Nigerian Breweries Plc.

Q1-18: Revenue decline and higher finance charges outweigh improvement in gross profit margin

Update: NB published its Q1-2018 result yesterday, showing revenue contracted at single-digit and finance charge increased at high double-digit y/y. Both outweighed the improvement in gross profit margin and the decline in opex, resulting in PBT and PAT coming short by 13% and 11% y/y respectively. Compared to Q4-17, PBT and PAT grew by 25% and 13% respectively – notwithstanding revenue contraction of 8% – on higher gross margin and lower opex and net finance charge. The EPS of NGN1.28 was lower than consensus by c.10%.

Low sales volume drags on revenue: Revenue was lower 9% y/y and 8% q/q, and by 10%, compared to our estimate. The decline, despite lower base price, is clearly indicative of lower volume outturn during the period. Consistently, for two quarters, NB has now reported y/y decline in revenue, mainly attributed to volumes. In its Q1-18 trading update, Heineken N.V. (NB's parent company) said it experienced high single-digit decline in beer volume in Nigeria, partly due to some de-stocking at the distributor level. That aside, we should also reiterate the increasing competition – and consequently, pressure on market share – that NB faces (especially the hitherto volume-supportive economy/new mainstream brands) with the growing national presence of INTBREW. We are encouraged by the lower Q1 revenue to retain our conservative 7% growth estimate for 2018E.

Margin recovers; but there's still more ground to cover: Gross profit margin increased 126 bps y/y and 481 bps q/q to 45.8%, although below the 46.9% we estimated for the quarter. The margin is NB's highest since Q2-16, but still at an obvious discount to the pre-2016 average of c.50%. NB's management had said during the 2017FY call, that the focus of its cost leadership programme is on achieving efficiencies and optimization, including through the right balance of imports and local sourcing of raw materials. There has been marked softening in the price of local sorghum thus far this year, especially in February and March. And on our estimate, the price of barley (-11% YtD and -6% y/y in Q1-18) is also relatively lower compared to last year, and importantly, the naira has been stable. The improved gross margin is consistent with our positive outlook for 2018E (43% vs. 41.7% in 2017FY), even as we consider the traditionally weak Q3 margin.

Also worthy of note in the latest result, is the 26 bps y/y and 480 bps q/q increase in EBIT margin, supported by a decline in opex (5% y/y and 7% q/q) and an increase in other income (6% y/y and 16% q/q). NB's opex has grown at low single-digit in the last two years, while the ratio-to-revenue has declined consistently, as management continues to take measured steps at containing spending, amidst thinner sales margins.

FX loss provisions push finance cost higher: Cumulatively, finance cost was higher by 36% y/y, albeit lower q/q. We estimate the FX component of finance cost to be NGN1.1 billion in Q1-18, 87% y/y and 17% q/q higher. Trade payables reduced by c.20% from end-December 2017, the settlement effect (using, in our view, the NAFEX rate, vs. the official rate in Q1-17) of which we believe is reflected in the higher differential in FX losses. Despite gross outstanding debt at NGN30.5 billion (vs. NGN8.5 billion as at end-December 2017 and NGN9.7 billion in March 2017), interest expense was lower by 5% y/y and 29% q/q. We revise finance cost estimate for 2018E higher, to NGN9.9 billion, from NGN5.5 billion previously, reflecting the higher charge in Q1, and also, higher borrowings than previously estimated.

Valuation: We maintain our SELL recommendation at TP of NGN107.25 (previously NGN109.75) even as we slightly revise our estimates. On our estimates, NB currently trades at FY18E P/E and EV/EBITDA multiples of 26.2x and 10.3x respectively.

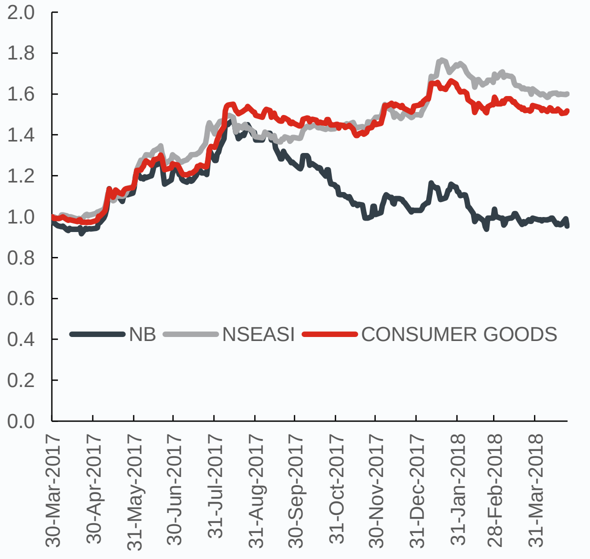
SELL

Target Price (NGN)	107.25
Current Price (NGN)	129.70
Implied Return (%)	-17.31

Company Data	
NSE Code	NB
Bloomberg Code	NB:NL
Reuters Code	NB.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	1,037.20
Free Float (%)	47.32

