Equity Research Report — NIGERIA

FSDH SECURITIES LIMITED

Nigerian Breweries Plc: *Interim Results – Q1, Mar. 2010*

June 09, 2010 | **BUY** | **Fair Value: NG₦ 63.94** | **Current Price: NG₦62.00**

Valuation/Analyst Recommendation

In placing a fair value on the Ordinary Shares of **NB**, we estimated **TO**, Earning Before Interest Tax Depreciation and Amortization (**EBITDA**) and **PAT** for the period ended December, 2010. We project a **TO** of **N182.91bn,** based on a growth rate of **10.95%** over the previous year. We project **EBITDA** of **N50.24bn** based on EBITDA margin of **27.57%** and a **PAT** of **N29.76bn** based on a PAT Margin of **16.33%.** We used **7.56bn** Ordinary Shares, which we expect to be in issue as at December 2010. The Earnings Per Share **(EPS)** generates **N3.93.** We estimated Dividend Per Share **(DPS)** of **N3.74** based on a dividend payout of **95%.** Applying Enterprise Value EV/EBITDA multiple of **9.51x**, a P/E multiple of **16.50x**, we arrived at **N63.13** per share using EV/EBITDA multiple and **N64.92** per share price using earnings multiple. Applying a weight of **55%** on **N63.13** and **45%** on **N64.92**, we arrived at **N63.94** per share, which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **6.15%** and **5.85%** respectively. **We therefore place a BUY on the share of NB at the current market price.**

Business Description

NB's principal activities are brewing, marketing and selling of lager, stout, non-alcoholic malt drinks and soft drinks.

Ticker	**NB**
Sector	Breweries
Date of Incorporation	16 November, 1946
Date of Listing	5 September, 1973
Year End	December
No of Ordinary Shares	7,562,562,340
Capitalisation (₦)	468,878,865,080
% of Market Capitalisation	7.63
52-Week High(₦)	73.00
52-Week Low (₦)	48.15
YTD Return (%)	16.94
52-Week Avg. Trade	2,412,690
Beta Value	0.82
Current EPS (₦)	3.49
Current PE(x)	17.79

Winning With Nigerians:

The unaudited Q1, 2010 result of **Nigerian Breweries Plc (NB)** for the period ended March 31, 2010 showed that its Turnover (TO) grew marginally by **0.42%** to **N40.57bn**, compared with N40.41bn in the corresponding period of 2009. The difficult operating environment with increasing cost of operation in addition to the pressure from supply gap and higher input cost, led to the deterioration in the company's efficiency as operating profit declined by 21.01% to **N9.39bn** from N11.892bn in 2009. Consequently, the operating profit margin decreased to **23.15%** from 29.43% in 2009. However, the company became a net-placer of funds in the money market during the period resulting in net financing income of **N33.46mn** from a net financing expense of N74.47mn in Q1 2009. The Profit Before Tax (PBT) decreased by **20.23%** between 2009 and 2010 to **N9.43bn** from N11.82bn in the corresponding period of 2009. The tax provision also dropped by 22.07% from N3.81bn in 2009 to N2.97bn in 2010.

Profit After Tax (PAT) declined to **N6.46bn** in 2010 as from N8.01bn in 2009, representing a decrease of **19.36%.** The company's profit margins declined in Q1, 2010 over Q1, 2009 and over the FY December, 2009 figure. The PBT margin decreased to 23.23% in Q1, 2010 from 29.24% as at Q1, 2009, and down from 25.21% as at the end of the financial year in December, 2009. This shows that the company's total costs as a percentage of TO stand at 76.77%, higher than 70.76% recorded in the corresponding period of 2009. PAT Margin currently stands at 15.91%, down from 19.81% in the corresponding period of 2009 and also down from 17% as at FY 2009. The result also indicated that the percentage of TO, PBT, and PAT in the Q1, 2010 to the Full Year Audited TO, PBT and PAT for the period ended December, 2009 are: **24.71%, 22.77%** and **23.13%,** respectively. The company recently commissioned a new ultra modern multi-billion naira brew house to expand its capacity from 2.5 hectoliters to 3 million hectoliters. We expect this to improve the performance of NB in the following quarters.

A cursory look at the balance sheet position as at Q1 2010 compared with the position as at December, 2009 shows that the company's fixed assets declined marginally. This may be linked to the impact of sale of some fixed assets during the period. Its fixed assets decreased marginally by 0.76% to N68.48bn from N69bn in FY 2009. The drop in stocks and cash & bank balances led to the drop in net assets which decreased by 10.49% to N41.68bn from N46.57bn as at FY 2009. The payment of dividends (both interim and final for 2009) was majorly responsible for the decline of 44.35% in cash and bank balances from N11.81bn in FY 2009 to N6.57bn in Q1 2010. NB's working capital worsened from a negative of N4.69bn in 2009 to N9.36bn in Q1 2010. The management of NB however needs to put in place strategies to reduce the trade debtors which increased by 28.14% to N2.65bn from N2.07bn in order to reduce its cash cycle.

