



Guinness Nigeria Plc.

Repositioning Its Core Brands

April 26, 2016

Q3 Ended March 31, 2016

Executive Summary

- The difficult operating environment, stiff competition, and internal reorganisation had adverse impacts on the performance of the company as at Q3, March 2016
- Weaker demand and high operational costs led to a Loss After Tax in the three-month ended March 2016
- In order to keep up and win more market, Guinness has implemented a price reduction strategy to drive volume and increase revenue
- It has also signed fresh agreements to sell additional products
- It plans to increase the use of local inputs in the production process to lower costs
- The long-term path of Guinness's earnings is positive as it deepens its operations across all categories of the alcoholic beverage market
- We estimate a dividend per share of N0.85 for the FY 2016
- **Our fair value of the shares of Guinness is N98.08**
- **We change our rating of the shares of Guinness from a BUY to a HOLD at the current market price of N97 per share.**

1.0 Q3 2016 Performance Analysis:

The difficult economic environment, intense competition and internal reorganisation impacted the financial performance of Guinness Nigeria Plc (Guinness) in Q3 ended March 2016. The aforementioned factors resulted in weak demand and high operational costs and led to a Loss After Tax (LAT) in the three-month ended March 2016. The unaudited Q3 2016 result for the period ended March 2016 shows that Turnover T/O decreased by 17.85% to N69.62bn, compared with N84.75bn in 2015. The cost of sales decreased by 12.58% to N39.35bn from N45.01bn in Q3 2015. The cost of sales as a percentage of T/O increased to 56.53% from 53.11% as at Q3 2015. The administrative, selling and distribution expenses decreased by 9.05% to N27.01bn. These expenses as a percentage of turnover increased to 38.80% in Q3 2016 from 35.04% in Q3 2015.

Other operating income stood at N346.38mn as at Q3 2016, representing a decrease of 38.16%, compared with N560.17mn in Q3 2015. The company recorded financial charges of N3.35bn in Q3 2016, a decrease of 19.22% from N4.14bn in 2015. The Profit Before Tax (PBT) fell to N1.20bn, a decrease of 83.12% from N7.13bn in 2015. The tax provision also decreased by 82.26% to N340.12mn, from N1.92bn. The Profit After Tax (PAT) was N864.18mn in Q3 2016, from N5.22bn in 2015, representing a decrease of 83.43%. In the three-month ended March 2016, the company made a LAT of N307.96mn compared with a PAT of N1.82bn in the corresponding period of 2015. There was a significant decline in the company's profit margins in Q3 2016, compared with Q3 2015.

Table 2: Quarterly Result Highlights (N'bn)

	Q3 2016	Q2 2015	Q1 2015	Q4 2015	Q3 2015
Turnover	19.78	28.09	21.74	33.75	29.48
PBT	(0.45)	1.13	0.52	3.66	2.48
PAT	(0.31)	0.81	0.36	2.58	1.82

Source: Company Annual Account – 2015 and FSDH Research Analysis

The PBT Margin in Q3 2016 decreased over the Q3 2015 figure. The PBT margin decreased to 1.73% in Q3 2016 from 8.42% as at Q3 2015. The PAT margin currently stands at 1.24% in Q3 2016, down from 6.16% in the corresponding period of 2015.

Table 1:	HOLD
Current Price	97.00
Fair Value	98.08
Price Target	98.08
Horizon	Six Months

The T/O dropped by 17.85% to N69.62bn in Q3 2016.

There was a decline in the company's profit margins in Q3 2016, compared with Q3 2015.

Table 3: Profitability Margins (N'bn)

	Q3 2016	Q3 2015
GP* Margin	43.47%	46.89%
EBIT Margin	5.18%	12.51%
PBT Margin	1.73%	8.42%
PAT Margin	1.24%	6.16%