Ratios	Q1-2018	Q1-2017	2017FY
Gross margin	45.82%	44.56%	41.66%
Opex margin	24.80%	23.75%	25.73%
EBITDA margin	30.43%	32.70%	26.48%
EBIT margin	21.29%	21.03%	16.58%
PAT margin	12.30%	12.54%	9.59%
EPS (N)	1.28	1.44	4.13

Price movement (NB vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Summary of Quarterly Results.

Income Statement	31-Mar-18	31-Mar-17	Q1-18 y/y	Q1-18 q/q	Q4-17	Q3-17	Q2-17	Cordros Q1-18e	Deviation
Turnover	**82.97**	91.29	*-9%*	*-8%*	89.87	73.68	89.72	92.17	*-10%*
Cost of sales	**-44.95**	-50.61	*-11%*	*-15%*	-53.01	-48.32	-48.95	-48.90	*-8%*
Gross Profit	**38.02**	40.68	*-7%*	*3%*	36.86	25.36	40.77	43.27	*-12%*
Operating expenses	**-20.57**	-21.68	*-5%*	*-7%*	-22.22	-22.59	-22.27	-21.58	*-5%*
Other Operating Income/Expenses	**0.22**	0.21	*6%*	*16%*	0.19	0.21	1.62	0.18	*18%*
EBIT/ Operating Income	**17.66**	19.20	*-8%*	*19%*	14.82	2.98	20.12	21.87	*-19%*
Interest Expenses	**-2.45**	-1.81	*36%*	*-8%*	-2.67	-2.65	-3.54	-1.98	*24%*
Interest income	**0.04**	0.05	*-19%*	*-20%*	0.05	0.04	0.04	0.07	*-48%*
Profit Before Tax	**15.25**	17.44	*-13%*	*25%*	12.20	0.37	16.62	19.97	*-24%*
Taxation	**-5.04**	-5.99	*-16%*	*59%*	-3.16	-0.11	-4.32	-6.82	*-26%*
Profit After Tax	**10.21**	11.45	*-11%*	*13%*	9.04	0.26	12.30	13.14	*-22%*

Ratios	31-Mar-18	31-Mar-17	Q4-17	Q3-17	Q2-17	Cordros Q1-18e
Gross profit margin	*45.82%*	*44.56%*	*41.01%*	*34.41%*	*45.44%*	*46.94%*
Gross opex margin	*-24.80%*	*-23.75%*	*-24.73%*	*-30.66%*	*-24.82%*	*-23.42%*
EBIT margin	*21.29%*	*21.03%*	*16.49%*	*4.04%*	*22.42%*	*23.73%*
EBITDA margin	*30.43%*	*32.70%*	*25.72%*	*15.28%*	*0.00%*	
Interest cover	*7.20x*	*10.61x*	*5.55x*	*1.13x*	*5.69x*	*11.07x*
PBT margin	*18.38%*	*19.10%*	*13.58%*	*0.50%*	*18.52%*	*21.66%*
PAT margin	*12.30%*	*12.54%*	*10.06%*	*0.35%*	*13.71%*	*14.26%*
EPS	*1.28*	*1.44*	*1.13*	*0.03*	*1.54*	*1.64*

Source: Company Accounts, Cordros Research estimates

Financial Statement (NGN'billion).

Income Statement	2014a	2015a	2016a	2017a	2018e	2019e
Revenue	266.37	293.91	313.74	344.56	368.68	388.96
Cost of sales	-130.79	-151.44	-178.22	-201.01	-210.15	-221.70
Gross profit	135.58	142.46	135.52	143.55	158.53	167.26
Operating expenses	-70.44	-80.72	-83.24	-88.65	-92.71	-98.00
Other income	1.72	0.48	0.62	2.22	0.74	0.78
Net finance cost	-5.40	-7.71	-13.23	-10.49	-9.54	-9.52
Profit before tax	61.46	54.51	39.67	46.63	57.03	60.52
Tax	-18.94	-16.46	-11.26	-13.58	-17.50	-18.57
Profit after tax	42.52	38.06	28.42	33.05	39.52	41.94

