

Guinness Nigeria Plc: Interim Results – Q3, Mar. 2010



June 03, 2010

SELL

Fair Value: ~~NGN~~ 135.23

Current Price: ~~NGN~~153.00

Valuation/Analyst Recommendation

In arriving at a fair value for Guinness, we maintained our top-line forecast but adjusted the bottom line figures based on the latest result. We estimated TO, Earning Before Interest Tax Depreciation and Amortization (EBITDA) and PAT for the FY ending June 30, 2010. We project a TO of **N102.52bn**, based on our view that the TO will increase by 15%, over the previous year. We project EBITDA of **N23.02bn** based on EBITDA margin of 22.45% and a PAT of **N11.57bn** based on a PAT margin of 11.29%. We used 1.47bn Ordinary Shares currently in issue. The Forward Earnings Per Share (FEPS) generates **N7.85**. We estimated the Dividend Per Share (DPS) of **N5.57** based on a dividend payout of 70.92%. Applying Enterprise Value (EV)/EBITDA multiple of 9.27x, a P/E multiple of 16.50x, we arrived at **N139.93** per share using EV/EBITDA multiple and **N129.48** per share using price earnings multiple. Applying a weight of 55% on **N139.93** and 45% on **N129.48**, we arrived at **N135.23** per share, which is our fair value. The forward earnings yield and dividend yield based, on our fair value generate 5.80% and 4.12% respectively. Guinness stock is currently trading at 13.14% above our fair value. If current a shareholder chooses to hold the stock, and earn the expected dividend of **N5.57** he will record a loss of 7.89% on his investment. However, if he chooses to sell and buy back when the price drops to our fair price without earning dividend, he will earn a total return of 8.48%. Weighing the two alternatives, it is better for the investor to sell at the current market price and buy back latter at a lower price. **We therefore place a SELL on Guinness stock at the current market price of N153.00.**

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	1,474,925,519
Capitalisation (N)	225,663,604,368.75
% of Market Capitalisation	3.54
52-Week High (N)	173.25
52-Week Low(N)	104.00
YTD Return (%)	20
52-Week Avg. Trade	404,047
Beta Value	0.71
Current EPS (N)	7.83
Current PE(x)	19.54

Declining Efficiency:

The unaudited Q3, 2010 result of Guinness Nigeria Plc (Guinness) for the period ended March 31, 2010 shows that its Turnover (TO) increased by 25.39% to **N80.58bn**, compared with N64.26bn in the corresponding period of 2009. However, the growth in turnover did not translate to growth in profitability on account of rising costs. We could not ascertain the nature of the rising cost as efforts to speak with the management was not successful. Nevertheless, we think the bottom-line was affected adversely because of the inability of the management to pass the costs to the consumers of Guinness products. Profit Before Tax (PBT) decreased by 14.49% between 2009 and 2010 to **N13.75bn** from N16.08bn. The tax provision decreased marginally by 6.85% between 2009 and 2010 to **N4.70bn** from N5.05bn and resulted in the Profit After Tax (PAT) of **N9.05bn**, down from N11.03bn in 2009, representing a decline of 17.99%.

The PBT Margin in Q3, 2010 decreased over the Q3, 2009, and over the FY 2009 figure. The PBT margin decreased to 17.07% in Q3, 2010 from 25.03% in Q3, 2009, and from 21.30% in June, 2009. This shows that the company's total costs as a percentage of TO stands at 82.93%, up from 74.97% recorded in the corresponding period of 2009. PAT margin currently stands at 11.23%, down from 17.17% in the corresponding period of 2009, and down from 15.19% as at FY 2009. The result also indicated that the percentage of TO, PBT, and PAT in the Q3, 2010 to the Full Year Audited TO, PBT and PAT for the period ended June, 2009 are: 90.38%, 72.42% and 66.83%, respectively. This indicates that the current year's profitability may be lower than the previous year's.

A cursory look at the balance sheet position as at Q3, 2010 compared with the position as at June, 2009 shows that the company's fixed assets declined marginally. This may be linked to the impact of sale or write-off of some fixed assets during the period. Fixed assets decreased marginally by 3.74% to N36.68bn from N38.10bn in FY 2009, also the net assets decreased marginally by 6.38% to N29.51bn from N31.52bn as at FY 2009. Cash and bank balances decreased from N5.82bn in FY 2009 to N3.40bn in Q3, 2010. The drop in the net assets was partly attributed to the payment of final dividend from the reserves of the company. The short-term borrowing stood at N1.07bn as at Q3, 2010, representing a decrease of 84.53% over the FY 2009 position of N6.90bn. Guinness might have deliberately paid down the short term loan to avoid excessive charges. Stocks increased by 14.17% to N19.24bn from N16.85bn during the review period. The trade debtors increased by 13.69% to N7.22bn from N6.35bn, while trade creditors increased significantly by 114.90% to N12.88bn in Q3, 2010 from N5.99bn as at FY 2009. The management needs to watch its trade creditors so that its creditors will not downgrade their risk assessments of Guinness.

