

## Guinness Earnings Review Q1 2020

### Excise Pressure & New Leverage Underpins Weak Quarter

#### Sustained revenue pressures as excise bites hard

Guinness Nigeria Plc in its Q1 2020 financial report announced a 4.3% y/y decline in Revenue to N26.9bn in Q1 2020 from N28.1bn in Q1 2019. On a q/q basis, Revenue dipped 10.6% due to seasonal impacts of weather and fewer number of festivities between July and September. The y/y decline in Revenue was down to renewed pressure from new excise duties following the kick-off of the second phase of new excise on alcoholic beverages in June.

#### Lower volumes drive production cost lower; gross margin remains pressured

Cost of Sales sustained its downward trend within the quarter albeit marginally which we believe was down to lower volumes sold. Cost of Sales declined 0.2% y/y to N19.0bn in Q1 2020 while dipping 11.7% q/q. We continue to express concerns on production cost pressures faced by Guinness, Q1 2020 performance continues to strengthen our fears as actual cost of sales per unit sold is growing, albeit slowly. We believe elevated barley prices within the quarter, a key raw material for Guinness must have impacted costs. Against this backdrop, Gross Profit dipped 12.8% y/y to N7.9bn in Q1 2020 from N9.1bn in Q1 2019 while gross margin slid lower by 2.9ppts to 29.5%.

#### Sustained cost management keeps OPEX lower

Management continued to rein in on cost in Q1 as Operating Expenses slid lower by 3.9% y/y to N7.4bn in Q1 2020 from N7.6bn in Q1 2019. The lower Operating Expenses was on the back of lower Marketing & Distribution Expenses (down 4.6% y/y to N5.2bn) and Administrative Expenses (down 0.3% y/y to N2.2bn). Despite lower operating costs, EBITDA slipped lower by 21.7% y/y to N3.3bn in Q1 2020 from N4.2bn in Q1 2019 driven by weaker Revenue and pressured margins.

#### New leverage; renewed pressure

The company took on more debt in Q1 as total debt stood at N27.1bn, a 36.2% increase from the end of FY 2019. The new debt came as a surprise given the company had begun to reduce its debt book in order to manage finance cost. The company took a short-term loan and additional Letters of credit loans which we expect the company to pay-off soon, thus not signifying long term leverage strategy. However, the higher debt book led to a 143.8% spike in Net Finance Expense within the quarter to N1.1bn from N0.4bn in Q1 2019. Consequently, Guinness reported a loss of N0.4bn in Q1 2020 compared to a N0.8bn profit in Q1 2019.

#### Overall view – execrable Q1 concerns us

While July – September is a period known to be slow for beer producers in Nigeria, Guinness' weak Q1 2020 performance goes beyond just the seasonality impact. The long-term concern of excise pressures told within the quarter while barley prices did the company no favour. Beer producers remain unable to raise prices given intense competition and weak consumer pockets. Furthermore, increased leverage significantly impacted overall performance. Keeping finance cost flat would have seen the company eke out a N0.3bn profit. Going forward, we expect the leverage pressure to wane considering the loans are short term, but we remain skeptical on the company's ability to drive revenue growth and contain production costs per unit.

## Guinness Earnings Highlight Q1 2020

N'm	Q1 2020	Q1 2019	y/y	Q1 2020	Q4 2019	q/q
Revenue	26,899	28,094	-4.3%	26,899	30,096	-10.6%
Cost of Sales	(18,954)	(18,985)	-0.2%	(18,954)	(21,471)	-11.7%
<b>Gross Profit</b>	<b>7,945</b>	<b>9,109</b>	<b>-12.8%</b>	<b>7,945</b>	<b>8,625</b>	<b>-7.9%</b>
Marketing & Distribution Expenses	(5,202)	(5,451)	-4.6%	(5,202)	(4,232)	22.9%
Administrative Expenses	(2,180)	(2,188)	-0.3%	(2,180)	(2,587)	-15.7%
Other Income/(Expenses)	119	191	-37.4%	119	164	-27.1%
<b>Result from Operating Activities</b>	<b>682</b>	<b>1,660</b>	<b>-59.0%</b>	<b>682</b>	<b>1,969</b>	<b>-65.4%</b>
Finance Income	235	162	45.3%	235	14	1582.0%
Finance Costs	(1,287)	(593)	117.0%	(1,287)	(796)	61.6%
<b>Net Finance Income/(Cost)</b>	<b>(1,052)</b>	<b>(432)</b>	<b>143.8%</b>	<b>(1,052)</b>	<b>(782)</b>	<b>34.5%</b>
<b>Profit/(Loss) before Tax</b>	<b>(370)</b>	<b>1,229</b>	<b>-130.1%</b>	<b>(370)</b>	<b>1,187</b>	<b>-131.2%</b>
Income Tax (Expense)/Credit	-	(393)	-100.0%	-	381	-100.0%
<b>Profit for the Period</b>	<b>(370)</b>	<b>836</b>	<b>-144.3%</b>	<b>(370)</b>	<b>1,568</b>	<b>-123.6%</b>

### Profit for the period attributable to:

Owners of the Company	(370)	836	-144.3%	(370)	1,568	-123.6%
Non-Controlling Interests	-	-	n/a	-	-	n/a
	<b>(370)</b>	<b>836</b>	<b>-144.3%</b>	<b>(370)</b>	<b>1,568</b>	<b>-123.6%</b>

Other Key Inputs	Q1 2020	Q1 2019	y/y	Q1 2020	Q4 2019	q/q
Earnings Per Share	(0.17)	0.38	-144.3%	(0.17)	0.72	-123.6%
EBITDA	3,277	4,188	-21.7%	3,277	4,598	-28.7%

Margins	Q1 2020	Q1 2019	y/y	Q1 2020	Q4 2019	q/q
Gross Margin	29.5%	32.4%	-2.9ppts	29.5%	28.7%	0.9ppts
EBITDA Margin	12.2%	14.9%	-2.7ppts	12.2%	15.3%	-3.1ppts
Operating Margin	2.5%	5.9%	-3.4ppts	2.5%	6.5%	-4.0ppts
Net Margin	-1.4%	3.0%	-4.4ppts	-1.4%	5.2%	-6.6ppts
No of Outstanding Shares	2,190	2,190		2,190	2,190	
Depreciation & Amortisation	2,596	2,528	2.7%	2,596	2,628	-1.2%

Source: Company Financials, FSDH Research

Email: [research@fsdhgroup.com](mailto:research@fsdhgroup.com) • [www.fsdhgroup.com](http://www.fsdhgroup.com)

#### DISCLAIMER

This publication is produced by FSDH Merchant Bank Limited solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Merchant Bank Limited may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of the FSDH Merchant Bank Limited for actions taken as a result of information provided in this publication.