Guinness Nigeria Plc.

SELL rating unchanged as we cut TP slightly lower

Update: We update on GUINNESS following Q4-18 and 2018FY results and call with management. The 2018FY result was helped by performance in the earlier quarters, masking a very disappointing fourth quarter (EBITDA: -38% y/y and -16% q/q, EBIT: -55% y/y and -33% q/q, and net profit: -64% y/y and -45% q/q). The operating environment is expected to remain challenging, and competition intense in the near term. Management shares this view, but is confident that its strategies are yielding the desired result. We still expect EPS to grow in 2019E, but have revised estimate lower.

Slight cut to TP; SELL rating maintained: GUINNESS' stock has lost 15% since we last updated in April with SELL rating. We cut our TP lower to NGN70.91/share (previously NGN73.75/share) and maintain SELL on 16.6% downside, including our estimated dividend yield of c.3%. While noting that equities have broadly been bearish YtD, we attribute part of GUINNESS' share price decline to investor reaction to the unimpressive H2-18 earnings (-31% PAT vs. H1-17). On our revised estimates, the stock is trading at forward (2018E) P/E and EV/EBITDA multiples of 21.3x and 8.0x, a discount to its five-year historical averages of 33.1x and 9.3x respectively.

Volume crucial for revenue growth: Management said that about 70% of the revenue growth in 2018FY was on volume, driven by accessible beer and malt, as well as mainstream spirits. We forecast 10% revenue growth in 2019E, and expect volume will gain support from the stronger commercial and RTM activities we have observed with GUINNESS, including portfolio expansion/extension and the reversal of earlier price increases.

We are conservative on margins: We leave our gross margin estimate for 2019E at 34%, unchanged vs. 2018FY. In our view, both the cost environment and competitor price actions offer no positive outlook for gross margin in the near term. And we see little-to-no impact on margin from volume mix, as we expect assessible brands will continue to drive most of GUINNESS' volume performance. On competition and margin effect, it is instructive to note that even the market leader has resolved to taking the full hit of the excise tariff hike.

Compared to our previous estimate, we cut EBIT margin lower by 90 bps to 9.5% (2018FY: 9.4%). We raise estimate for opex-to-revenue ratio to 25% (previously 24%), reflecting (1) the negative surprise in Q4-18 –which impacted earnings the most during the period and (2) expected higher spend on commercial activities and RTM in support of our volume outlook.

Estimate: The net impact of the changes to our model is a slight cut to 2019E EPS estimate to NGN4.13 (previously NGN4.71), implying 35% growth over 2018FY. Net finance cost, which we forecast to more than halve in 2019E on the assumption of nil FX losses, is a major driver of our EPS estimate.

SELL

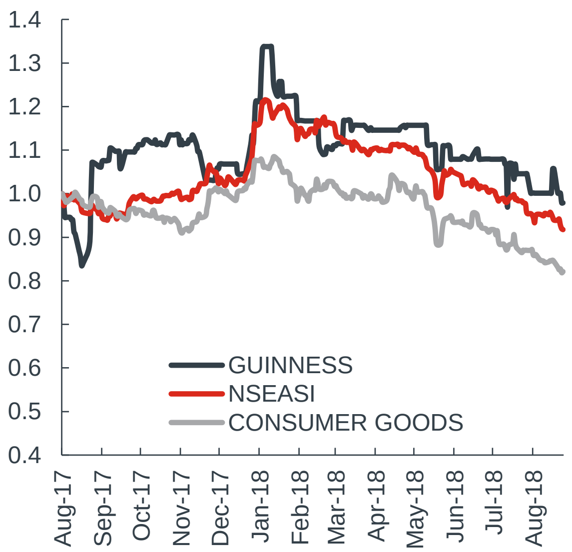
Target Price (NGN)	70.91
Current Price (NGN)	88.00
Implied Return (%)	-19.42
Expected Dividend Yield (%)	2.82
Expected Total Return	-16.60