Our analysis of the operating environment shows that the demand for brewery products remain strong in spite of economic downturn and decline in consumer purchasing power. Available data shows that the brewery industry recorded a turnover growth of 25% in 2009. The beverage industry operators launched and re-launched both old and new brands in the market, leading to increased competition in the industry, even as consumption volume, especially in the beer segment increased significantly. However, the industry is bewildered with high production cost, because of rising energy, power and packaging costs, thus putting pressure on profit margin. In addition, the industry is highly vulnerable to consumer income and spending, infrastructure deficits, political instability and exchange rate volatility. A strong contender to consumer's disposable income in Nigeria is telecommunication products and services. This has reduced the income allocated to brewing products. In order to capture a good proportion of the remaining income, brewing firms embarked on all forms adverts, designed at young people with strong purchasing power. In addition, producers are incapacitated to increase product prices thereby reducing profit margin. The industry, like other manufacturing business in Nigeria, is riddled with multiple taxes thus limiting its contribution to the GDP, notwithstanding the huge market potentials within the country and in the neighboring countries. Governments at both federal and state levels continue to legislate or demand various forms of taxes, levies and financial supports, which increase the costs of doing businesses in Nigeria. The contribution of the manufacturing sector to the Gross Domestic Product (GDP) as at December 2009 is 4.20%. This is considered too low for a country that has a huge consumption power like Nigeria having an estimated market size of 150million growing at 2.3% per annum. This is in addition to the increasing export opportunities in neighboring countries. We expect increased revenue from pre-election spending and political rallies ahead of 2011 election.

The capital employed by Guinness as at June 30, 2009 was such that equity, deferred taxation and staff gratuity & other long term employee benefits accounted for 73.78%, 18.94% and 7.27% of the capital employed respectively. Its total Assets stood at **N73.87bn**, while total liabilities stood at **N42.34bn**. The short term liabilities stood at **N31.14bn**, accounting for 73.55% of the total liabilities while the long-term liabilities stood at **N11.20bn** accounting for 26.45% of the total liabilities. It had no long term debt as at June 30, 2009. The company's product line include: **Guinness Foreign Extra Stout, Guinness Extra Smooth, Harp Lager, Satzenbrau, Gordon's Spark, Smirnoff and Malta Guinness**. Looking at the shareholding structure as at June 30, 2009, Guinness Overseas Limited held 46.03%, Atalantaf Limited held 7.77%, the balance of 46.20% of the shares were held by other shareholders.

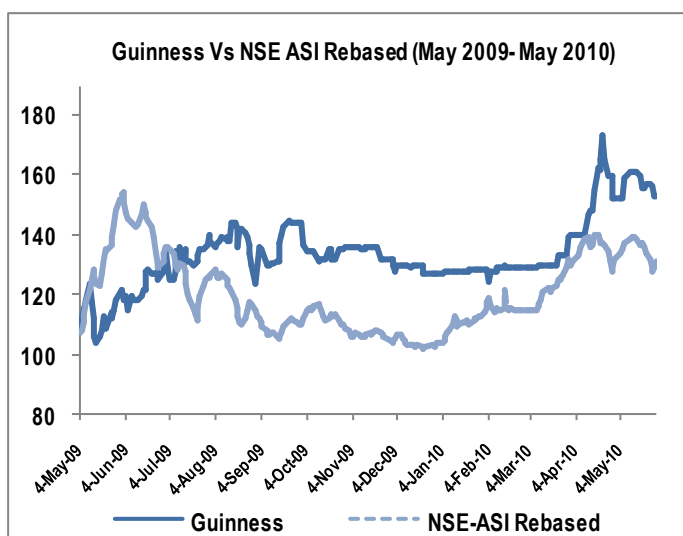
Industry Analysis (NmN)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Guinness	89,148	18,991	13,541	15.19	42.95	7.83	19.54
Nig. Brew	164,207	41,400	27,910	17.00	59.93	3.49	18.30

Source: Company Annual Reports as at FY, NSE FACTBOOK. * Current. Guinness (FY June 2009) and Nigerian Breweries (FY December 2009).

Financial Performance (NmN)

	Q3 2010	Q3 2009	%Δ	FY 2009	FY 2008	%Δ	FY 2010F
Turnover	80,576	64,258	25.39	89,148	69,172	28.88	102,520
PBT	13,754	16,084	(14.49)	18,991	17,092	11.11	15,278
PAT	9,049	11,034	(17.99)	13,541	11,860	14.17	11,575
PBT Margin (%)	17.07	25.03	(7.96)	21.30	24.71	(3.41)	14.90
PAT Margin (%)	11.23	17.17	(5.94)	15.19	17.15	(1.96)	11.29



Directors As At August 03, 2009

Name	Position	Holding
Babatunde A. Savage	Chairman	601,263
Nick Blazquez	Vice Chairman	Nil
Delvin Hainsworth	Managing Director/CEO	Nil
F.A. Ogunbamowo	Director	49,351
J.O. Irukwo	Director	607,866
Bitrus E. Gwadah	Director	2,082
Ron C. Plumridge	Director	Nil
Bismarck Rewane	Director	16,944
Timothy A. Olagunju	Director	Nil
Kenneth Allan	Director	Nil
Francis Agbonlahor	Executive Director	7,665
Ifeoma Mafeni	Executive Director	Nil
Jamie Anderson	Executive Director	3,765

Contact us at Our Offices:

Lagos Office: UAC House (6th-8th Floors) 1/5 Odunlami Street, P.M.B 12913 Lagos. (Tel.) 234-1-2640160-9 (Fax) 234-1-2702890

Port Harcourt:

AfriBank Bank Building (2nd floor, 5 Trans Amadi Road, Port Harcourt. (Tel) 234-084-463308 (Fax) 234-084-463174

Abuja Office:

Orji Uzor Kalu Plaza, Plot 979, 1st Avenue, Off Ahmadu Bello Way, Cadastral Zone AO, Central Business District, Abuja.

(Tel) 234-09-6700535

www.fsdhgroup.com, www.fsdhsecurities.com

(Email) fsdhsecurities@fsdhgroup.com

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