

High Opex growth and FX loss erode earnings.

Nigerian Breweries' 9M numbers showed mixed performance across key metrics. The renowned star lager brewer recorded a single digit Revenue growth of 2.1% y/y to N401.69bn (9M 2023), amidst the nation's high inflationary pressure which has weakened consumer purchasing power. Sales volumes remain pressured as consumers persist in adapting their spending preferences towards essentials. However, we believe the company's performance will improve in the next quarter as holiday season demand drives sales.

The Cost of Sales (adjusted for depreciation) was up 2.4% y/y to N225.26bn (9M 2023). The moderate growth could be attributed to lower barley prices (-34.8% y/y). Barley prices have materially moderated in recent months owing to increased harvest from major producers (EU, US, and Canada), masking the effect of the halt in the grain export deal between Russia and Ukraine. With management's plan to reduce importation of raw & packaging materials and to switch to sorghum, which can be sourced locally, as substitute for barley in most of its lager brands, we believe costs should moderate in coming quarters.

Given NB's position as a market leader with c.56% share of the sector, and with expansion strategies and initiatives to increase capacities – Ama brewery (expansion recently completed) and Kudenda plant (to commence operation mid 2024), we believe the company is well positioned to benefit from increased demand when economic conditions improve. We maintain a stable outlook on NB. We have a Hold recommendation on Nigerian Breweries with a price target of N39.17/s. Current Price N37.50/s. We derive our price target using a 50/50 blend of sector relative valuation estimates and a DCF valuation.

NIGERIAN BREWERIES, 9M 2023

Nm, except where mentioned otherwise	9M' 23	9M'22	y/y
Revenue	401,693	393,336	2.1%
Cost of Sales (Ex-Dep)	(225,262)	(219,918)	2.4%
Gross Profit	176,431	173,419	1.7%
Administrative expenses (Ex-Dep)	(19,927)	(16,764)	18.9%
Selling and Distribution Expenses (Ex-Dep)	(94,702)	(95,581)	-0.9%
Impairment (Loss)/Writeback	0	0	0.0%
Net release of expected credit loss on financial assets	(646)	0	NA
EBITDA	61,156	61,074	0.1%
Depreciation and Amortization	(35,480)	(28,306)	25.3%
Operating Profit	25,677	32,768	-21.6%
Other Income	1,954	2,506	-22.0%
EBIT	27,630	35,274	-21.7%
Net Finance Income	(105,423)	(16,295)	547.0%
Profit / (Loss) before tax	(77,793)	18,980	NA
Tax (expense) / Income	20,969	(4,337)	NA
Profit / (Loss) from continuing operations	(56,824)	14,642	NA
Profit from discontinued operations	-	-	0.0%
Net Profit / (Loss)	(56,824)	14,642	NA
Net income attributable to equity holders	(56,824)	14,642	
Diluted EPS			
Margins:	9M' 23	9M'22	y/y
Gross margin	43.9%	44.1%	-0.2ppts
Opex Margin	28.5%	28.6%	0.0ppts
EBITDA Margin	15.2%	15.5%	-0.3ppts
PBT Margin	-19.4%	4.8%	NA
Effective Tax Rate	27.0%	22.9%	4.1ppts
Net margin	-14.1%	3.7%	NA

Recommendation

Hold

Target Price

39.17

Closing Price

37.50

*Price as of 9th November

Key data

Year to December, Nbn

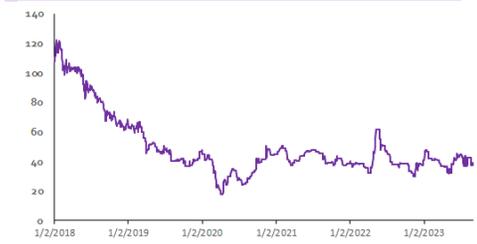
	2022	2023e	2024e	2025e
Sales	550.6	609.4	675.7	749.1
EBITDA	88.9	117.4	130.2	144.3
Net Profits	13.8	(23.1)	34.7	40.5
EPS, N	1.7	-2.8	4.2	4.9
PE Ratio	25.1X	-14.9X	9.9X	8.5X
EV/EBITDA	5.0X	2.5X	2.2X	2.0X

