

Effective cost management keeps the “ship sailing”.

Guinness Nigeria Plc's (GUINNESS) Q1 2024 numbers showed resilience across key performance metrics. The renowned foreign extra stout brewer recorded double-digit Revenue growth of 12.7% y/y to N59.54bn (Q1 2024) amidst the nation's high inflation which has weakened consumer purchasing power. Sales volumes remained pressured in the face of stiff competition, and as consumers persist in adapting their spending preferences towards essentials. However, we believe the company's performance will improve in the next quarter (Q2) as holiday season demand drives sales.

That said, as part of the company's Environmental Social Governance (ESG) efforts to mitigate environmental pollution, production of its sachet mainstream spirit has been stopped. This, in addition to the lingering effects of the fuel subsidy removal and the FX unification policy on demand, may result in a minimal decline in Revenue in the short term especially as there is little room for price increases without a dent to volumes. On the cost side, we expect a minimal rise in cost of sales and operating expenses in coming quarters. Management's efforts at cost cutting seems to be yielding positive results and Barley (a key input for beer) prices have moderated in recent months, down 34.8% y/y.

We maintain a positive long-term outlook on GUINNESS Nigeria Plc, given its market share size - c.24%, its widely accepted products, improved production efficiency, market strategies and plans by the company's management to stop importation of some of Diageo's premium spirits and to pay up dollar-denominated loans to reduce exposure to FX fluctuations. We expect the business to return to profitability in FY 2024e with projected net earnings of N18.4bn. We retain a Buy recommendation on Guinness, with a price target of N93.01/s. We derive our price target using a 60/40 blend of DCF valuation and sector relative valuation estimates.

Guinness Nigeria

Q1 2024

Nm, except where mentioned otherwise	Q1'24	Q1'23	y/y	Q1'24	Q4'23	q/q
Revenue	59,536	52,850	12.7%	59,536	56,962	4.5%
Cost of Sales (Ex-Dep)	(39,481)	(33,046)	19.5%	(39,481)	(37,511)	5.3%
Gross Profit	20,056	19,804	1.3%	20,056	19,452	3.1%
Administrative expenses (Ex-Dep)	(3,037)	(3,358)	-9.6%	(3,037)	(3,792)	-19.9%
Marketing and Distribution Expenses (Ex-Dep)	(7,766)	(8,967)	-13.4%	(7,766)	(9,223)	-15.8%
Impairment (Loss)/Writeback	0	0	NA	0	(74)	NA
OPEX	(10,802)	(12,325)	-12.4%	(10,802)	(13,089)	-17.5%
EBITDA	9,253	7,479	23.7%	9,253	6,363	45.4%
Depreciation and Amortization	(2,775)	(2,235)	24.2%	(2,775)	(2,476)	12.1%
Operating Profit	6,478	5,244	23.5%	6,478	3,886	66.7%
Other Income	1,396	660	111.4%	1,396	2,050	-31.9%
EBIT	7,874	5,905	33.3%	7,874	5,937	32.6%
Net Finance Income	(4,056)	(1,862)	117.8%	(4,056)	(38,009)	-89.3%
Profit before tax	3,818	4,042	-5.6%	3,818	(32,072)	NA
Tax expense	(1,222)	(1,294)	-5.6%	(1,222)	8,047	NA
Profit from continuing operations	2,596	2,749	-5.6%	2,596	(24,025)	NA
Profit from discontinued operations	-	-	-	-	-	-
Net (Loss)/Profit	2,596	2,749	-5.6%	2,596	(24,025)	NA
Net income attributable to equity holders	2,596	2,749	-5.6%	2,596	(24,034)	NA
Diluted EPS	1.19	1.25	-4.8%	1.19	(10.97)	NA
Margins:	Q1'24	Q1'23	y/y	Q1'24	Q4'23	q/q
Gross margin	33.7%	37.5%	-3.8ppts	33.7%	34.1%	-0.5ppts
Opex Margin	18.1%	23.3%	-5.2ppts	18.1%	23.0%	-4.8ppts
EBITDA Margin	15.5%	14.2%	1.4ppts	15.5%	11.2%	4.4ppts
PBT Margin	6.4%	7.6%	-1.2ppts	6.4%	-56.3%	NA
Net margin	4.4%	5.2%	-0.8ppts	4.4%	-42.2%	NA