*GP – Gross Profit

Source: FSDH Research Analysis

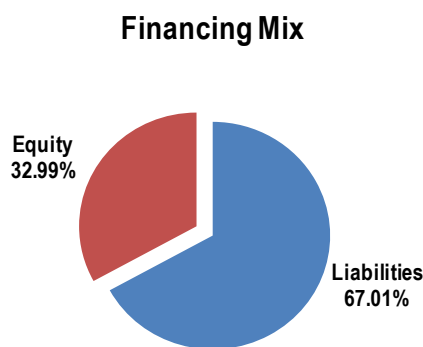
A cursory look at the balance sheet position as at Q3 2016 compared with FY June 2015 shows a decrease in the company's fixed assets. The total fixed assets decreased marginally by 0.14% to N88.61bn in Q3 2016 from N88.74bn in FY 2015. The inventory increased by 51.53% to N16.29bn in Q3 2016, from N10.75bn in FY 2015. The cash and bank balances increased by 20.46% from N5.80bn in FY 2015 to N6.99bn in Q3 2016. Despite the drop in revenue the trade debtors and other receivables increased in Q3 2016 by 30.88% to N20.29bn, from N15.50bn in FY 2015. **This means that the company may have liquidity problems to raise cash from operations to fund other activities.** The trade creditors and other payables also increased by 15.77% to N36.45bn from N31.48bn as at FY 2015. The working capital stood at a negative N13.43bn in Q3 2016 from a negative N12.59bn in 2015, while net assets for the period decreased by 8.16% to stand at N44.40bn, from N48.34bn as at FY 2015.

The total assets of the company which stood at N134.58bn as at Q3 2016 was financed by a mix of equities and liabilities in the ratio of 32.99% and 67.01% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N59.40bn, accounting for 65.87% of the total liabilities. The short-term liabilities constituted mainly of trade and other payables and current financial liabilities. Current financial liabilities rose by 118.77% to stand at N18.46bn in Q3 2016. The long-term liabilities stood at N30.78bn accounting for 34.13% of the total liabilities. Long-term liabilities constituted mainly of deferred tax liabilities and non-current financial liabilities, which stood at N13.34bn and N15.22bn respectively in Q3 2016.

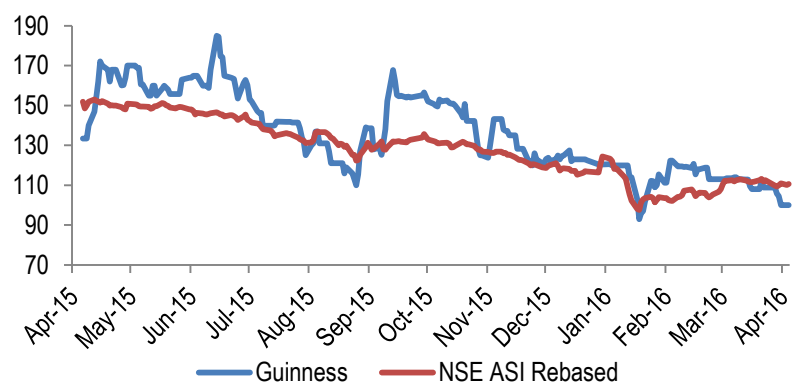
The company's assets were financed by a mix of equities and liabilities in the ratio of 32.99% and 67.01% respectively.

The increase in trade debtors as opposed to the drop in revenue means that the company could have liquidity problems to raise cash from operations to fund other activities.

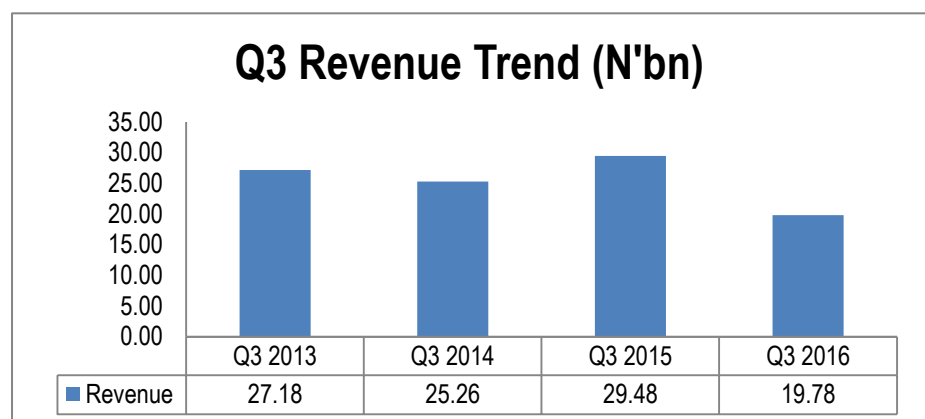
Guinness generated a net decrease in cash flow from operating activities of N311mn in Q3 2016 from an increase in cash flow of N15.11bn in FY 2015. The company has tied down significant cash in its prepayments, trade receivables and inventory. Inventory consisted mainly of finished products which moved from N2.6bn in FY 2015 to N6.22bn as at Q3 2016. This depicts the stock of finished products that could not be sold. However, the company's trade and other payables increased. This may indicate that the company is trying to increase the payment days to suppliers.



