

Guinness Nigeria Plc.

Upward Revision to Estimates on Margin Recovery

Despite higher y/y EBITDA and net profit in Q1-18, we revise 2018 forecasts for GUINNESS lower by 15% and 26% respectively, on negative surprises on gross margin and finance cost lines, which more than offset better-than-expected revenue. The realized net profit in Q1 was below consensus by 97%. Estimates for 2019-2020 were also revised lower by 3% and 5% average. On net, we cut our TP for the stock by 16% to NGN76.70/share and downgrade rating to SELL.

We cut gross margin estimate for 2018 by 405 bps to 39% and by 200 bps average to 41%, for 2019-2020. Compared to Q4-17, GUINNESS' Q1-18 gross margin was lower by 1,000 bps, and the margin has declined consistently since the surprise surge to record 55% in Q3-17. The gains from stable FX, efficiency measures (via productivity saving programs and ZBB), and product mix strategy, aimed to mitigate margin headwinds, are being offset by consumers growing preference for value beer (estimated to currently represent more than 50% of market volume). In addition, key raw material input prices (Sorghum in this case) were higher m/m in key markets in July and August, although September data show some moderation.

Our forecast for finance cost was increased by 68% to NGN5.9 billion, following the sharp spike (249% q/q) at the beginning of the year. Although proceeds from the recently concluded Rights Issue have been applied to significantly reduce borrowings (-67% q/q), it is unlikely that GUINNESS will be completely unlevered going forward. However, we retained our lower finance cost forecasts for 2019-2020, reflecting the significantly (1) deleveraged balance sheet and (2) reduced FX headwinds from repaying large portion of FCY loans (-61% q/q).

We raise revenue growth estimate to 20% (previously 5%), after realized Q1 sales came ahead of our estimate by 20%. Whilst noting the continued subdued beer consumer market, with competition remaining intense, we would also mention tailwinds from the increasing visibility of GUINNESS' newly launched mainstream spirits and premium scotch, amidst continued strong growth of the value beer segment – driven by *Satzenbrau and Dubic*.

Net impact of the above changes is for EBITDA and net profit growth of 23% (previously 45%) and 260% (previously 384%) respectively in 2018F, and 2019-2023 CAGR of 8% and 8.6% respectively. GUINNESS' share price has gained 7% QtD and 30% YtD, and we estimate the stock is trading on 2018F P/E of 32.2x, a significant premium when compared with its five-year historical P/E of 13.7x (31.7x excluding 2016FY).

Income Statement (NGN'bn)	Q1-18a	Q2-18e	Q3-18e	Q4-18e
Revenue	29.90	41.93	33.87	45.36
COGS	(19.53)	(25.16)	(20.32)	(27.22)
Gross profit	10.37	16.77	13.55	18.14
OPEX	(7.89)	(13.00)	(11.86)	(14.06)
Other income	0.17	0.23	0.23	0.23
Operating profit	2.65	4.00	1.92	4.31
Interest expense	(3.84)	(0.68)	(0.68)	(0.68)
Interest income	1.23	0.64	0.64	0.64
Profit before tax	0.04	3.97	1.89	4.28
Taxation	0.00	(1.27)	(0.60)	(1.37)
Profit after tax	0.04	2.70	1.28	2.91

SELL

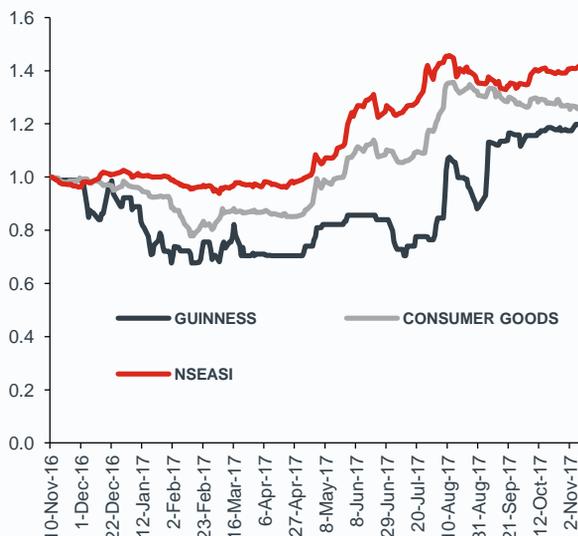
Target Price (NGN)	76.70
Current Price (NGN)	102.00
Implied Return (%)	-24.80

Company Data

NSE Code	GUINNESS
Bloomberg Code	GUINNESS:NL
Reuters Code	GUINNES.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	223.42
Free Float (%)	36.36

Ratios	Q1-2018	Q1-2017	2017FY
Gross margin	34.69%	36.21%	38.37%
Opex margin	26.39%	33.67%	30.95%
EBITDA margin	16.33%	12.56%	15.23%
EBIT margin	8.86%	2.98%	8.09%
PAT margin	0.14%	-9.67%	1.53%
EPS (N)	0.02	-1.48	1.28

Price movement (GUINNESS vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (N'billion).