Company Data	
NSE Code	GUINNESS
Bloomberg Code	GUINNESS:NL
Reuters Code	GUINNES. LG
Sector	CONSUMER GOODS
Market Cap. (NGN' bn)	192.75
Free Float (%)	37.40

Ratios	Q4-2018	Q4-2017	2018FY
Gross margin	34.78%	44.78%	34.01%
Opex margin	28.15%	28.93%	25.11%
EBITDA margin	13.95%	23.29%	15.82%
EBIT margin	7.22%	16.63%	9.36%
PAT margin	4.35%	12.42%	4.70%
EPS (NGN)	0.74	2.97	3.07

*Trailing 12m

Price movement (GUINNESS vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Summary of Results.

Income Statement (NGN'bn)	2018FY	2017FY	Q4-18a	Q4-y/y	Q4 q/q	Q3-18a	Q2-18a	Q1-18a
Sales	142.98	125.92	37.49	*4%*	*7%*	34.93	40.65	29.90
COGS	-94.35	-77.60	-24.45	*23%*	*5%*	-23.34	-27.03	-19.53
Gross profit	**48.63**	**48.32**	**13.04**	***-19%***	***13%***	**11.59**	**13.62**	**10.37**
Opex	-35.91	-38.98	-10.55	*1%*	*36%*	-7.73	-9.73	-7.89
Other income	0.67	0.85	0.22	*-22%*	*26%*	0.17	0.10	0.17
EBIT	**13.39**	**10.19**	**2.71**	***-55%***	***-33%***	**4.03**	**4.00**	**2.65**
Int. expense	-5.64	-9.78	-0.65	*-41%*	*222%*	-0.20	-0.96	-3.84
Int. income	2.20	2.25	-0.01	*-102%*	*-101%*	0.52	0.46	1.23
PBT	**9.94**	**2.66**	**2.05**	***-60%***	***-53%***	**4.35**	**3.50**	**0.04**
Tax	-3.23	-0.74	-0.42	*-35%*	*-70%*	-1.39	-1.41	0.00
PAT	**6.72**	**1.92**	**1.63**	***-64%***	***-45%***	**2.96**	**2.09**	**0.04**
EBITDA	**22.62**	**19.18**	**5.23**	***-38%***	***-16%***	**6.26**	**6.25**	**4.88**

Source: Company Accounts, Cordros Research estimates

Financial Statements (NGN billion).

Income Statement	2016a	2017a	2018a	2019e	2020e
Turnover	101.97	125.92	142.98	155.84	168.01
Cost of sales	-60.16	-77.60	-94.35	-102.86	-110.87
Gross profit	41.81	48.32	48.63	52.99	57.14
Operating expenses	-37.90	-38.98	-35.91	-38.96	-41.84
Other income/expenses	0.50	0.85	0.67	0.78	0.67
Operating profit/loss	4.42	10.19	13.39	14.81	15.98
Interest expenses	-7.95	-9.78	-5.64	-1.56	-1.68
Interest income	1.19	2.25	2.20	0.06	0.07
Profit before tax	-2.35	2.66	9.94	13.31	14.37
Taxation	0.33	-0.74	-3.23	-4.26	-4.60
Profit after tax	**-2.02**	**1.92**	**6.72**	**9.05**	**9.77**

