Guinness Nigeria Plc.

Upward Revision to Estimates on Margin Recovery

The management of GUINNESS recently guided to the drivers of the margin recovery in H2 of 2017 to specifically include pricing and cost-saving productivity initiatives. Although management provided no further guidance on prices, it is our view that subsequent pricing action is more likely to be upside than downside. Also, management plans to double capex in 2018F, and will commit part of the spending to productivity and efficiency projects. In addition, stable FX has reduced margin headwinds in the short term. Altogether, these should temper the impact of (1) negative mix from consumers' increasing preference for lower priced accessible brands and (2) higher raw materials prices (Sorghum +124% y/y and Barley +18% y/y). Consequently, we increase gross margin estimate over our forecast period to 43%, from 32% previously.

Aside margin recovery, lower finance charges are a potential tailwind for GUINNESS' earnings. From a record N9.8 billion in 2017FY, finance charge is expected to more than halve in 2018F on (1) the reduction of borrowings upon completion of the rights issue and (2) possible non-recognition of FX loss. Both respectively accounted for 68% and 32% of total financing cost in 2017FY, and 5% and 3% respectively of revenue in the last two years.

Conversely, we revise revenue growth forecast over 2018F lower to 5%, from 11% previously, after sales in Q4-17 came in lower (by 9%) than we expected. It is management's view that Nigerian beer consumers' purchasing power remains pressured, notwithstanding the seeming improvement in the macro environment. It is our view that the strong revenue growth experienced from both spirits and oversea sales (notably to South Africa) in 2017FY (from zero bases) will likely stabilize in 2018F. We are also concerned that having sold strongly in 2017 owing to brand awareness campaigns, the growth of *Satzenbrau* may taper with increasing consumers' familiarity with the product, and also considering that the brand is sold at a higher price point compared to a year ago. Meanwhile, we retain the 2019-2023 revenue CAGR of 8%, in line with stronger economic and consumer recovery expectation.

Our estimate for tax rate has been revised higher to 32% (previously 29%) in line with guidance from management. GUINNESS' effective tax rate averaged 25% in the last five years.

Net impact of the above changes is for EBITDA and net profit growth of 45% and 384% respectively in 2018F, and 2019-2023 CAGR of 8% and 8.5% respectively. Following the upward review to estimates, we have increased our 2018F TP to N91.11 (previously N80.02). The TP also reflects the planned doubling of capex in 2018F. **HOLD**.

Income Statement (N'bn)	Q1-18e	Q2-18e	Q3-18e	Q4-18e
Revenue	24.96	36.99	29.88	40.02
COGS	-14.23	-21.09	-17.03	-22.81
Gross profit	10.73	15.91	12.85	17.21
opex	-7.74	-11.47	-9.26	-12.41
Other income	0.21	0.21	0.21	0.21
EBIT	3.21	4.65	3.80	5.02
Int. expense	-1.74	-1.74	0.00	0.00
Int. income	0.13	0.13	0.13	0.13
PBT	1.59	3.04	3.93	5.14
Tax	-0.51	-0.97	-1.26	-1.65
PAT	1.08	2.06	2.67	3.50

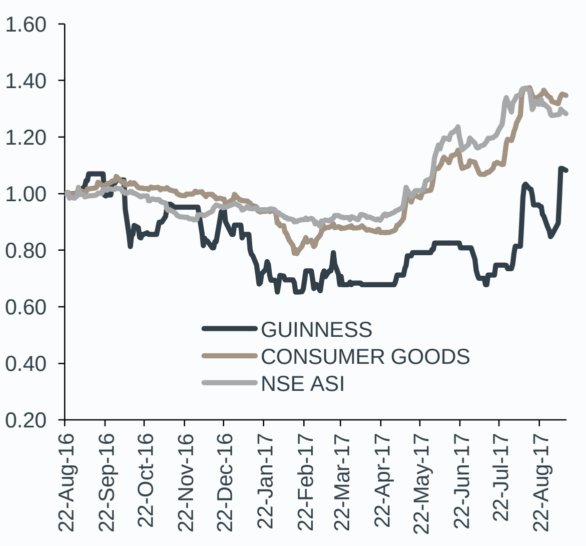
HOLD

Target Price (N)	90.11
Current Price (N)	95.80
Implied Return (%)	-4.90

Company Data	
NSE Code	GUINNESS
Bloomberg Code	GUINNESS:NL
Reuters Code	GUINNES.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	209.84
Free Float (%)	45.61

Ratios	Q4-2017	Q4-2016	2017FY
Gross margin	44.78%	35.68%	38.37%
Opex margin	28.93%	33.65%	30.95%
EBITDA margin	23.29%	9.05%	15.23%
EBIT margin	16.63%	2.51%	8.09%
PAT margin	12.42%	-8.90%	1.53%
EPS (N)	2.97	-1.91	1.28

Price movement (GUINNESS vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (N'billion).

