

HY1 Ended June 2016

UPDATE

June 22, 2016

Table 1: SELL	
Current Price	137
Fair Value	102.68
Price Target	102.68
Horizon	Nine Months

NB's Turnover in HY1 2016 increased by 3.76% to N157.37bn, compared with N151.67bn in the corresponding period of 2015.

PAT fell to N19.07bn, from N21.48bn recorded in the corresponding period of 2015.

Table 2: Financial Performance (N'bn)			
	HY,16	HY,15	Change
T/O	157.37	151.67	3.76%
EBIT	33.94	33.91	0.10%
PBT	25.55	30.99	(17.56%)
PAT	19.07	21.48	(11.23%)
EM*	21.57%	22.36%	(0.79%)
PM*	12.12%	14.16%	(2.05%)

*EM: EBIT Margin; PM: PAT Margin

Hit by Difficult Operating Environment

1.0 HY1 2016 Performance Analysis:

Nigerian Breweries Plc (NB) improved its top line performance in HY1, June 2016. However, the difficult operating business environment hindered the company's bottom line performance. NB's Turnover (T/O) increased marginally by 3.76% to N157.37bn in HY1 2016, compared with N151.67bn recorded in the corresponding period of 2015. The cost of sales rose by 7.67% to N83.39bn in HY1 2016 from N77.45bn recorded in HY1 2015 as a result of a 12.65% increase in input costs. Raw materials and consumables rose to N51.01bn in HY1 2016 from N45.28bn in 2015 mainly due to rising inflation and difficulty in sourcing foreign exchange. Consequently, the cost of sales as a percentage of T/O increased to 52.99% from 51.06% as at HY1 2016. Selling, distribution and administrative expenses decreased marginally by 0.64% to N40.33bn in HY1 2016 from N40.59bn in HY1 2015. The Earnings Before Interest and Tax (EBIT) increased marginally to N 33.94bn in HY 2016 from N33.91bn in HY1 2015.

Despite the lower interest rates from its commercial paper programme, the net finance costs increased by 187.69% to N8.39bn in HY1 2016 from N2.92bn in HY1 2015. This was mainly as a result of foreign exchange losses arising from dollar denominated payables to related parties. We are of the opinion that these are costs incurred in the ordinary course of doing business. Hence, should have been classified as an operating activity. The Profit Before Tax (PBT) fell to N25.55bn, a decrease of 17.56% from N30.99bn recorded in the corresponding period of 2015. The tax provision also fell by 31.85% to N6.48bn in HY1 2016 from N9.51bn in HY1 2015, leading to a Profit After Tax (PAT) of N19.07bn in HY1 2016 from N21.48bn in the corresponding period of 2015. The company's profit margins fell in HY1 2016 compared with HY1 2015. **This is a reflection of the weak consumers' spending power, rising inflation, high input costs, foreign exchange losses, the difficulty in sourcing foreign exchange and stiff competition.**

The company's total assets increased to N368.65bn in HY1 2016, from N356.22bn recorded in FY 2015 mainly on account of trade and other receivables. The increase in the trade receivables shows difficulties in turning sales to cash. The cash profit generated from NB's core operating activities decreased to N34.91bn in HY1 2016 from N40.07bn in HY1 2015. The proportion of revenue that translated to cash profit decreased to 22.19% in HY1 2016 from 26.42% in 2015, meaning that less revenue was translated to cash in HY1 2016.

The working capital stood at a negative N74.29bn; while the current ratio rose marginally to 0.51x as the company continues to rely heavily on non-interest bearing liabilities to fund its operations. Going forward, NB plans on remaining focused on its twin agenda of cost and market leadership supported by innovation.

We estimate a DPS of N2.61 in 2016.

We estimate a PAT of N34.43bn for FY December 2016. This will generate an Earning Per Share (EPS) of N4.34 and a final Dividend Per Share (DPS) of N2.61 based on a dividend pay-out of 60%. We note that NB may have to significantly reduce its dividend pay-out ratio this year to enable it meet its other financial obligations.

Looking at the performance in HY1 2016, we revised our previous rating on the stock of Nigerian Breweries from a HOLD to a SELL at the current price of N137 per share.

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Turnover	79.82	77.55	78.99	63.25	81.75
PBT	10.54	15.01	16.95	6.57	16.55
PAT	8.61	10.45	11.88	4.70	11.38

Source: Company Account and FSDH Research Analysis

=N='bn	DecA-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Turnover (Net Sales)	293.91	315.29	346.12	384.11	426.27	470.93
Cost of Sales	(151.44)	(166.77)	(181.34)	(200.48)	(213.96)	(236.38)
Gross Profit	142.46	148.52	164.77	183.63	212.31	234.55
Admin, Selling & Distribution Expenses	(53.82)	(57.29)	(62.89)	(69.79)	(77.45)	(85.57)
Depreciation	(26.90)	(36.06)	(41.46)	(47.89)	(55.55)	(64.72)
Other Operating Income	0.48	0.65	0.71	0.79	0.87	0.96
EBIT	62.23	55.83	61.13	66.73	80.18	85.23
EBITDA	89.12	91.88	102.59	114.62	135.73	149.95
Net Finance Cost	(7.71)	(9.39)	(0.99)	0.59	2.91	4.77
PBT	54.51	46.44	60.14	67.32	83.09	90.00
Taxation	(16.46)	(12.00)	(18.55)	(20.77)	(25.63)	(27.77)
PAT	38.06	34.43	41.58	46.55	57.46	62.24
EBITDA Margin	30.32%	29.14%	29.64%	29.84%	31.84%	31.84%
EBIT Margin	21.17%	17.71%	17.66%	17.37%	18.81%	18.10%
PBT Margin	18.55%	14.73%	17.37%	17.53%	19.49%	19.11%
PAT Margin	12.95%	10.92%	12.01%	12.12%	13.48%	13.22%
EPS(N)	4.80	4.34	5.24	5.87	7.25	7.85
DPS(N)	4.80	2.61	4.20	4.70	5.80	6.28
Dividend Payout	100.01%	60.00%	80.00%	80.00%	80.00%	80.00%
Earnings Yield *	3.53%	4.23%	5.11%	5.72%	7.06%	7.64%
Dividend Yield *	3.53%	2.54%	4.09%	4.57%	5.65%	6.12%
P/E Ratio*	28.34	23.64	19.58	17.49	14.17	13.08
Number of Shares ('bn)	7.93	7.93	7.93	7.93	7.93	7.93
Inventory Turnover	5.33	5.32	5.32	5.32	5.32	5.32

*At our fair value of N102.68 Source: Company Annual Account – 2015 and FSDH Research Analysis

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