Guinness vs NSE ASI Rebased (Apr'14-Apr'15)



Q3 Revenue Trend (N'bn)



FY 2015 T/O increased by 8.51% to N118.50bn, compared with N109.20bn.

1.1 FY 2015 Performance Analysis:

As at Full Year June (FY 2015), T/O increased by 8.51% to N118.50bn, compared with N109.20bn in 2014. This growth in T/O could be attributed to the company's market share gains in the beer category with the customer's acceptance of Orijin and Satzenbrau. The cost of sales also increased by 8.18% to N62.60bn from N57.87bn

recorded in FY 2014. However, the cost of sales as a percentage of T/O decreased to 52.83% in 2015, from 52.99% as at FY 2014. Selling and distribution expenses increased by 4.56% to N27.11bn, while administrative expenses also increased by 38.16% to N13.83bn. The administrative expenses for FY 2015 included restructuring costs of N1.14bn, up from N609mn in 2014 and termination benefits of N663mn, up from N79mn in 2014. The positive effects of the 120.63% increase in finance income to N705.44mn were eclipsed by the finance costs which rose to N5.57bn in FY 2015. The PBT fell to N10.80bn, a decrease of 7.59% from N11.68bn in 2014. The company's tax provision increased by 42.32% to N3.00bn from N2.11bn. PAT was N7.79bn in FY 2015 from N9.57bn in 2014, representing a decrease of 18.58%.

The decline in the company's profit margins in FY 2015, compared with FY 2014 is a reflection the company's struggle with the difficult operating environment. It also reflects the strict competition the industry faces with the entry of SAB Miller into the Nigerian brewing industry. Other challenges are weaker aggregate demand due to the weaker consumer purchasing power, rising interest rates, the devaluation of the currency and higher operational and logistic costs. The PBT Margin in FY 2015 decreased over the FY 2014. The PBT margin decreased to 9.11% in FY 2015 from 10.70% as at FY 2014. Also, the PAT margin stood at 6.58% in FY 2015, down from 8.77% in 2014.

The weak consumer purchasing power, rising interest rates and higher operational and logistics costs affected earnings.

Table 4: Profitability Analysis (N'bn)

	FY 2015	FY 2014	FY 2013	FY 2012
T/O	118.50	109.20	122.46	116.46
EBIT	15.67	16.12	20.93	21.90
PBT	10.80	11.68	17.01	20.38
PAT	7.79	9.57	11.86	14.21
GP* Margin	47.17%	47.01%	45.79%	47.38%
EBIT Margin	13.22%	14.76%	17.09%	18.80%
PBT Margin	9.11%	10.70%	13.89%	17.50%
PAT Margin	6.58%	8.77%	9.69%	12.21%

Source: Company Annual Account – 2015 and FSDH Research Analysis

1.2 Analysis of Cash Flow Statement:

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Proceeds from loans and borrowing contributed to the cash flow. However, acquisition of property, plant and equipment and repayment of loans and borrowing significantly depleted the cash flows. The cash profit generated from the core operations increased to N28.52bn in 2015 from N27.99bn in 2014. However, the ratio of the cash profit generated from core operating activities to the revenue decreased to 24.07% in 2015 from 25.63% in 2014. This means that less of its revenue translated into cash in 2015 than in 2014.

Less of the revenue translated into cash profit in 2015.

The cash flow generated from operating activities increased to N39.69bn in 2015 from N27.11bn in 2014 while the net cash generated after tax increased significantly from N19.16bn to N32.54bn. The net cash generated from operations was sufficient to cover the investment needs of the company. Thus, it was able to reduce part of its loan obligation and pay dividend to shareholders.

