

# Nigerian Breweries Plc.

## Cut to Estimates; SELL Rating Maintained

We cut NB's 2017F EBITDA and net profit forecasts by 14% and 23% respectively, on downwardly revised revenue growth and gross margin estimates, following the surprise miss in Q3. We also cut forecasts for 2018-2019 by 8% and 13% average respectively, specifically on the cut to revenue forecasts. On net, we cut our TP for the stock by 3% to NGN123.16/share and reiterate our SELL rating on the stock. We also roll forward our estimates and valuation by one year.

We cut revenue growth estimate to 12% (previously 18%), after realized Q3 sales came 9% behind our estimate, notwithstanding that price was increased at the beginning of the quarter. Average growth estimate of 5% for 2018-2019 is unchanged, as the effects of price hikes wane. Significant moderation of inflation on stronger naira and election-related spending, are upside risks to our estimates.

We cut gross margin estimate for 2017 by 220 bps to 43% and by 100 bps average to 44%, for 2018-2019. While we consider the surprise 1,100 bps decline in Q3-17 GM one-off (as we do not expect amount recognized for technical fees will remain elevated), the slight downward revision to 2018-2019 estimates reflects the upward price outlook of key production material inputs. Specifically, the price of BARLEY is forecast to rise +6% over 2018-2019 while the increase in locally sourced SORGHUM price could be more, on rising domestic and external demand, amidst slowly growing production. And while acknowledging the better macro outlook, we expect a fundamental change in the current pattern of consumption in the beer industry (i.e. strong growth of the value beer segment) to lag.

Net impact of the above changes is for EBITDA and net profit growth of 15% (previously 33%) and 27% (previously 64%) respectively in 2017F, and 2018-2022 CAGR of 6% and 6.6% respectively. NB' share price has declined 13% QtD and 3% YtD, and we estimate the stock is trading on 2018F P/E of 25.9x, implying 14% and 5% discounts respectively when compared with its five-year historical P/E of 30x and Bloomberg's MEA 1-year forward peer average of 27.3x.

Income Statement (NGN'bn)	Q1-17a	Q2-17q	Q3-17a	Q4-17e	Q4-16a	y/y e
Turnover	91.29	89.72	73.68	95.78	91.03	5%
Cost of Sales	-50.72	-48.95	-48.32	-52.68	-52.90	0%
Gross profit	40.56	40.77	25.36	43.10	38.12	13%
Opex	-21.57	-22.27	-22.59	-23.95	-23.39	2%
Other income	0.20	1.62	0.21	0.14	0.21	-33%
Operating income	19.20	20.12	2.98	19.30	14.94	29%
Interest Expenses	-1.81	-3.54	-2.65	-2.35	-3.16	-26%
Interest income	0.05	0.04	0.04	0.14	0.09	50%
Profit before tax	17.44	16.62	0.37	17.09	11.88	44%
Taxation	-5.99	-4.32	-0.11	-5.13	-3.57	43%
<b>Profit after tax</b>	<b>11.45</b>	<b>12.30</b>	<b>0.26</b>	<b>11.96</b>	<b>8.31</b>	<b>44.0%</b>

## SELL

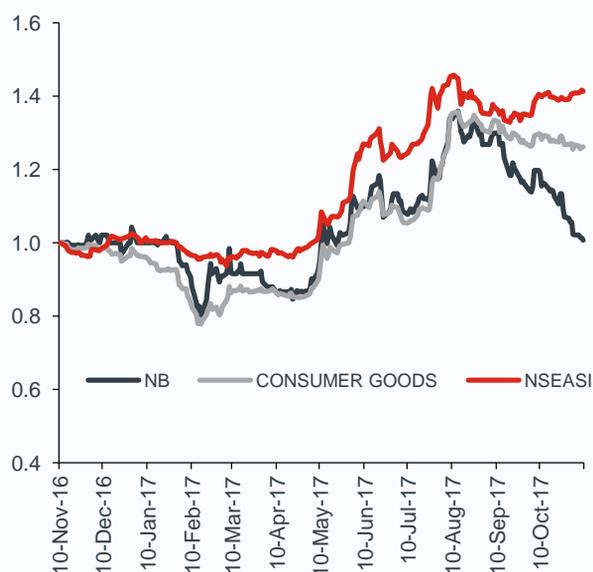
Target Price (NGN)	123.16
Current Price (NGN)	143.00
Implied Return (%)	-13.88

### Company Data

NSE Code	NB
Bloomberg Code	NB:NL
Reuters Code	NB.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	1,081.47
Free Float (%)	47.32

Ratios	Q3-2017	Q3-2016	2016FY
Gross margin	34.41%	35.84%	43.20%
Opex margin	30.66%	29.87%	26.53%
EBITDA margin	14.80%	17.13%	26.34%
EBIT margin	4.04%	6.15%	16.86%
PAT margin	0.35%	1.60%	9.06%
EPS (N)	0.03	0.14	3.58

