

## Nigerian Breweries Plc: Interim Results – Q3, September 2011



November 11, 2011

BUY

Fair Value: N96.80

Current Price: N91.51

### Valuation/Analyst Recommendation

In placing a fair value on the Ordinary Shares of Nigerian Breweries, we reviewed our earlier forecast downward to take account of the decline in the profit margin over 2010. In arriving at a fair value for the ordinary shares of NB, we used one valuation method, which is the Discounted Free Cash Flow Method (DCF). We projected Turnover, Earnings Before Interest and Tax (EBIT), Earnings Before Interest Tax Depreciation and Amortization (EBITDA), Profit After Tax (PAT) and Dividend Payment for the periods ending December 2011, 2012, 2013, 2014 and 2015. We estimated the Turnover of **N238.82bn**, **N300.91bn**, **N371.63bn**, **N453.38bn** and **N546.33bn** for 2011, 2012, 2013, 2014 and 2015, respectively. We estimated EBIT of **N71.15bn**, **N94.16bn**, **N116.29bn**, **N141.88bn** and **N162.77bn** for the same period, based on EBIT Margin of 29.79% for 2011, 31.29% for 2012-2014, and 29.79% for 2015. We estimated EBITDA of **N78.40bn**, **N101.61bn**, **N123.61bn**, **N149.69bn** and **N170.75bn** for the same period. We also projected a FCF of **N53.20bn**, **N69.93bn**, **N85.59bn**, **N103.36bn** and **N117.94bn**, PAT of **N39.37bn**, **N52.61bn**, **N64.98bn**, **N79.27bn** and **N94.42bn** and Dividend Payment of **N33.46bn**, **N44.72bn**, **N55.23bn**, **N67.38bn** and **N80.26bn** for the period, based on a dividend payout of 85% from its earnings. We applied a terminal growth rate of 7.72%. We used a beta value of 0.84x based on the 5-year historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used the coupon rate of 12.19% as our risk free rate, which is the average of the one year marginal rate on 5 years Federal Government of Nigeria Bond, and a Risk Premium of 8.00%. Applying foregoing parameters on the Capital Asset Pricing Model (CAPM), the cost of equity generates 18.91%, which is our cost of capital. Using 7.56bn shares in issue, the DCF Model generates **N96.80** per share, which is our fair value. Buying the stock at the current market price of N91.51, holding it to our fair value of **N96.80** and adding the present value of the 5-year forecast dividend, investors will earn a total return of 29.64%. Relating this return to the cost of equity estimated by CAPM at 18.91%, investment in Nigerian Breweries shares will earn an excess return (alpha return) of 10.73%. The 2011 forward earnings yield based on our fair value generated 6.02%, while the 2011 forward Dividend Yield based on **N4.42** Dividend Per Share at our fair value generated 4.57%. We therefore place a BUY on the Shares of Nigerian Breweries Plc at the current market price for both dividend payment and capital appreciation.

### Business Description

Nigerian Breweries is involved in brewing, packaging and marketing of Lager, Stout, Non-alcoholic malt drinks as well as soft drinks.

Ticker	NB
Sector	Breweries
Date of Incorporation	16 <sup>th</sup> November, 1946
Date of Listing	5 <sup>th</sup> September, 1973
Year End	31 <sup>st</sup> December
No of Ordinary Shares	7,562,562,340
Capitalisation (N)	692,050,079,733
% of Market Capitalisation	10.64
52-Week High (N)	94.01
52-Week Low(N)	72.50
YTD Return (%)	20.31
52-Week Avg. Trade	1,620,118
Beta Value	0.84
Current EPS (N)	4.50
Current PE(x)	20.34

### Combining Organic with Inorganic Growth Strategies:

The unaudited Q3, result of Nigerian Breweries Plc (NB) for the period ended September 30, 2011 showed that its Turnover (TO) increased by 22.39% to **N159.97bn**, compared with N130.71bn in the corresponding period of 2010. NB's TO is mainly a reflection of improvement in the supply of its products as well as benefits arising from increased investment in its brands. Also, its recent production expansion has helped turnover. Profit Before Tax (PBT) increased by 17.57% between Q3 2010 and 2011 to **N37.28bn**. The company also made a tax provision of **N12.46bn** in Q3 2011, compared with N10.57bn in the corresponding period of 2010. This brought about a 17.46% increase in the company's Profit after Tax (PAT), which stood at **N24.83bn** in 2011, compared to N21.14bn in 2010.

The PBT Margin in Q3, 2011 decreased over the Q3, 2010, and over the Financial Year (FY) 2010 figure. The PBT margin decreased to 23.31% in Q3, 2011 from 24.26% in Q3, 2010, and 24.15% in December, 2010. This showed that the company's total costs as a percentage of TO stands at 76.69%, up from 75.74% recorded in the corresponding period of 2010. PAT margin currently stands at 15.52%, down from 16.17% and 16.32% in corresponding period of 2010 and FY December 2010 respectively. The result also indicated that the percentage of TO, PBT, and PAT in the Q3, 2011 to the Audited TO, PBT and PAT for the period ended December, 2010 are: 86.07%, 83.07% and 81.85%, respectively. Given the current run rate, in addition to Nigerian Breweries acquisition strategies the company should surpass the previous year's performance.