Table 5: Cash Flow Analysis		
N'bn	2015	2014
Cash Profit From Core Operations	28.52	27.99
Changes In Working Capital	11.17	(0.88)
Cash From Operating Activities	39.69	27.11
Income Tax Paid	1.52	3.90
Net Cash From Operating	32.54	19.16
Net Cash Used In Investing	(8.45)	(13.68)
Net Cash Generated by/(Used in) Financing Activities	(21.36)	(3.30)
Cash Generated for the Year	2.72	2.17
Ratio of Cash Flow from Core Operations to Revenue	24.07%	25.63%
Ratio of Net Cash from Operation to PPE Investment	353.95%	138.39%
<i>Source: Company Annual Account – 2015 and FSDH Research Analysis</i>		

2.0 Analysis of Return on Equity

The Return on Equity (ROE) of the company dropped from 21.25% in 2014 to 16.12% in 2015. Using the DuPont analysis, we linked the drop in the ROE to the drop in the profit margin. Increased operational and logistics costs especially administrative expenses were principally responsible for the drop in the profit margin. **With the implementation of appropriate cost management initiatives, the company could possibly improve its ROE.**

We gathered that the company is embarking on internal restructuring that will lead to a decrease in operating expenses in the medium to long term but may increase in the short term. After the exercise the company may be more efficient.

		2015	2014
Profitability	PAT	7.79	9.57
	Turnover	118.50	109.20
	Profit Margin	6.58%	8.77%
Operating Efficiency			
Operating Efficiency	Turnover	118.50	109.20
	Total Assets	122.25	132.33
	Asset Turnover	0.97%	0.83%
Financial Leverage			
Financial Leverage	Total Assets	122.25	132.33
	Equity	48.34	45.06
	Equity Multiplier	2.53%	2.94%
Return on Equity (ROE)		16.12%	21.25%
<i>Source: Company Annual Account – 2015 and FSDH Research Analysis</i>			

3.0 Drivers of Performance:

The following factors affected the performance of Guinness:

Positive Factors:

- Improved performance of the Guinness Foreign Extra Stout, Malta Guinness and Satzenbrau brands
- Growth in the malt segment of the brewing industry
- Market share gains in the beer category
- The growth of new hypermarkets and supermarkets

Negative Factors:

- The weak consumer spending power
- Increase in the interest expenses
- Difficult operating environment
- High operational and logistics costs
- Stiff competition particularly in the super-premium and mainstream segments of the beer market
- Devaluation of the currency

Guinness's total foreign exchange exposure as a result of imported materials stood at N28.26bn in FY 2015, from N22.31bn in FY 2014.

Guinness's total foreign exchange exposure as a result of imported materials stood at N28.26bn in FY 2015, from N22.31bn in FY 2014. The imported materials accounted for 35.56% of total brought-in-materials, while local materials accounted for 64.44% of total brought-in-materials. The company's exports in FY 2015 accounted for 1.92% of its total revenue, down from 2.11% in 2014.

3.1 Strategic Focus:

Guinness has seven strategic priorities which will push its future growth and help to improve the company's competitive position. The seven performance priorities are:

- Price reduction to drive volume and gain market share in the value and mainstream segments
- Expanding the total beverage portfolio to deliver growth and mitigate risk
- Strong brand investment to strengthen and accelerate its premium core brands
- Sustain leadership in innovation
- Constant expansion of its route to consumer
- Drive efficiency through local sourcing of inputs
- Ensuring it has the right talent at all times

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The company expects its top line growth for the rest of the year to increase because of the integration of Diageo's spirit brands into its business. However this segment is not expected to make increased contribution to the bottom line because of set up costs. As part of its strategic priority to expand its portfolio, Guinness acquired the right to distribute Diageo Plc's International Premium Spirits (IPS) brands in Nigeria in December 2015. The company also announced in January 2016 that it acquired the right to distribute McDowell, a United Spirits Limited (USL) brand. Additionally, Guinness will also start producing its own mainstream spirits starting with Orijin Spirit. Guinness expects that these acquisitions will fill the gaps in the spirits brand base of the company. Subsequently, deepening its operations to span across all categories of the alcoholic beverage market.

Guinness recently acquired the rights to distribute McDowell No.1.

As part of the company's plans to compete further in the value and mainstream segments, Guinness plans to lower its prices so that it can drive volume and improve revenue. Price has become the most critical lever in the market and Guinness plans on growing its brands by ensuring they are competitively priced. Guinness has also commenced its initiatives on productivity and operational efficiency. Almost 50% of the company's input is currently sourced locally and it intends over the next two years to increase that to 70%.