Market cap. N390.64bn (US\$520.85m)

Bloomberg NB NL

Reuters NB.LG

Five-year graph



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Shaky Top-line

Nigerian Breweries just like other brewers has been dealing with a number of issues since the start of the year. First, was the impact of the cash crunch & fuel scarcity in Q1, followed by the huge FX scarcity & Naira depreciation in Q2. Also, the high inflation and the consequent decline in household income have all contributed to slowing down Revenue growth this year despite price increases across product segments. Post Covid 2020, topline performance grew strongly, up c.27.8% y/y between 2021 to 2022, however given the recent macroeconomic and sector specific issues, Revenue growth has slowed. As a result, we have revised our **FY 2023e growth forecast for Revenue down to 10.7% from 15.5%**.

Costs mildly moderated

Contrast to our view that the devaluation of the Naira will continue to spike cost for Brewers in 2023, the growth (2.4% y/y) in NB's gM 2023 Cost of Sales (adjusted for depreciation), marginally outpacing Revenue growth (2.1% y/y) in the same period reflects reduced production cost pressures. For context, barley prices (-34.8% y/y) have materially moderated in recent months, owing to increased harvest from major producers (EU, US, and Canada), masking the effect of the halt in the grain export deal between Russia and Ukraine. **We maintain a FY 2023e growth forecast for Cost of Sales of 8.7% (N335.54bn) from 2022 (N308.79)**. Operating Expenses also grew marginally in the period under review, up 2.61% on the back of reduced Selling and Distribution Expenses, down by 0.9% to N94.7bn from N95.5bn

Business liquidity & strategy; to stay winning.

The business has an efficient cash conversion cycle of (182) days, which has optimally improved its cash and cash equivalent balance, up 43.8% to N21.4bn from N14.7bn y/y. Despite the hassles the company has faced in the last few years, NB has implemented expansion strategies and initiatives to increase capacity and reduce potential losses from liabilities. The former drive was mostly mirrored by the Ama Brewery (for maltina product expansion). Also, Kudenda malting plant is expected to fully commence operations before mid-2024.

Outlook

In our view, NB could experience short-term pains to reap the long-term benefits of re-investing in its products. The company will likely remain under pressure while adjusting to macroeconomic volatilities. With our growth expectations for topline and cost of sales, we expect improvement in the company's operating performance. We also expect recovery to be driven by volume growth and price increases, especially in the seasonally strong Q4.

Additional factors likely to support sales include the company's intensified digital initiatives and unique customer engagements. In H1 2023, sales channels linked to the initiatives – B2B platform (+29.0% y/y), front-line sales (+38.0% y/y), and customer service/telesales (+32.0% y/y) – accounted for c.52.0% of revenue.



With material growth in loss on FX transactions this year, we expect a beatdown on Net earnings, and we have revised our FY 2023e forecast down to N23.1bn loss. However, we believe loss in FX transactions has been optimally absorbed by the business and won't be significant in coming years as we do not expect Naira devaluation in coming years.

Valuation: HOLD recommendation maintained

We maintain a Hold recommendation on Nigerian Breweries with a price target of **N39.17/s** derived from 50/50 blend of sector relative valuation estimates - EV/EBITDA, PE Ratio and a DCF valuation. On EV/EBITDA & PE Ratio, we utilised Bloomberg's 2023e Middle East & African peers average 8.9x & 14.6x and derived a fair value (FV) estimate of N97.57/s & N43.1/s respectively. Our DCF FV is N33.54/s assuming a 18.8% WACC and 3% terminal growth rate.

