

Guinness Nigeria Plc. : Interim Results – Q3 Mar. 2009



May 15, 2009

HOLD

Fair Value: ₦ 109.93

Current Price: ₦106.32

Valuation/Analyst Recommendation

We maintain our forecast and valuation for Guinness, as we are of the opinion that the company is in line with our forecast. We estimated TO, Earning Before Interest Tax Depreciation and Amortisation (EBITDA) and PAT for June 2009. We project a TO of **N77.13bn**, based on a growth of **11.51%**, over the previous year. We project EBITDA of **N23bn** based on EBITDA margin of **29.82%** and a PAT of **N14.27bn** based on a PAT margin of **18.50%**. We used **1.47bn** Ordinary Shares which we expect to be in issue as at June, 2009. The Forward Earnings Per Share (FEPS) generates **N9.67**. We estimated the Dividend Per Share (DPS) of **N7.25**, based on a dividend payout ratio of 75%. (Meanwhile, looking at the huge surplus reserve in the books of the company, it may pay another special dividend in the current financial year). Applying Enterprise Value EV/EBITDA multiple of **6.24x**, a P/E multiple of **11.750x**, we arrived at **N106.19k** per share using EV/EBITDA multiple and **N113.66k** per share price earnings multiple. A simple average of the two values generates **N109.93k** which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **8.80%** and **6.60%** respectively. We therefore place a **HOLD** on Guinness Nigeria Stock at the current market price.

Business Description

Guinness is involved in brewing, packaging and marketing of Alcoholic and Non-Alcoholic Drinks.

Ticker	GUINNESS
Sector	Breweries
Date of Incorporation	April 29, 1950
Date of Listing	November 1965
Year End	June
No of Ordinary Shares	1,474,925,485
Capitalisation (₦)	156,814,081,153.50
% of Market Capitalisation	2.73
52-Week High (₦)	136.15
52-Week Low (₦)	67.05
YTD Return (%)	6.85
52-Week Avg. Trade	353,831
Beta Value	0.74
Current EPS (₦)	10.40
Current PE (X)	10.22

Relocating for Efficiency:

The unaudited Q3 result of Guinness Nigeria Plc (Guinness) for the period ended 31 March, 2009 showed that its Turnover (TO) grew by **29.81%** to **N64.26bn**, compared with N49.50bn in the corresponding period of 2008. Profit Before Tax (PBT) grew by **44.80%** between 2008 and 2009 to **N16.08bn** from N11.11bn in the corresponding period of 2008. The tax provision which increased by **42.1%** between 2008 and 2009 to **N5.05bn** from N3.55bn in 2008 brought about a Profit After Tax (PAT) of **N11.03bn** as against N7.55bn in 2008, representing a growth of **46.09%**.

A cursory look at the company's profit margins revealed an increase in the PBT margin in Q3 '09 over Q3 '08 and FY '08 figure. The PBT margin increased to 25.03% in Q3 '09 up from 22.44% as at Q3 '08, and up from 24.71% as at the end of the financial year in June, 2008. This showed that the company's total costs as a percentage of TO stood at 74.97% in Q3 '09, up from 77.56% in the corresponding period of 2008. This shows that the company is becoming more cost efficient. PAT margin currently stands at 17.17%, up from 15.26% in the corresponding period of 2008 and up marginally from 17.15% as at FY '08. The result also indicated that the percentage of the TO, PBT and PAT in Q3 '09 to the Full Year Audited TO, PBT and PAT for the period ended June, 2008 are: 92.90%, 94.10% and 93.04%, respectively. Given the current run-rate the company should surpass its FY '08 performance.

Looking at the Audited Annual Report & Financial Statements of Guinness in 2008, the cost of sales increased by 4.30% to N35.61bn over the previous year. The increase was lower than the increase in TO which was up by 11.09% to N69.17bn, thereby leading to a more proportionate increase of 19.35% in gross profit to N33.56bn. This resulted in an increase in the gross profit margin from 45.16% in 2007 to 48.52% in 2008. The operating profit increased by 11.05% in 2008 to N15.80bn from N14.23bn in 2007. The operating profit in 2008 was reduced by an exceptional item of N1.24bn, representing the costs associated with the launch of new Malta Guinness bottles and crates. PAT increased by 10.94% to N11.86bn from N10.69bn in the previous year. The PAT in 2008 was boosted by the reduction in the cost of finance, which dropped by 71.64% to N437mn from N1.54bn in the preceding year. Both the capital employed and the shareholders' funds increased over the previous year by 8.34% to N49.02bn and 16.51% to N36.86bn respectively. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 32.23% and 32.18% respectively in 2008. Guinness paid a special dividend of N6.80 per share to the shareholders whose names appeared in the Register of Members on June 20, 2008; in addition to the final dividend of N6 to shareholders whose names appeared in the Register of Members on October 31, 2008. The Chairman of Guinness said the Directors decided to reward the shareholders with part of the surplus cash in the company's reserves as its future cash flow needs can be met without recourse to the funds.