4.0 Business:

Guinness engages in the brewing, packaging, marketing and selling of the following beverages: Guinness Foreign Extra Stout, Guinness Extra Smooth, Malta Guinness, Malta Guinness Low Sugar, Harp Lager, Smirnoff Ice, Smirnoff Ice Double Black with Guarana, Snapp, Satzenbrau Lager, Dubic (Lager and Malt) and Orijin (Spirit mixed drink and Bitters). The company also recently launched a new product Guinness Africa Special. Effective 1st January 2016, Guinness became the exclusive distributor for the IPS brands of Diageo Plc in Nigeria. Additionally, the company announced in January 2016 it acquired the rights to distribute McDowell's No. 1, a mainstream spirits brand of USL in Nigeria. USL is an Indian mainstream spirits business which is also a subsidiary of Diageo Plc.

The company has four breweries where it produces its brands. The Ikeja Brewery, Ogba Brewery, Benin Brewery and Aba Brewery. A breakdown of the shareholding structure of Guinness shows that two companies; Guinness Overseas Limited and Atalantaf Limited have more than 5% interest in Guinness. Both companies are subsidiaries of Diageo Plc and as at June 2015 held 46.48% and 7.84% shareholding respectively. **Technically, as at June 2015 the total shareholding of Diageo Plc in Guinness stood at 54.32%.** Diageo has approached Guinness with an intention to make an offer to increase its equity stake from 54.32% up to a maximum of 70%. It will however maintain the company's listing on the Nigerian Stock Exchange.

Guinness is involved in Corporate Social Responsibility (CSR).

Guinness is involved in Corporate Social Responsibility (CSR). In July 2015, Guinness announced the conclusion of the first phase of the Safe Water and Improved Sanitation and Hygiene (SWISH) programme a part of the companies Water of Life programme. The programme is benefitting 6,000 people across 10 communities. The company has a commitment to promote responsible consumption by its consumer's. To meet this commitment the company collaborated with the Federal Road Safety Commission to execute a drink-drive campaign during the Christmas/New Year festive season. Guinness also collaborated with other members of the Beer Sectorial Group (BSG) to launch another drink-drive campaign targeted at commercial drivers themed "Drive Alcohol-Free".

Table 7: Shareholding Structure as at June 2015

Shareholders	No. of Shares Held	% of Shareholding
Guinness Overseas Limited*	699,892,739	46.48
Atalantaf Limited*	118,052,388	7.84
Others	687,943,061	45.68
Total	1,505,888,188	100.00

*Guinness Overseas Ltd and Atalantaf Ltd are subsidiaries of Diageo Plc. Technically, Diageo Plc owns 54.32% of Guinness Nigeria Plc

Source: Company Annual Account – 2015

Table 8: Company Summary

Ticker	Guinness
Sector	Consumer Goods
Sub-Sector	Beverages-Brewers/Distillers
Date of Incorporation	April 29, 1950
Date of Listing	November 1965
Financial Year End	June
Number of Fully Paid Share	1,505,888,188
Current Capitalization(NGN)	146,071,154,212
NSE Capitalization (NGN)	8,547,975,285,715
% of NSE Capitalization	1.71
52 Week Low NGN	93
52 Week High NGN	185
YTD Return (%)	(38.46)
52 Weeks Average Volume Traded	413,094
Trailing EPS NGN	-
Trailing P/E Ratio (X)	-

As at April 25, 2016

Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 9: Directors' Shareholding as at June 30, 2015

Director	Position	Holdings
Mr. B.A. Savage	Chairman	601,263
Dr. N.B Blazquez	Vice Chairman	Nil
Mr. P.Ndegwa*	MD/CEO	Nil
Prof.J.O. Irukwu	Non-Executive Director	503,530
Mr. B. J. Rewane	Non-Executive Director	17,452
Mrs. Z. Abdurrahman	Non-Executive Director	Nil
Mr. R.J. O' Keeffe	Non-Executive Director	Nil
Mr. P. J. Jenkins	Non-Executive Director	Nil
Ms. Y.A. Ike	Non-Executive Director	Nil
Ambassador S.T. Dogonyato	Non-Executive Director	Nil
Mr. C. A Afebuameh	Non-Executive Director	1,116
Mr. R. C. Plumridge*	Non-Executive Director	Nil

*Appointed with effect from September 04 , 2015 and January 29, 2015 respectively

Source: Company Annual Account – 2015

Guinness operates in four categories in the market, namely the beer, ready-to-drink, spirit and the non-alcoholic category.

5.0 Product Analysis:

Guinness operates in four categories in the market, namely the beer, ready-to-drink, spirit and the non-alcoholic category. Major competitors for Guinness in these categories include Nigerian Breweries with brands like Star, Heineken, Gulder, Ace and Maltina. SAB Miller is also a new major competitor with regional brands like Hero, Trophy Lager, Castle Milk Stout, Grand Malt and Beta Malt.