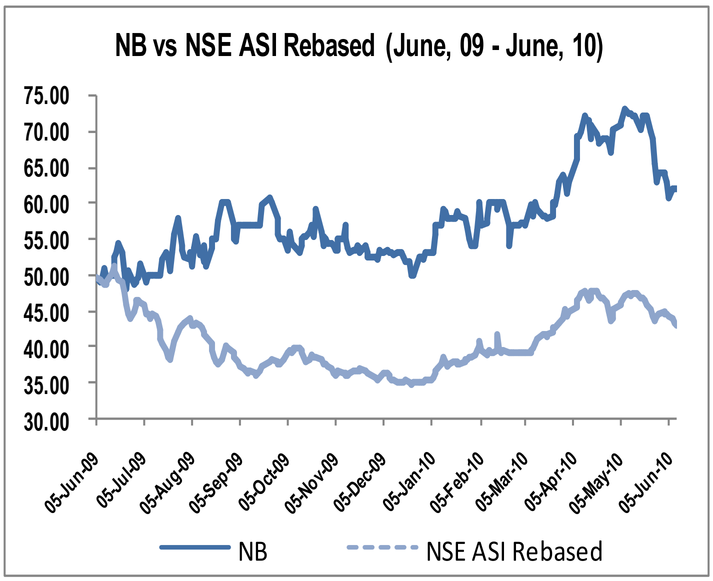
Our analysis of the operating environment shows that the demand for brewery products remain strong in spite of economic downturn and decline in consumer purchasing power. Available data shows that the brewery industry recorded a turnover growth of 25% in 2009. The beverage industry operators launched 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 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 of adverts, designed at young people with strong purchasing power. In addition, producers are unable to increase product prices thereby reducing profit margin. 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 NB at December 31, 2009 was such that equity, deferred taxation and gratuity & other long term employee benefits accounted for 72.01%, 22.15% and 5.84% of the capital structure respectively. Its total Assets stood at N106.99bn, while total liabilities stood at N60.42bn. The short term liabilities stood at N42.38bn, accounting for 70.04% of the total liabilities while the long-term liabilities stood at N18.10bn accounting for 29.96% of the total liabilities. NB had no long term interest bearing debt as at December 31, 2009. An analysis of the TO of NB in 2009 shows that its revenue of N164.21bn was derived from the sales in the Nigerian market representing **99.89%** (N164.02bn) and Exports, representing **0.11%** (N4.48bn). NB's business product line includes the following: **Star**, **Gulder**, **Heineken**, **Maltina**, **Amstel Malta**, **Legend Stout** and **Fayrouz**. Its outstanding shares stood at about 7.5bn out of which 4.1bn is owned by Heineken N.V Group representing about 54.1% of the shares while the remaining 45.9% is held by other Nigerians, foreign individuals and institutions. The company has technical alliance with the following companies: Heineken International B.V., Heineken Supply Chain B.V., Heineken Brouwerijen B. V., Amstel Brouwerijen B.V., Premier Beverages International B.V., and Fayrouz Manufacturing and Technology Centre GMBH.

Industry Analysis (Nmn)							
Company	**TO**	**PBT**	**PAT**	**PAT Margin (%)**	**ROE (%)**	**EPS***	**PE***
NB	164,207	41,400	27,910	17.00	59.93	3.49	17.79
Guinness	89,148	18,991	13,541	15.19	42.95	7.83	19.54

*Source: Company Annual Reports as at FY2008 and 2009. NSE FACTBOOK NB(FY December 2009) and Guinness (FY June2009). * Current*

Financial Performance (Nmn)							
	Q1 2010	**Q1 2009**	**%Δ**	**FY 2009**	**FY 2008**	**%Δ**	**FY 2010F**
Turnover	40,574	40,405	0.4	164,207	145,462	12.90	182,191
PBT	9,426	11,816	(20.23)	41,400	37,519	10.30	43,759
PAT	6,456	8,006	(19.36)	27,910	25,701	8.60	29,756
PBT Margin (%)	23.23	29.24	(6.01)	25.21	25.79	(0.58)	24.02
PAT Margin (%)	15.91	19.81	(3.90)	17.00	17.67	(0.67)	16.33



Directors As At December 31, 2009		
Name	**Position**	**Shareholding**
K. B. Jamodu	Chairman	431,704
M.J. Herkemij	CEO	Nil
O. S. Adebanji	Director	18,000
O. O. Ajayi	Director	328,760
V. Famuyibo	Director	Nil
P. Hamers	Non-Ex. Dir.	Nil
L. Le Couedic	Director	Nil
J. C. Linden	Director	Nil
T. A. de Man	Non-Ex. Dir.	Nil
A.N.A. Peterside	Non-Ex. Dir.	15,000,000
N.E. Usman	Non-Ex. Dir.	95,000
E.J. van Willegen	Director	Nil
I.E. Yamson	Non-Ex. Dir.	Nil

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