

Nigeria Breweries Earnings Review FY 2019

Higher leverage masks recovery in Q4

- Q4 2019 revenue up 1.2% y/y
- EBITDA up 8.1%
- EPS down 17.6% y/y in Q4 2019 and 17.1% in FY 2019
- Final Dividend of N1.51/s which translates to dividend yield of 2.9%

Target price:	N55
Closing price:	N51.5
Stock Rating:	Hold

Net revenue recovers on price raise

Recently, Nigerian Breweries (NB) released its FY 2019 financials, reporting a 0.4% y/y decline in FY 2019 revenue to N323.0bn from N324.4bn in FY 2018. However, Q4 2019 revenue was higher by 1.2% y/y to N87.3bn from N86.3bn in Q4 2018. We note that the improvement in Q4 2019 revenue, came on the back of a recent price increase implemented by the company in November, which helped reduce the impact of higher excise duties. We also note that the company did not report its excise duty payments as it typically did in prior quarterly numbers, which thus limits ability to measure the impact of Q4 2019 excise payments. We note that seasonal impacts of higher activities during the festive period drove q/q growth of 19.3% in Revenue for Q4.

Gross margin recovers on lower raw material cost

As we noted in our Q3 note, we continued to observe a decline in cost of sales for NB in Q4 2019, with Q4 cost of sales declining 3.5% y/y despite the 1.2% uptick in revenue. Consequently, FY 2019 cost of sales declined 2.9% y/y to N191.8bn, from N197.5bn in FY 2018. We see two main factors responsible for the decline in cost of sales; 1) lower barley prices during the last half of the year, which is reflected in the 4.1% y/y decline in raw materials & consumables cost. 2) growth in revenue was primarily price driven, rather than volume driven, given the company raised prices to distributors in Q4. Against this backdrop, gross margin strengthened by 1.5ppts y/y to 40.6% in FY 2019, from 39.1% in FY 2018. In a synchronized manner, gross profit climbed 3.4% y/y to N131.3bn in FY 2019, from N126.9bn in FY 2018.

Operating profit pressured lower by higher marketing costs

Operating expenses climbed higher by 6.8% y/y to N97.1bn in FY 2019, from N90.8bn in FY 2018. The rise in operating expenses was driven by an 10.9% y/y rise in marketing & distribution expenses, due to a 21.7% y/y climb in advertising expenses, as Nigerian Breweries continued to attempt reclaiming lost market share. On the other hand, administrative expenses declined 6.9% y/y in FY 2019, due to the reduction in personnel expenses following the right-sizing exercise done last year. Consequently, operating profit edged lower by 4.7% y/y to N35.2bn in FY 2019, from N37.0bn in FY 2018, while operating margin fell 0.5ppts y/y to 10.9%.

Higher leverage pressures performance

Net finance cost jumped 57.4% y/y to N11.9bn in FY 2019, from N7.5bn in FY 2018, on the back of lower interest income (down 28.0% y/y to N0.3bn) and higher interest expense (up 53.5% y/y to N12.1bn). NB's higher interest expense was driven by higher interest-bearing liabilities (up 30.8% y/y to N55.7bn) due to the recent commercial paper issuances done by the company to finance working capital. We note, the company has paid down its commercial paper debt upon maturity, evidenced in the reduction in interest bearing liabilities from N72.8bn as at 9M 2019. While tax expense declined 27.4% y/y to N7.2bn, net income slumped 17.1% y/y to N16.1bn in FY 2019, from N19.4bn in FY 2018. Earnings per share printed at N2.01/s for FY 2019, from N2.43/s in FY 2018.

Nigeria Breweries declares final dividend...with a 100% payout

The company declared a final dividend of N1.51/s, which translates to a dividend yield of 2.9%, based on the closing price of N51.50/share (as at 13th Feb). We note the company paid interim dividend of N0.50/s in Q3, which implies a 100% payout for 2019, factoring in the N1.51/s declared as final dividend.

Overall view...turning a corner but banana peels still ahead

We think the company is finally turning a corner with recent a price increase to distributors, however, we expect the implementation of the last phase of the ad valorem excise regime will begin to pressure performance from H2 2020, serving as a potential banana peel ahead.

Nigerian Earnings Hihglight FY 2019

N'm	FY 2019	FY 2018	y/y	Q4 2019	Q4 2018	q/q
Net Revenue	323,007	324,389	-0.4%	87,328	86,323	1.2%
Cost of Sales	(191,757)	(197,485)	-2.9%	(52,250)	(54,134)	-3.5%
Gross Profit	131,251	126,904	3.4%	35,078	32,188	9.0%
Marketing & Distribution Expenses	(77,695)	(70,052)	10.9%	(20,212)	(18,604)	8.6%
Administrative Expenses	(19,355)	(20,785)	-6.9%	(5,063)	(4,601)	10.0%
Other Income	1,005	885	13.5%	230	227	1.3%
Results from Operating Activities	35,206	36,952	-4.7%	10,033	9,210	8.9%
Finance Income	261	362	-28.0%	32	123	-74.0%
Finance Costs	(12,115)	(7,892)	53.5%	(3,935)	(2,386)	64.9%
Net Finance Income/(Cost)	(11,854)	(7,530)	57.4%	(3,903)	(2,262)	72.5%
Profit before Tax	23,352	29,422	-20.6%	6,130	6,948	-11.8%
Income Tax (Expense)/Credit	(7,246)	(9,984)	-27.4%	(2,299)	(2,299)	0.0%
Profit for the Period	16,106	19,438	-17.1%	3,831	4,648	-17.6%
Profit for the period attributable to:						
Owners of the Company	16,101	19,434	-17.1%	3,829	4,647	-17.6%
Non-Controlling Interests	5	4	22.3%	1	1	10.6%
	16,106	19,438	-17.1%	3,831	4,648	-17.6%

Other Key Inputs	FY 2019	FY 2018	y/y	Q4 2019	Q4 2018	q/q
Earnings Per Share	2.01	2.43	-17.1%	0.48	0.58	-17.6%
EBITDA	67,936	67,809	0.2%	18,263	16,897	8.1%

Margins	FY 2019	FY 2018	y/y	Q4 2019	Q4 2018	q/q
Gross Margin	40.6%	39.1%	1.5ppts	40.2%	37.3%	2.9ppts
EBITDA Margin	21.0%	20.9%	0.1ppts	20.9%	19.6%	1.3ppts
Operating Margin	10.9%	11.4%	-0.5ppts	11.5%	10.7%	0.8ppts
Net Margin	5.0%	6.0%	-1.0ppts	4.4%	5.4%	-1.0ppts
No of Outstanding Shares	7,997	7,997		7,997	7,997	
Depreciation & Amortisation	32,730	30,857	6.1%	8,230	7,687	7.1%

Source: Company Financials, FSDH Research

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