Source: Company, CSL Research

Recommendation

Buy

Target Price

N93.01

Closing Price

N65.00

*Price as at 14 November

Key data

Year to June, Nbn

	2022	2023	2024e	2025e
Sales	206.8	229.4	268.9	294.8
EBITDA	30.1	29.8	37.1	40.1
Net Profits	16.0	-17.7	18.4	20.3
EPS, N	7.3	-8.1	8.4	9.3
PE Ratio	8.9x	-7.7x	7.1x	6.0x
EV/EBITDA	3.5x	3.6x	3.7x	3.2x
Dividend yield	0.7%	0.0%	9.8%	11.6%

Market cap. N142.4bn (US\$189.9m)

Free float 29.9%

Bloomberg GUINNESS:NL

Reuters GUINNES.LG

Five-year graph



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Sturdy top-line.

Revenue growth of 12.7% in the first quarter of the company's new financial year 2024 shows the company's resilience amidst recent economic headwinds like inflation, insecurity, Q3 cash crunch & fuel scarcity, elections, and FX scarcity. Although Volume was down by 3.7% in the previous year, due to insecurity in the eastern part of Nigeria (major market) causing incessant "sit at home" orders. The situation appears to be under control now and we expect growth in volumes in coming quarters, especially in the yuletide season. We have a revised Revenue growth forecast of +17.2% for FY 2024e (N268.9bn), and of Revenue by product contribution: Brand Guinness +18%, Mainstream Spirit +40% vs FY23, Malt & Ready to Drink (RTDs) +15% vs FY22, Premium spirits +2%.

Management strategy; to reduce cost.

Cost of Sales (adjusted for depreciation) grew by 19.6% y/y to N41.4bn while Gross Margin marginally declined to 33.7% from 37.5% y/y. We believe the management's plans to reduce overdependence on imported raw materials for production, stop importation and distribution of certain Diageo international premium spirits products, including Johnnie Walker, Baileys, and other brands will save the business sizable FX cost and improve its Gross Margin. We expect little impact on Revenue considering that for FY 2023 result, the imported Premium spirits contributed <1% to Revenue. The company also plans to further increase domestic sourcing of raw materials up to c.85%, leaving majorly machineries to be imported.

Operating Expenses declined 12.4% y/y to N10.8bn from N12.3bn (Q1 2023) and was down 17.5% q/q. In our view, this is a pointer to the consistent effort of the company's management to maintain a considerably cost-effective operation as shown in their productivity savings: +114% FY 2023 and logistics efficiencies despite hike in diesel price.

Business Liquidity

The business has a stable cash conversion cycle of (123) days, which has optimally improved its cash and cash equivalent balance, up 19.4% to N76.3bn from N63.9bn y/y. With this, management believes dollar-denominated debts can be paid from the cashflow.

Outlook

The company's strategy appears quite clear. It aims to enhance operational efficiency by divesting from businesses that have become challenging to manage. The creation of a new subsidiary dedicated to handling the importation of international spirits is a clear signal that this decision is intended to relieve Guinness of that aspect of the business and ultimately create added value for its shareholders. While this strategic shift is expected to result in a 1-3% reduction in Revenue for Guinness Nigeria, it is designed to mitigate the associated challenges related to foreign exchange (FX) devaluation and scarcity. The business has stopped producing its sachet mainstream spirit (MSS), implying Revenue may also take a minimal hit. Factoring fuel subsidy removal and FX unification policy and with no clear direction of possible price increase from the management, we readjust our Revenue growth forecast for 2024e down to 17.5% (N269.5bn), from 20.2%. We expect the business to return to profitability in FY 2024e with projected net earnings of N18.4bn.



Valuation

We retain a **Buy** recommendation on Guinness with a price target of N93.01/s derived from 60/40 blend of a DCF valuation and sector relative valuation estimates (EV/EBITDA). On EV/EBITDA, we utilised Bloomberg's 2023e Middle East & African peer average (11.1x) and derived a fair value (FV) estimate of N164/s. Our DCF FV was N45.69/s assuming a 17.2% WACC and 3% terminal growth rate.