A cursory look at the working capital position shows that Guinness may not have difficulties in meeting its current obligations as they fall due. However, it needs to watch the volume of its trade creditors as its net current assets declined by 27.54% to N10.76bn in 2008 from N14.85bn in 2007. The current ratio and quick ratio stood at 1.42x and 0.92x respectively as at FY 08, a decline from 1.56x and 1.08x respectively in FY 07.

As at the end of June 31, 2008, the total outstanding ordinary shares of 1.47bn were held as follows: **46%** was held by Nigerians and **54%** by offshore investors. Of the **54%** held by offshore investors, **46.03%** was held by Guinness Overseas Limited and **7.77%** by Atalantaf Limited.

An analysis of the TO of Guinness in 2008 shows that its income of N68.21bn was derived from two major areas which are: **Sales in Domestic Market (DM)** and **Sales in Foreign Market (FM)**. DM accounted for a 98.61% of the total income, while FM accounted for 1.39% of the income. The growth in TO was largely due to excellent sales promotion activities and alliance with other international brewing companies. The company's product line include: **Guinness Foreign Extra Stout, Guinness Extra Smooth, Harp Lager, Satzenbrau, Gordon's Spark, Smirnoff and Malta Guinness.**

Industry Analysis (N'mn)

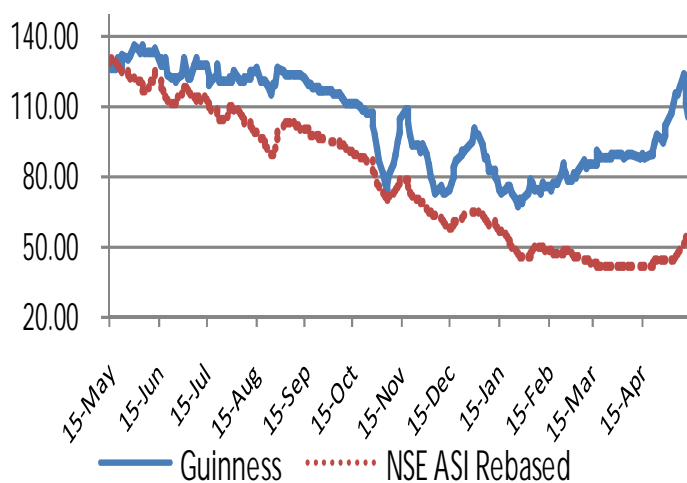
Company	T/O	PBT	PAT	PAT Margin (%)	EPS*	PE*	ROE
Guinness	69,173	17,093	11,861	17.15	10.40	10.22	32.18
NB	145,461	37,519	25,700	17.67	3.40	13.83	79.74

Note: While Financial Year End of Guinness is June '08, NB's Financial Year End is December '08. Sources: Annual Reports & Financial Statements.

Financial Performance (N'mn)

	Q3'09	Q3'08	%Δ	FY 2008	FY 2007	%Δ	FY 2009F
T/O	64,258	49,501	29.81	69,173	62,265	11.1	77,128
PBT	16,084	11,108	44.80	17,093	14,884	14.8	19,781
PAT	11,034	7,553	46.09	11,860	10,691	10.9	14,267
PBT Margin (%)	25.03	22.44	2.59	24.71	23.90	0.80	25.65
PAT Margin (%)	17.17	15.26	1.91	17.15	17.17	(0.02)	18.50

Guinness vs NSE ASI Rebased



Names	Position
R.A. Alabi	Chairman
N.B. Blazquez	Vice Chairman
D.M. Hainsworth	Managing Director
B.A. Savage	Deputy MD
F.A. Ogunbamowo	Director
J.O. Irukwu	Director
B.E. Gwadah	Director
R.C. Plumridge	Director
L. Turnbull	Director
B.J. Rewane	Director
F.O. Agbonlahor	Director
I.C. Mafeni	Director

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