Financial Position	2014a	2015a	2016a	2017a	2018e	2019e
Property, plant and equipment	193.80	197.30	191.18	195.23	198.52	209.10
Intangible assets and goodwill	97.97	100.61	99.48	98.28	101.29	106.68
Investments	0.15	0.15	0.15	0.15	0.15	0.15
Other recievables	0.19	0.32	0.62	0.55	0.61	0.64
Prepayments	0.19	0.35	1.15	0.53	0.61	0.64
Total non-current assets	***292.30***	***298.74***	***292.59***	***294.74***	***301.17***	***317.21***
Inventory	28.48	28.41	31.24	42.73	46.59	49.07
Trade and other receivables	16.36	16.51	19.97	20.38	24.31	25.60
Prepayments	1.82	1.04	0.30	1.04	2.03	2.13
Deposits for imports	0.36	2.23	8.43	7.47	8.10	8.53
Assets held for sale	-	4.18	2.45	0.00	0.00	0.00
Cash and cash equivalents	5.70	5.11	12.16	15.87	22.95	24.17
Total current assets	***52.72***	***57.48***	***74.56***	***87.49***	***103.97***	***109.52***
Total Assets	***345.02***	***356.22***	***367.15***	***382.23***	***405.15***	***426.72***
Loans and borrowings	24.67	-	17.00	8.00	12.47	12.47
Employee benefits	10.74	11.90	10.10	13.21	15.42	16.77
Deferred tax liabilities	27.83	31.91	29.88	26.67	28.65	31.14
Total non-current liabilities	***63.24***	***43.82***	***56.98***	***47.88***	***56.54***	***60.37***
Bank overdraft/Comm paper	0.23	19.21	0.87	0.47	18.00	18.00
Current tax liabilities	22.95	20.22	19.02	19.61	21.18	23.03
Dividend payable	7.56	12.40	12.68	8.03	8.68	9.43
Loans and borrowings	-	3.00	-	-	-	-
Provisions	-	-	0.50	0.00	0.00	0.00
Trade and other payables	83.28	85.25	111.68	127.95	115.96	128.69
Total current liabilities	***114.03***	***140.08***	***144.76***	***156.05***	***163.81***	***179.14***
Total liabilities	***177.26***	***183.90***	***201.73***	***203.93***	***220.35***	***239.51***
Total Equity	**167.76**	**172.32**	**165.41**	**178.30**	**184.80**	**187.22**

Profitability Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Gross profit margin	50.9%	48.5%	43.2%	41.7%	43.0%	43.0%
EBITDA margin	34.3%	30.8%	26.3%	26.5%	27.5%	27.5%
EBIT margin	25.10%	21.17%	16.86%	16.58%	18.05%	18.01%
PBT margin	23.1%	18.5%	12.6%	13.5%	15.5%	15.6%
Net profit margin	16.0%	12.9%	9.1%	9.6%	10.7%	10.8%
RoAE	30.4%	22.4%	16.8%	19.2%	21.8%	22.6%
RoAA	14.4%	12.3%	11.9%	11.5%	10.9%	10.4%

Liquidity Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Working capital (NGN'bn)	-61.3	-82.6	-70.2	-68.6	-59.8	-69.6
Current ratio	0.5x	0.4x	0.5x	0.6x	0.6x	0.6x
Quick ratio	0.2x	0.2x	0.3x	0.3x	0.4x	0.3x
Cash ratio	0.0x	0.0x	0.1x	0.1x	0.1x	0.1x

Efficiency Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Fixed assets turnover	1.4x	1.5x	1.6x	1.8x	1.9x	1.9x
Current assets turnover	5.1x	5.1x	4.2x	3.9x	3.5x	3.6x
Total assets turnover	0.8x	0.8x	0.9x	0.9x	0.9x	0.9x
Inventory turnover	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Receivables turnover	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Payables turnover	0.6x	0.6x	0.6x	0.6x	0.6x	0.6x
Days inventory outstanding	69	69	61	67	78	79
Days collection/sales outstanding	21	20	21	21	22	23
Days payable outstanding	1	46	2	1	31	30
Cash conversion cycle	89	43	81	88	68	73

Investment Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Earnings per share (N)	5.6	4.8	3.6	4.1	4.9	5.2
Dividend per share (N)	4.8	4.8	3.6	4.1	4.9	5.2
Payout	84.5%	100.0%	99.9%	99.9%	100.0%	100.0%
Dividend yield	3.8%	3.8%	2.4%	3.2%	3.8%	4.0%
PE	22.4x	26.3x	41.3x	31.7x	26.2x	24.7x
EV/EBITDA	10.6x	11.2x	14.3x	11.4x	10.3x	9.8x

Source: Company Accounts, Cordros Research

Disclosures.

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