5.1 Beer:

The total beer market grew by 3.7% y-o-y partly driven by the continued growth of value lager brands. The value lager segment now accounts for more than 30% of the market. Under the broad category of Beer, Guinness has Stout and Lager brands. The brands under this segment are:

- Stout: Guinness Foreign Extra Stout, Guinness Africa Special and Guinness Extra Smooth.
- Lager: Harp, Dubic and Satzenbrau.

The total beer market grew by 3.7% y-o-y partly driven by the continued growth of value lager brands.

The competing products in the Lager segment include Star, Gulder, Heineken, “33” Export, Life, Hero, More, Goldberg, Life, Trophy and foreign brands like Corona Extra, Stella Artois, Becks and Budweiser. While in the Stout segment, the competing products include Legend Extra Stout Williams Dark Ale, Turbo Kings Dark Ale and Castle Milk Stout.

5.2 Ready-To-Drink:

The products under the ready-to-drink segment include: Smirnoff Ice, Snapp and Orijin. Competing brands include Ace-Passion Apple Spark, Ace Roots, Ace Rhythm Star Radler and Breezer.

5.3 Spirits:

The products under the spirit segment include: Baileys, Smirnoff Vodka, Ciroc, Orijin Bitters, McDowell, Master’s Choice and Johnnie Walker Black, Red and Blue Labels. Competitors in this segment include Hennessey, Amarula, Amaretto, Ace Roots, Alomo Bitters, Southern Comfort and Brandy

The malt market witnessed positive growth versus the prior year.

5.4 Non-Alcoholic:

The malt market witnessed positive growth compared with the prior year. The products under the Non-Alcoholic segment include: Malta Guinness and Malta Guinness Low Sugar.

Competitors in this segment include Maltina, Amstel Malt, Hi-Malt, Grand Malt, Beta Malt and Malta Gold.

6.0 SWOT Analysis:

<p>6.1 Strengths:</p> <ul style="list-style-type: none"> ○ Strong promotion and adverts ○ Innovative product offering to meet specific needs ○ Firm roots in the local market and culture ○ Diversified brands ○ Strong alliance with parent company 	<p>6.2 Weaknesses:</p> <ul style="list-style-type: none"> ○ Declining profit margins ○ High interest expenses ○ Mispricing
<p>6.3 Opportunities:</p> <ul style="list-style-type: none"> ○ Large market size in Nigeria ○ Growth in the value and premium segment 	<p>6.4 Threats:</p> <ul style="list-style-type: none"> ○ Exchange rate risk ○ Security challenges especially in the Northern parts of the country ○ Weak consumer spending power ○ Stiff competition within the industry

7.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- Strategy to lower price to drive volume and revenue
- Driving efficiency through local sourcing of inputs
- Improved performance of its core brands: Guinness Foreign Extra Stout, Malta Guinness and Satzenbrau
- Growth in the value and malt segment of the brewing industry
- The growth of new hypermarkets and supermarkets
- The acquisition of the right to distribute Diageo's IPS brands in Nigeria
- The acquisition of the rights to distribute McDowell in Nigeria

Negative Factors:

- The prevailing stiff competition in the industry particularly in the super-premium and mainstream segments of the beer market
- The current weak consumer spending power
- Difficult operating environment
- High operational and logistics costs

Looking at the short-term outlook of the company, the current macroeconomic issues in the country will have significant adverse impact on its performance. However, we believe the various initiatives the management has undertaken should reposition the revenue and profitability of the company in the medium to long-term. We therefore estimate a Turnover of N98.09bn, N95.91bn, N99.05bn, N104.78bn and N110.52bn for the periods ending June 2016, 2017, 2018, 2019 and 2020. We estimate EBIT of N5.38bn, N8.90bn, N9.99bn, N11.40bn and N13.13bn, and EBITDA of N17.97bn, N23.45bn, N26.93bn, N31.32bn and N36.75bn for the same period using EBIT margins of 5.48%, 9.28%, 10.08%, 10.88% and 11.88% respectively. Our PBT forecasts for the periods are: N1.89bn, N5.18bn, N6.19bn, N7.74bn and N9.51bn. Adjusting for tax, our PAT forecasts are N1.32bn, N3.63bn, N4.34bn, N5.42bn and N6.66bn. PAT Margin for the period are 1.35%, 3.79%, 4.38%, 5.17% and 6.02%. Our forecast final dividend for the FY 2016 is 0.85 per share.