Nigerian Breweries

Nm (unless otherwise stated)

Income Statement	##	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenues		437,285	550,638	609,429	675,682	749,137	830,579	920,874
Cost of Sales*		(247,039)	(308,785)	(335,544)	(372,023)	(412,467)	(457,307)	(507,023)
Gross Profit		190,246	241,853	273,884	303,659	336,671	373,271	413,851
Total Operating Expenses (Opex)*		(112,079)	(152,908)	(156,484)	(173,496)	(192,357)	(213,269)	(236,454)
EBITDA		78,167	88,945	117,400	130,163	144,314	160,003	177,397
Depreciation & Amortisation		(41,300)	(39,601)	(46,526)	(55,657)	(65,781)	(77,005)	(89,450)
Other Income		4,627	(23,356)	(85,780)	(6,622)	(2,254)	(1,847)	(1,396)
EBIT		41,494	25,989	(14,905)	67,885	76,279	81,151	86,552
Net Interest Expense		(10,752)	(8,073)	(18,093)	(18,264)	(18,365)	(18,409)	(18,389)
PBT		30,743	17,916	(32,998)	49,621	57,914	62,741	68,163
Taxation		(11,029)	(4,154)	9,900	(14,886)	(17,374)	(18,822)	(20,449)
Net Profits		19,714	13,762	(23,099)	34,735	40,540	43,919	47,714
Earnings per Share, N		2.44	1.67	(2.81)	4.23	4.93	5.34	5.80
Dividend per Share, N		1.60	1.05	(1.97)	2.96	3.45	3.74	4.06
Dividend Payout Ratio		66%	63%	70%	70%	70%	70%	70%
Number of Shares Outstanding		8,075	8,221	8,221	8,221	8,221	8,221	8,221

*Cost of Sales and Total Opex adjusted for Depreciation & Amortisation

Balance Sheet		2021	2022	2023	2023	2023	2023	2023
Fixed Assets		257,217	358,968	451,142	542,359	643,493	755,621	879,939
Intangible Assets		12,520	9,902	9,902	9,902	9,902	9,902	9,902
Other Non-current Assets		95,619	95,597	102,787	103,661	104,631	105,706	106,898
Non-Current Assets		365,356	464,467	563,831	655,923	758,026	871,229	996,738
Inventories		62,192	83,517	77,175	85,565	94,867	105,181	116,615
Trade & Other Receivables		26,501	40,710	42,660	47,298	52,440	58,141	64,461
Cash and Cash Equivalents		16,730	22,181	(85,702)	(94,217)	(99,300)	(101,493)	(100,468)
Other Current Assets		14,744	9,014	9,014	9,014	9,014	9,014	9,014
Current Assets		120,166	155,422	43,148	47,660	57,021	70,842	89,623
Total Assets		485,522	619,889	606,979	703,582	815,047	942,071	1,086,361
Creditors & Accruals		226,418	264,090	251,658	279,017	309,350	342,980	380,267
Lease liabilities		-	17	17	17	17	17	17
Taxation		10,624	13,003	13,003	13,003	13,003	13,003	13,003
Bank Overdraft(loans & B)		24,542	119,825	(128,552)	(141,326)	(148,950)	(152,239)	(150,702)
Provisions		511	1,763	1,763	1,763	1,763	1,763	1,763
Dividend Payable		10,438	9,007	9,007	9,007	9,007	9,007	9,007
Current Liabilities		272,533	407,705	146,896	161,481	184,190	214,531	253,356
Non-current liabilities		41,077	32,270	21,274	20,423	19,914	19,695	19,798
Total Liabilities		313,610	439,975	168,170	181,904	204,104	234,226	273,153
Called up Share capital		4,038	5,138	5,138	5,138	5,138	5,138	5,138
Share premium Account		77,500	82,944	82,944	82,944	82,944	82,944	82,944
Share Based Reserve		171	944	171	171	171	171	171
Retained Earnings		90,095	90,774	83,165	93,586	105,748	118,923	133,238
Shareholders' Funds		171,803	179,800	171,418	181,838	194,000	207,176	221,490
Minority Interests		109	113	113	113	113	113	113
		485,522	619,889	339,702	363,856	398,218	441,516	494,757

Cash Flow		2021	2022	2023	2023	2023	2023	2023
Operating Cash Flow		91,569	22,528	36,449	125,955	143,543	159,918	178,053
Investing Cash Flow		(61,013)	(99,259)	(84,596)	(93,777)	(103,869)	(114,989)	(127,248)
Financing Cash Flow		(44,195)	82,059	(59,736)	(40,694)	(44,757)	(47,123)	(49,779)
Free Cash Flow		19,323	2,962	4,963	7,181	0	0	0

Source: Company, CSL estimates

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