Income Statement (N'bn)	2015a	2016a	2017a	2018e	2019e
Turnover	118.50	101.97	125.92	131.85	142.14
Cost of sales	-62.60	-60.16	-77.60	-75.15	-81.01
Gross profit	55.89	41.81	48.32	56.69	61.14
M&D expenses	-27.11	-24.89	-25.72	-26.98	-28.99
Administrative expenses	-13.83	-13.01	-13.25	-13.90	-14.93
Other income/expenses	0.72	0.50	0.85	0.85	0.85
Operating profit/loss	15.67	4.42	10.19	16.67	18.07
Interest expenses	-5.58	-7.95	-9.78	-3.49	-1.42
Interest income	0.71	1.19	2.25	0.51	0.55
Profit before tax	10.80	-2.35	2.66	13.69	17.19
Taxation	-3.00	0.33	-0.74	-4.38	-5.50
Profit after tax	**7.79**	**-2.02**	**1.92**	**9.31**	**11.69**

Financial Position (N'bn)	2015a	2016a	2017a	2018e	2019e
Property, plant and equipment	87.75	87.23	87.32	81.62	87.03
Intangible assets	0.94	1.71	1.36	1.36	1.45
Prepayments	0.01	0.18	0.12	0.17	0.18
Other receivables	0.02	-	0.00	0.00	0.00
Total non-current assets	88.74	89.12	88.81	83.16	88.66
Inventories	10.75	13.02	23.09	27.69	29.52
Trade and other receivables	15.50	26.51	22.97	23.92	25.51
Prepayments	1.45	2.49	1.23	1.37	1.46
Cash and cash equivalents	5.80	5.84	9.93	10.36	11.05
Total current assets	33.51	47.87	57.23	63.34	67.54
Total assets	**122.25**	**136.99**	**146.04**	**146.50**	**156.20**
Loans and borrowings	12.25	14.03	24.89	-	-
Non current financial liabilities	-	-	-	-	-
Employee benefits	2.21	1.25	0.98	0.61	0.65
Deferred tax liabilities	13.34	12.94	13.51	8.90	9.45
Total non-current liabilities	27.80	28.22	39.38	9.51	10.10
Bank overdraft	1.47	2.94	7.54	0.00	0.00
Current tax liabilities	2.28	0.59	0.15	0.09	0.10
Dividend Payable	3.90	3.86	3.48	2.97	3.15
Loans and borrowings	6.97	22.20	9.50	0.00	0.00
Trade and other payables	31.48	37.53	43.05	46.79	49.60
Total current liabilities	46.10	67.11	63.72	49.85	52.86
Total liabilities	**73.91**	**95.33**	**103.10**	**59.36**	**62.96**
Share Capital	0.75	0.75	0.75	1.10	1.10
Share premium	8.96	8.96	8.96	48.32	48.32
Share based payment reserve	0.02	-	-	-	-
Retained earnings	38.61	31.95	33.23	37.72	43.83
Total equity	**48.34**	**41.66**	**42.94**	**87.14**	**93.24**

Profitability Ratios	2015a	2016a	2017a	2018e	2019e
Gross profit margin	47.17%	41.00%	38.37%	43.00%	43.01%
EBITDA margin	22.79%	13.08%	16.45%	21.02%	21.05%
Operating profit margin	13.22%	4.33%	8.09%	12.65%	12.71%
PBT margin	9.11%	-2.30%	2.11%	10.39%	12.10%
Net profit margin	6.58%	-1.98%	1.53%	7.06%	8.23%
RoAE	16.69%	-4.48%	4.55%	14.32%	12.96%
RoAA	6.12%	-1.56%	1.28%	5.99%	7.73%

Liquidity Ratios	2015a	2016a	2017a	2018e	2019e
Working capital (N'bn)	-12.59	-19.24	-2.63	13.49	14.68
Current ratio	0.73x	0.71x	0.96x	1.27x	1.28x
Quick ratio	0.49x	0.52x	0.54x	0.72x	0.72x
Cash ratio	0.13x	0.09x	0.16x	0.21x	0.21x

Debt Ratios	2015a	2016a	2017a	2018e	2019e
Net debt/EBITDA	0.6x	2.5x	2.0x	-0.4x	-0.4x
Interest cover	2.8x	0.6x	1.0x	4.8x	12.7x
Debt/equity	42.80%	94.02%	121.64%	0.00%	0.00%

Efficiency Ratios	2015a	2016a	2017a	2018e	2019e
Fixed assets turnover	1.35x	1.17x	1.38x	1.62x	1.63x
Current assets turnover	3.54x	2.13x	1.77x	2.08x	2.10x
Total assets turnover	0.97x	0.74x	0.77x	0.90x	0.91x
Inventory turnover	5.17x	5.06x	3.52x	2.56x	2.83x
Receivables turnover	6.83x	4.85x	4.72x	5.20x	5.75x
Payables turnover	2.01x	1.74x	1.76x	1.54x	1.68x
Days inventory outstanding	71	72	104	143	129
Days collection/sales outstanding	53	75	77	70	63
Days payable outstanding	90	161	126	116	115
Cash conversion cycle	34	-14	55	97	77

Investment Ratios	2015a	2016a	2017a	2018e	2019e
Earnings per share (N)	5.18	-1.34	1.28	4.25	5.34
Dividend per share (N)	3.20	0.50	3.20	2.55	3.20
Payout	62%	-37%	250%	60%	60%
Dividend yield	2.66%	0.60%	4.92%	3.92%	4.92%

Source: Company Accounts, Cordros Research

Disclosures.

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