NSE Code	NB
Bloomberg Code	NB:NL
Reuters Code	NB.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	979.24
Free Float (%)	47.32

Ratios	Q1-2017	Q1-2016	2016FY
Gross margin	44.44%	48.07%	43.20%
Opex margin	23.62%	25.05%	26.53%
EBIT margin	21.03%	23.20%	16.86%
PAT margin	12.54%	13.48%	9.06%
RoAE	16.33%*	21.05%	16.81%
EPS (N)	1.44	1.32	3.58

Price movement (NB vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Financial Statement (N'billion).

Income Statement (N'bn)	2015a	2016a	2017f	2018f	2019f
Revenue	293.91	313.74	367.35	385.71	406.93
Cost of sales	-151.44	-178.22	-205.32	-215.59	-227.44
Gross profit	142.46	135.52	162.03	170.12	179.49
Operating expenses	-80.72	-83.24	-90.58	-95.30	-100.75
Other income	0.48	0.62	0.73	0.77	0.81
Net finance cost	-7.71	-13.23	-6.93	-7.28	-7.68
Profit before tax	54.51	39.67	65.26	68.31	71.87
Tax	-16.46	-11.26	-20.34	-20.97	-22.06
Profit after tax	38.06	28.42	44.92	47.35	49.81

Financial Position (N'bn)	2015a	2016a	2017f	2018f	2019f
Property, plant and equipment	197.30	191.18	214.41	224.73	236.68
Intangible assets and goodwill	100.61	99.48	113.78	119.26	125.60
Investments	0.15	0.15	0.15	0.15	0.15
Other recievables	0.32	0.62	0.85	0.89	0.94
Prepayments	0.35	1.15	1.23	1.29	1.36
Total non-current assets	***298.74***	***292.59***	***330.42***	***346.33***	***364.73***
Inventory	28.41	31.24	45.10	47.28	49.79
Trade and other receivables	16.51	19.97	30.90	32.39	34.12
Prepayments	1.04	0.30	0.89	0.94	0.99
Deposits for imports	2.23	8.43	10.95	11.48	12.09
Assets held for sale	4.18	2.45	2.45	2.45	2.45
Cash and cash equivalents	5.11	12.16	8.39	8.92	9.53
Total current assets	***57.48***	***74.56***	***98.70***	***103.46***	***108.97***
Total Assets	***356.22***	***367.15***	***429.12***	***449.79***	***473.70***
Loans and borrowings	0.00	17.00	6.00	6.00	6.00
Employee benefits	11.90	10.10	12.89	13.87	15.00
Deferred tax liabilities	31.91	29.88	36.51	39.25	42.47
Total non-current liabilities	***43.82***	***56.98***	***55.40***	***59.12***	***63.47***
Bank overdraft/Comm paper	19.21	0.87	3.66	3.66	3.66
Current tax liabilities	20.22	19.02	33.74	36.28	39.25
Dividend payable	12.40	12.68	11.03	11.86	12.83
Loans and borrowings	3.00	0.00	0.00	0.00	0.00
Provisions		0.50	5.20	6.32	7.63
Trade and other payables	85.25	111.68	142.26	152.97	165.50
Total current liabilities	***140.08***	***144.76***	***195.89***	***211.09***	***228.87***
Total liabilities	***183.90***	***201.73***	***251.29***	***270.21***	***292.34***
Total Equity	**172.32**	**165.41**	**177.83**	**179.58**	**181.35**

Profitability Ratios	2015a	2016a	2017f	2018f	2019f
Gross profit margin	48.5%	43.2%	44.1%	44.1%	44.1%
EBITDA margin	30.8%	26.3%	28.3%	28.3%	28.3%
PBT margin	18.5%	12.6%	17.8%	17.7%	17.7%
Net profit margin	12.9%	9.1%	12.2%	12.3%	12.2%
RoAE	22.4%	16.8%	26.2%	26.5%	27.6%
RoAA	12.3%	11.9%	10.8%	9.8%	9.3%

Liquidity Ratios	2015a	2016a	2017f	2018f	2019f
Working capital (N'bn)	-82.6	-70.2	-97.2	-107.6	-119.9
Current ratio	0.4x	0.5x	0.5x	0.5x	0.5x
Quick ratio	0.2x	0.3x	0.3x	0.3x	0.3x
Cash ratio	0.0x	0.1x	0.0x	0.0x	0.0x

Efficiency Ratios	2015a	2016a	2017f	2018f	2019f
Fixed assets turnover	1.5x	1.6x	1.7x	1.7x	1.7x
Current assets turnover	5.1x	4.2x	3.7x	3.7x	3.7x
Total assets turnover	0.8x	0.9x	0.9x	0.9x	0.9x
Inventory turnover	0.2x	0.2x	0.2x	0.2x	0.2x
Receivables turnover	0.1x	0.1x	0.1x	0.1x	0.1x
Payables turnover	0.6x	0.6x	0.6x	0.7x	0.7x
Days inventory outstanding	69	61	68	78	78
Days collection/sales outstanding	20	21	25	30	30
Days payable outstanding	46	2	7	6	6
Cash conversion cycle	43	81	87	102	102

Investment Ratios	2015a	2016a	2017f	2018f	2019f
Earnings per share (N)	4.8	3.6	5.7	6.0	6.3
Dividend per share (N)	4.8	3.6	5.7	6.0	6.3
Payout	100.0%	99.9%	100.0%	100.0%	100.0%
Dividend yield	3.8%	2.4%	4.6%	4.8%	5.1%

Source: Company accounts, Cordros research estimates

Disclosures.

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