We estimate a dividend per share of N0.85 for the FY 2016.

N'bn	JunA-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Turnover (Net Sales)	118.50	98.09	95.91	99.05	104.78	110.52
Cost of Sales	(62.60)	(56.82)	(54.31)	(55.30)	(57.66)	(59.71)
Gross Profit	55.89	41.27	41.60	43.75	47.12	50.81
Admin, Selling & Distribution Expenses	40.95	(36.52)	(33.31)	(34.41)	(36.39)	(38.39)
Depreciation	(11.22)	(12.59)	(14.54)	(16.94)	(19.91)	(23.61)
Other Operating Income	0.72	0.64	0.62	0.64	0.68	0.72
EBIT	15.67	5.38	8.90	9.99	11.40	13.13
EBITDA	26.88	17.97	23.45	26.93	31.32	36.75
Net Finance Cost	(4.87)	(3.49)	(3.72)	(3.80)	(3.67)	(3.63)
PBT	10.80	1.89	5.18	6.19	7.74	9.51
Taxation	3.00	0.57	1.55	1.86	2.32	2.85
PAT	7.79	1.32	3.63	4.34	5.42	6.66

Source: Company Annual Account – 2015 and FSDH Research Analysis

	JunA-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
EBITDA Margin	22.69%	18.32%	24.45%	27.19%	29.89%	33.25%
EBIT Margin	13.22%	5.48%	9.28%	10.08%	10.88%	11.88%
PBT Margin	9.11%	1.93%	5.41%	6.25%	7.39%	8.60%
PAT Margin	6.58%	1.35%	3.79%	4.38%	5.17%	6.02%
EPS(N)	5.18	0.88	2.41	2.88	3.60	4.42
DPS(N)	3.20	0.85	2.07	2.47	3.09	3.80
Dividend Payout	61.82%	96.85%	85.85%	85.85%	85.85%	85.85%
Earnings Yield *	3.18%	0.90%	2.46%	2.94%	3.67%	4.51%
Dividend Yield *	1.97%	0.87%	2.11%	2.52%	3.15%	3.87%
P/E Ratio*	31.45	111.49	40.67	34.04	27.25	22.18
Number of Shares ('bn)	1.51	1.51	1.51	1.51	1.51	1.51
ROCE	20.58%	7.50%	11.79%	13.06%	14.54%	16.04%
ROE	16.12%	2.95%	7.69%	8.96%	10.82%	12.78%
Collection Days	38	39	39	39	39	39
Payment Days	103	104	104	104	104	104
Inventory Turnover	5.82	4.53	4.53	4.53	4.53	4.53
Asset Turnover	0.97	0.84	0.81	0.80	0.82	0.84
Current Ratio	0.73	0.60	0.64	0.67	0.70	0.75
Quick Ratio	0.49	0.31	0.36	0.41	0.45	0.49
Debt Ratio (Total Liabilities /Total Assets)	0.60	0.61	0.60	0.61	0.61	0.61
Gearing Ratio (Long Term Debt /Equity)	25.34%	26.81%	22.93%	20.12%	17.49%	16.82%
Interest Cover	2.81	1.44	2.33	2.55	2.97	3.50