Guinness Nig Financials

<i>Nm (except where stated)</i>	2020	2021	2022	2023	2024e	2025e	2026e
Income Statement							
Revenues	104,376	160,416	206,822	229,441	268,920	294,801	338,558
Cost of Sales*	(63,078)	(108,345)	(127,705)	(144,263)	(169,814)	(186,588)	(214,782)
Gross Profit	41,298	52,071	79,117	85,178	99,107	108,212	123,777
Total Operating Expenses (Opex)*	(29,867)	(34,341)	(48,986)	(55,383)	(61,995)	(68,120)	(78,412)
EBITDA	11,431	17,730	30,131	29,795	37,112	40,093	45,364
Depreciation Amortisation	(10,956)	(8,584)	(8,608)	(9,482)	(10,981)	(11,720)	(12,571)
Other Income	503	1,030	2,740	3,531	1,887	2,962	2,727
EBIT	978	10,176	24,263	23,843	28,017	31,334	35,521
Net Interest Expense	(4,241)	(4,102)	(226)	(45,496)	(1,200)	(1,300)	(1,200)
Exceptional items	-	1	2	3	4	5	6
Profits before Tax	(3,263)	6,075	24,039	(21,650)	26,821	30,039	34,327
Taxation	4,495	(4,514)	(8,023)	3,971	(8,393)	(9,772)	(11,611)
Net Profits	1,231	1,560	16,016	(17,679)	18,428	20,267	22,715
EPS, N	0.56	0.71	7.31	(8.07)	8.41	9.25	10.37
DPS, N	1.52	0.00	0.46	0.00	6.37	7.53	9.08
Payout ratio	270%	0%	6%	0%	70%	70%	70%
Dividend Sum	3,329	0	1,008	0	12,897	14,184	15,897
Number of Shares Outstanding	2,190	2,190	2,190	2,190	2,190	2,190	2,190

*Cost of Sales and Opex adjusted for Depreciation & Amortisation

Balance Sheet							
Fixed Assets	88,919	94,237	97,686	99,178	91,830	94,889	99,327
Intangible Assets	309	2	0	550	-20	-20	-20
Long-Term Debtors & Prepayments	2	0	5	0	0	0	0
Other Receivables	-	-	-	-	-	-	-
Non-Current Assets	89,230	94,239	97,691	99,728	91,810	94,869	99,307
Stocks	26,426	21,461	32,001	34,470	25,413	27,859	31,994
Debtors and Prepayments	19,183	14,424	14,667	13,616	27,357	30,020	34,495
Deposits for Imports	-	-	-	-	-	-	-
Cash and Cash Equivalents	5,271	35,869	69,104	92,125	35,346	43,964	56,749
Restricted Cash	3,092	2,982	1,830	1,592	1,592	1,592	1,592
Short Term Investment	-	-	-	-	-	-	-
Current Assets	53,973	74,736	117,601	141,803	89,709	103,435	124,831
Total Assets	143,202	168,975	215,292	241,531	181,519	198,304	224,138
Creditors & Accruals	31,944	61,676	69,683	111,236	64,380	70,575	81,051
Current Portion of Term Loan	22,801	15,993	31,309	63,756	28,543	28,543	28,543
Taxation	96	165	200	136	136	136	136
Dividend Payable	3,135	3,123	1,933	1,696	1,865	2,052	2,257
Bank Overdraft	310	-	-	-	-	-	-
Total current liabilities	58,286	80,957	103,126	176,824	94,924	101,307	111,987
Non-current liabilities	10,413	12,161	11,948	1,652	1,748	1,863	2,001
Total Liabilities	68,699	93,118	115,074	178,476	96,672	103,169	113,988
Called up Share capital	1,095	1,095	1,095	1,095	1,095	1,095	1,095
Bonus Issue Reserve	-	-	-	-	-	-	-
Share premium Account	47,447	47,447	47,447	47,447	47,447	47,447	47,447
Revaluation Reserve	-	-	-	-	-	-	-
General Reserve	24,496	25,744	41,437	7,882	13,862	20,931	29,453
Shareholders' Fund	87,588	89,060	73,038	74,287	89,979	56,425	62,404

Cash Flow							
Operating Cash Flow	15,296	52,381	28,119	34,380	6,718	41,407	51,657
Investing Cash Flow	(10,208)	(11,377)	(6,844)	(6,317)	(9,712)	(10,743)	(12,481)
Financing Cash Flow	1,719	(10,269)	12,052	(8,885)	(53,436)	(21,593)	(25,385)
Free Cash Flow	(5,123)	(7,461)	6,663	37,850	19,242	52,464	(37,374)

Source: Company, CSL Estimates.

Important Risk Warnings and Disclaimers

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