### Price movement (NB vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

# Financial Statement (NGN'billion).

Income Statement	2015a	2016a	2017e	2018e	2019e	Profitability Ratios	2015a	2016a	2017e	2018e	2019e
Revenue	293.91	313.74	350.47	368.00	388.24	Gross profit margin	48.5%	43.2%	42.7%	43.9%	43.9%
Cost of sales	-151.44	-178.22	-200.68	-206.46	-217.81	EBITDA margin	30.8%	26.3%	27.1%	28.4%	28.4%
Gross profit	142.46	135.52	149.79	161.54	170.43	PBT margin	18.5%	12.6%	14.7%	17.1%	17.2%
Operating expenses	-80.72	-83.24	-90.37	-92.54	-97.82	Net profit margin	12.9%	9.1%	10.3%	11.9%	11.9%
Other income	0.48	0.62	2.17	0.74	0.78	RoAE	22.4%	16.8%	21.4%	25.1%	26.0%
Net finance cost	-7.71	-13.23	-10.08	-6.68	-6.64	RoAA	12.3%	11.9%	11.3%	10.6%	10.1%
Profit before tax	54.51	39.67	51.52	63.06	66.75						
Tax	-16.46	-11.26	-15.54	-19.35	-20.48	Liquidity Ratios	2015a	2016a	2017e	2018e	2019e
Profit after tax	38.06	28.42	35.97	43.70	46.26	Working capital (NGN'bn)	-82.6	-70.2	-58.7	-65.1	-76.2
						Current ratio	0.4x	0.5x	0.6x	0.6x	0.6x
						Quick ratio	0.2x	0.3x	0.3x	0.3x	0.3x
						Cash ratio	0.0x	0.1x	0.1x	0.1x	0.1x
Financial Position	2015a	2016a	2017e	2018e	2019e	Efficiency Ratios	2015a	2016a	2017e	2018e	2019e
Property, plant and equipment	197.30	191.18	186.81	195.82	206.24	Fixed assets turnover	1.5x	1.6x	1.9x	1.9x	1.9x
Intangible assets and goodwill	100.61	99.48	101.72	106.63	112.30	Current assets turnover	5.1x	4.2x	3.5x	3.5x	3.5x
Investments	0.15	0.15	0.15	0.15	0.15	Total assets turnover	0.8x	0.9x	0.9x	0.9x	0.9x
Other receivables	0.32	0.62	0.58	0.61	0.64	Inventory turnover	0.2x	0.2x	0.2x	0.3x	0.3x
Prepayments	0.35	1.15	9.32	9.77	10.29	Receivables turnover	0.1x	0.1x	0.1x	0.1x	0.1x
Total non-current assets	298.74	292.59	298.59	312.98	329.62	Payables turnover	0.6x	0.6x	0.6x	0.6x	0.6x
Inventory	28.41	31.24	51.65	54.14	57.02	Days inventory outstanding	69	61	75	94	93
Trade and other receivables	16.51	19.97	25.60	26.84	28.26	Days collection/sales outstanding	20	21	24	26	26
Prepayments	1.04	0.30	0.66	0.69	0.73	Days payable outstanding	46	2	0	0	0
Deposits for imports	2.23	8.43	6.27	6.58	6.93	Cash conversion cycle	43	81	99	119	119
Assets held for sale	4.18	2.45	2.45	2.45	2.45						
Cash and cash equivalents	5.11	12.16	13.04	13.79	14.67	Investment Ratios	2015a	2016a	2017e	2018e	2019e
Total current assets	57.48	74.56	99.68	104.49	110.06	Earnings per share (N)GN	4.8	3.6	4.5	5.5	5.8
Total Assets	356.22	367.15	398.27	417.47	439.68	Dividend per share (N)GN	4.8	3.6	4.5	5.5	5.8
Loans and borrowings	-	17.00	28.00	28.00	28.00	Payout	100.0%	99.9%	100.0%	100.0%	100.0%
Employee benefits	11.90	10.10	11.38	12.06	13.08	Dividend yield	3.8%	2.4%	3.2%	3.9%	4.1%
Deferred tax liabilities	31.91	29.88	29.15	30.90	33.51						
Total non-current liabilities	43.82	56.98	68.53	70.96	74.60						
Bank overdraft/Comm paper	19.21	0.87	0.10	0.10	0.10						
Current tax liabilities	20.22	19.02	18.80	19.93	21.61						
Dividend payable	12.40	12.68	8.72	9.24	10.02						
Loans and borrowings	3.00	-	-	-	-						
Provisions	-	0.50	2.68	4.53	7.29						
Trade and other payables	85.25	111.68	128.06	135.75	147.25						
Total current liabilities	140.08	144.76	158.36	169.55	186.28						
Total liabilities	183.90	201.73	226.88	240.52	260.88						
Total Equity	172.32	165.41	171.38	176.95	178.80						

Source: Company Accounts, Cordros Research

# Disclosures

**Analyst:**

**Christian Orajekwe** (*christian.orajekwe@cordros.com*)

**Analyst's Certification and Disclaimer**

The research analyst(s) whose name(s) appear(s) on the cover of this report certifies (y) that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers;
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report; and
- (3) all analysis made by the analyst(s) were in good faith and the views expressed reflect their opinion, without undue influence or any intervention.

**Rating Summary & Definitions**

Cordros Capital uses the following rating system:

**BUY (OVERWEIGHT)** - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

**HOLD (NEUTRAL)** - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

**SELL (UNDERWEIGHT)** - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

**Important Disclosure**

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.