Income Statement						Profitability Ratios					
	2016a	2017a	2018e	2019e	2020e		2016a	2017a	2018e	2019e	2020e
Turnover	101.97	125.92	151.07	162.87	175.58	Gross profit margin	41.00%	38.37%	38.95%	41.00%	41.01%
Cost of sales	-60.16	-77.60	-92.23	-96.09	-103.58	EBITDA margin	13.08%	15.23%	15.67%	17.78%	17.85%
Gross profit	41.81	48.32	58.84	66.77	72.01	Operating profit margin	4.33%	8.09%	8.53%	10.64%	10.71%
Operating expenses	-37.90	-38.98	-46.81	-50.30	-54.05	PBT margin	-2.30%	2.11%	6.73%	10.01%	10.08%
Other income/expenses	0.50	0.85	0.85	0.85	0.85	Net profit margin	-1.98%	1.53%	4.59%	6.81%	6.86%
Operating profit/loss	4.42	10.19	12.88	17.33	18.80	RoAE	-4.48%	4.55%	10.60%	12.15%	12.36%
Interest expenses	-7.95	-9.78	-5.87	-1.63	-1.76	RoAA	-1.56%	1.36%	4.12%	5.64%	5.75%
Interest income	1.19	2.25	3.15	0.60	0.65						
Profit before tax	-2.35	2.66	10.17	16.30	17.70	Liquidity Ratios					
Taxation	0.33	-0.74	-3.24	-5.22	-5.66	Working capital (NGN'bn)	-19.24	-6.49	4.44	5.13	4.29
Profit after tax	-2.02	1.92	6.93	11.08	12.04	Current ratio	0.71x	0.90x	1.06x	1.07x	1.05x
						Quick ratio	0.52x	0.54x	0.57x	0.57x	0.56x
						Cash ratio	0.09x	0.16x	0.16x	0.16x	0.16x
Financial Position						Debt Ratios					
	2016a	2017a	2018e	2019e	2020e		2016a	2017a	2018e	2019e	2020e
Property, plant and equipment	87.23	87.32	108.22	115.22	122.69	Net debt/EBITDA	2.5x	1.7x	0.1x	0.1x	0.0x
Intangible assets	1.71	1.36	1.61	1.71	1.82	Interest cover	0.6x	1.0x	2.2x	10.6x	10.7x
Prepayments	0.18	0.12	0.12	0.13	0.13	Debt/equity	94.02%	97.62%	15.70%	14.55%	13.77%
Other receivables	-	0.00	-	-	-						
Total non-current assets	89.12	88.81	109.95	117.06	124.65	Efficiency Ratios					
Inventories	13.02	23.09	35.66	37.97	40.43	Fixed assets turnover	1.17x	1.44x	1.40x	1.41x	1.43x
Trade and other receivables	26.51	22.97	28.46	30.30	32.27	Current assets turnover	2.13x	2.20x	1.97x	2.00x	2.02x
Prepayments	2.49	1.23	1.05	1.12	1.19	Total assets turnover	0.74x	0.86x	0.79x	0.80x	0.81x
Cash and cash equivalents	5.84	9.93	11.34	12.08	12.86	Inventory turnover	5.06x	4.30x	3.14x	2.61x	2.64x
Total current assets	47.87	57.23	76.52	81.46	86.75	Receivables turnover	4.85x	5.09x	5.87x	5.54x	5.61x
Total assets	136.99	146.04	190.44	202.75	215.90	Payables turnover	1.74x	1.93x	1.88x	1.70x	1.72x
Loans and borrowings	14.03	24.89	9.05	9.05	9.05	Days inventory outstanding	72	85	116	140	138
Non current financial liabilities	-	-	-	-	-	Days collection/sales outstanding	75	72	62	66	65
Employee benefits	1.25	0.98	1.46	1.54	1.65	Days payable outstanding	161	108	113	115	114
Deferred tax liabilities	12.94	13.51	20.11	21.17	22.68	Cash conversion cycle	-14	49	66	91	89
Total non-current liabilities	28.22	39.38	30.63	31.76	33.39						
Bank overdraft	2.94	7.54	2.05	2.05	2.05	Investment Ratios					
Current tax liabilities	0.59	0.15	0.23	0.25	0.26	Earnings per share (N)	-1.34	1.28	3.16	5.06	5.50
Dividend Payable	3.86	3.48	11.91	13.26	15.20	Dividend per share (N)	0.50	0.64	1.90	3.04	3.30
Loans and borrowings	22.20	9.50	2.67	2.67	2.67	Payout	-37%	50%	60%	60%	60%
Trade and other payables	37.53	43.05	55.20	58.10	62.27	Dividend yield	0.60%	0.98%	1.86%	2.98%	3.23%
Total current liabilities	67.11	63.72	72.07	76.33	82.46						
Total liabilities	95.33	103.10	102.70	108.09	115.85						
Share Capital	0.75	0.75	1.10	1.10	1.10						
Share premium	8.96	8.96	47.45	47.45	47.45						
Share based payment reserve	-	-	-	-	-						
Retained earnings	31.95	33.23	39.19	46.12	51.51						
Total equity	41.66	42.94	87.74	94.66	100.05						

Source: Company Accounts, Cordros Research

Disclosures

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