*At Our Fair Value of N98.08
Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 12: Statement of Financial Position Forecast (2016 - 2020)						
N'bn	JunA-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Property, Plant and Equipment	87.75	88.74	89.76	90.90	92.17	93.61
Intangible Assets	0.94	0.94	0.94	0.94	0.94	0.94
Other Receivables and Prepayments LT	0.04	0.03	0.03	0.03	0.03	0.02
Long Term Assets	88.74	89.71	90.73	91.87	93.14	94.58
Inventory	10.75	12.55	12.00	12.21	12.73	13.19
Trade Receivables	12.31	10.46	10.22	10.56	11.17	11.78
Other Receivables & Prepayment	4.65	5.18	5.07	5.23	5.54	5.84
Deposits/Balances & Cash	5.80	(1.61)	0.21	3.23	5.48	6.93
Current Assets	33.51	26.58	27.50	31.24	34.92	37.73
Total Assets	122.25	116.29	118.23	123.11	128.06	132.31
Trade Payables	17.67	16.22	15.50	15.79	16.46	17.04
Short Term Loans and Advances	8.44	9.66	11.37	12.45	12.92	10.92
Other Payables	13.81	13.29	12.99	13.42	14.19	14.97
Dividends Payable	3.90	4.82	1.28	3.12	3.72	4.65
Current Tax Payable	2.28	0.57	1.55	1.86	2.32	2.85
Current Liabilities	46.10	44.56	42.70	46.63	49.62	50.44
Working Capital/ Net Current Asset	(12.59)	(17.97)	(15.20)	(15.39)	(14.70)	(12.70)
Capital Employed	76.15	71.74	75.53	76.48	78.45	81.87
Deferred Taxation	13.34	13.34	13.34	13.34	13.34	13.34
Staff Retirement Benefits	2.21	1.52	4.17	4.98	6.23	7.65
Long Term Debt	12.25	12.03	10.82	9.74	8.77	8.77
Long Term Liabilities	27.80	26.89	28.34	28.07	28.33	29.76
Total Liabilities	73.91	71.45	71.03	74.69	77.95	80.20
Total Net Assets	48.34	44.85	47.20	48.42	50.11	52.12
Paid Up Share Capital	0.75	0.75	0.75	0.75	0.75	0.75
Share Premium	8.96	8.96	8.96	8.96	8.96	8.96
Share based payment reserve	0.02	0.02	0.02	0.02	0.02	0.02
General Reserve	38.61	35.11	37.46	38.68	40.38	42.38
Total Reserves	47.59	44.09	46.44	47.66	49.36	51.36
Total Equity	48.34	44.85	47.20	48.42	50.11	52.12
Total Equity & Liability	122.25	116.29	118.23	123.11	128.06	132.31

Source: Company Annual Account – 2015 and FSDH Research Analysis

8.0 Valuation:

We employed a relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

Assumptions:

- EV/EBITDA Multiple: 9.05x
- Debt: N20.69bn
- Cash: N5.80bn
- Number of shares in issue: 1.51bn

Applying the EV/EBITDA multiple of **9.05x**, we arrived at **N98.08** per share as the fair value.

The current market value of Guinness share is N97.00, the highest and the lowest closing prices in the last 52 weeks are N185.00 and N93.00 respectively.

The forward earnings yield and dividend yield of the company at our fair value are 0.90% and 0.87% respectively. The total return, a combination of the capital appreciation and the dividend, generates an appreciation of 1.96%. This is less than our minimum equity return benchmark of 16.65% but higher than the 10% discount on the market price. We therefore place a **HOLD** rating on the shares of Guinness Nigeria Plc at the price of N97.00 as of April 25, 2016. Our target price for the shares of Guinness in the next six months is N98.08.

The fair value for Guinness Nigeria Plc is N98.08

8.1 Risks to Price Target:

The following risks may affect the price target:

- Increase in the yield on fixed income securities
- Drop in market liquidity
- Issuance of new equity
- Reduction in dividend payment

Company	Guinness	Nigerian Breweries**
Turnover (Net Sales)	118.50	293.91
Gross Profit	55.89	142.46
EBIT	15.67	62.23
PBT	10.80	54.51
PAT	7.79	38.06
GP Margin	47.17%	48.47%
EBIT Margin	13.22%	21.17%
PBT Margin	9.11%	18.55%
PAT Margin	6.58%	12.95%
ROE	16.12%	22.09%
Net Assets	48.34	172.32
Net Assets Per Share	32.10	21.73
PE Ratio	-	21.92x
Earnings Yield*	-	4.56%

**As at April 25, 2016*
***Year End is in December*

Rating	Criteria
BUY	Fair value of the stock is \geq 16.65%* compared with the current market price.
HOLD	Fair value of the stock ranges between -10% and 16.65% of the current market price.
SELL	Fair value of the stock is > 10% below the current market price.

**16.65% is our estimated minimum equity return. It is the combination of our risk free rate and risk premium. Our risk free rate is the average yield on a five-year FGN Bond. We adopted a 5% risk premium and set the risk free rate every quarter.*

Fair Value: This is the value of the ordinary shares of the company using the valuation method appropriate for the company. It is the intrinsic or true value of the stock based on fundamentals of the company. The market price may either trade at a premium or discount to the intrinsic value.

Price Target: This is the price that we believe the shares of the company will trade within our time horizon. Other risk factors may affect the attainment of this price. This price may or not be different from the intrinsic value.

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