Financial Position	2016a	2017a	2018a	2019e	2020e
Property, plant and equipment	87.23	87.32	97.60	105.26	112.29
Intangible assets	1.71	1.36	1.00	1.08	1.15
Prepayments	0.18	0.12	0.04	0.05	0.05
Other receivables	-	0.00	-	-	-
Total non-current assets	89.12	88.81	98.64	106.38	113.49
Inventories	13.02	23.09	19.03	20.53	21.90
Trade and other receivables	26.51	22.97	23.89	25.76	27.48
Prepayments	2.49	1.23	0.88	0.94	1.01
Cash and cash equivalents	3.62	6.59	7.45	8.04	8.57
Total current assets	47.87	57.23	54.61	55.27	58.96
Total assets	**136.99**	**146.04**	**153.25**	**165.28**	**176.31**
Loans and borrowings	14.03	24.89	8.12	8.12	8.12
Non-current financial liabilities	-	-	-	-	-
Employee benefits	1.25	0.98	1.10	1.22	1.34
Deferred tax liabilities	12.94	13.51	13.60	15.05	16.44
Total non-current liabilities	28.22	39.38	22.82	24.39	25.89
Bank overdraft	2.94	7.54	0.00	0.00	0.00
Current tax liabilities	0.59	0.15	2.84	3.14	3.43
Dividend Payable	3.86	3.48	3.21	5.02	6.75
Loans and borrowings	22.20	9.50	5.62	5.62	5.62
Trade and other payables	37.53	43.05	31.18	34.50	37.68
Total current liabilities	67.11	63.72	42.85	48.28	53.48
Total liabilities	**95.33**	**103.10**	**65.67**	**72.67**	**79.36**
Net Assets	**41.66**	**42.94**	**87.59**	**92.61**	**96.95**
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	39.05	44.07	48.41
Total equity	**41.66**	**42.94**	**87.59**	**92.61**	**96.95**

Profitability Ratios	2016a	2017a	2018a	2019e	2020e
Gross profit margin	41.00%	38.37%	34.01%	34.00%	34.01%
EBITDA margin	13.08%	15.23%	15.82%	15.96%	15.97%
Operating profit margin	4.33%	8.09%	9.36%	9.50%	9.51%
PBT margin	-2.30%	2.11%	6.95%	8.54%	8.55%
Net profit margin	-1.98%	1.53%	4.70%	5.81%	5.81%
RoAE	-4.48%	4.55%	10.29%	10.05%	10.31%
RoAA	-1.56%	1.36%	4.49%	5.68%	5.72%

Liquidity Ratios	2016a	2017a	2018a	2019e	2020e
Working capital (NGN'bn)	-19.24	-6.49	11.76	6.99	5.48
Current ratio	0.71x	0.90x	1.27x	1.14x	1.10x
Quick ratio	0.52x	0.54x	0.83x	0.72x	0.69x
Cash ratio	0.05x	0.10x	0.17x	0.17x	0.16x

Debt Ratios	2016a	2017a	2018a	2019e	2020e
Net debt/EBITDA	2.7x	1.8x	0.3x	0.2x	0.2x
Interest cover	0.6x	1.0x	2.4x	9.5x	9.5x
Debt/equity	94.02%	97.62%	15.68%	14.83%	14.17%

Efficiency Ratios	2016a	2017a	2018a	2019e	2020e
Fixed assets turnover	1.17x	1.44x	1.46x	1.48x	1.50x
Current assets turnover	2.13x	2.20x	2.62x	2.82x	2.85x
Total assets turnover	0.74x	0.86x	0.93x	0.94x	0.95x
Inventory turnover	5.06x	4.30x	4.48x	5.20x	5.23x
Receivables turnover	4.85x	5.09x	6.10x	6.28x	6.31x
Payables turnover	1.74x	1.93x	2.54x	3.13x	3.07x
Days inventory outstanding	72	85	81	70	70
Days collection/sales outstanding	75	72	60	58	58
Days payable outstanding	161	108	92	91	90
Cash conversion cycle	-14	49	49	37	37

Investment Ratios	2016a	2017a	2018a	2019e	2020e
Earnings per share (N)	-1.34	1.28	3.07	4.13	4.46
Dividend per share (N)	0.50	0.64	2.10	2.48	2.68
Payout	-37%	50%	68%	60%	60%
Dividend yield	0.60%	0.98%	2.15%	2.82%	3.04%
PE	-62.0x	50.9x	31.9x	21.3x	19.7x
EV/EBITDA	12.0x	6.9x	9.7x	8.0x	7.4x

Source: Company Accounts, Cordros Research estimates

Disclosures.

Analyst:

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

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