A cursory look at the balance sheet position as at Q3, 2011 compared with the position as at FY, 2010 showed that the company's fixed assets recorded a marginal increase. Fixed assets increased marginally, by 0.17% to **N73.93bn** from N73.8bn in FY, 2010. Cash and bank balances recorded a commendable increase, from N12.61bn in FY, 2010, to **N65.36bn** in Q3, 2011. Working capital also improved significantly by 329.01% to a positive position of **N10.52bn** in Q3 2011 from a negative position of N4.60bn in FY, 2010. Stocks increased by 37.96% to N29.29bn from N21.23bn during the review period. The trade debtors increased by 137.98% to N8.31bn from N3.50bn, while trade creditors increased by 16.86% to N25.10bn in Q3, 2010 from N21.44bn as at FY, 2010.

The Nigerian manufacturing industry is relatively small in relation to the size of the domestic economy. The sector has not grown remarkably over the years due to a series of factors: the neglect of the sector in favour of oil, an epileptic power supply, and the country's deficient infrastructure, among others. Although the Nigerian government maintains that the industry is the main instrument of rapid growth, structural change and self-sufficiency, it has not yet pursued the necessary policies to improve the performance of the manufacturing industry. The brewery industry in Nigeria is growing very fast in spite of the various socio-economic situations in the country. There are also intense competitions amongst all the operators. In order to retain loyal customers and appeal to new customers, the major operators in Nigeria, which are Nigerian Breweries and Guinness sponsor a lot of shows and events targeted at young people. This requires a lot of money and also serves as advertisement for them. These operators have benefitted immensely from these shows. Despite the fact that production volumes have continued to increase over the past five years, Nigerian Breweries has faced the problem of strained production capacity, with the company's current and potential production trailing the current and projected demand for its brewed products. However, in order to expand its production capacity in the face of current production constraints, advance its market share, and sharpen its competitive edge, the board of Nigerian Breweries proposed to its shareholders, the acquisitions of **Sona Systems Associates Business Management Limited**, which currently owns two breweries in Nigeria (Sango Otta and Kaduna), and **Life Breweries Company Limited** (Onitcha). If the shareholders approve their proposition, the acquisitions would not only lead to immediate additional production capacity for Nigerian Breweries, but would also give Nigerian Breweries the rights to the brands of Sona Systems (**Goldberg lager** and **Malta Gold**) and Life Breweries (**Continental Life lager**). It is expected that the proposed acquisitions will result in superior revenue opportunities, enhanced operating efficiencies, and economies of scale, particularly in purchasing and distribution.

As at December 2010, the capital employed by Nigerian Breweries were financed by a mix of equity and long-term liabilities in the proportion of 72.18% and 27.82%, respectively. The total assets of Nigerian Breweries stood at **N114.39bn**, while total liabilities stood at **N64.22bn**. The short-term liabilities stood at **N44.88bn**, accounting for 69.89% of the total liabilities, while the long-term liabilities stood at **N19.34bn** accounting for 30.11% of the total liabilities. Nigerian Breweries has a strong portfolio of brands, which are renowned beverages across various parts of the country. Nigerian Breweries produces and offers beer under the **Star** and **Gulder** brands, lager under the **Heineken** brand, malt drinks under the **Maltina** and **Amstel Malta** brands, premium stout under the **Legend** brand, a sparkling soft drink under the **Fayrouz** brand, and a recently launched energy drink, **Climax**. Looking at the shareholding structure as at December 31, 2010, Heineken Brouwerijen BV held 37.74%, Distilled Trading International held 16.36%, while Stanbic Nominees held 7.93% of the shares of Nigerian Breweries, while the balance of 37.97% of the shares were held by Nigerian and foreign individuals and institutions.

## Comparable Analysis (Nm)

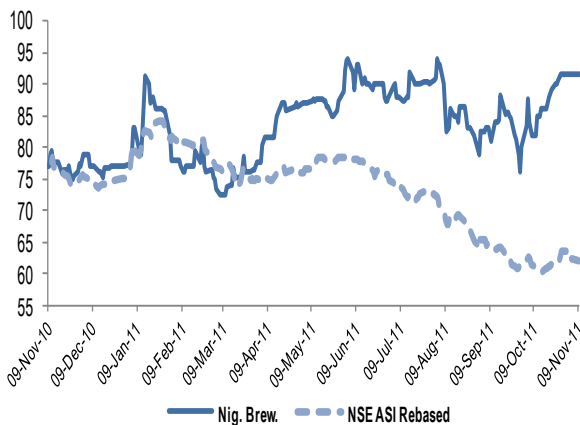
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Nig. Breweries**	185,862	44,880	30,332	16.32	60.46	4.50	20.34
Guinness^	123,663	26,177	17,928	14.50	44.50	12.15	17.28

Source: Company Annual Reports: \*\* Financial Year End – December 2010 ^Financial Year End- June 2011 \* Current

## Financial Performance (Nm)

	Q3 2011	Q3 2010	%Δ	FY 2010	FY 2009	% Δ	FY 2011F
Turnover	159,965	130,706	22.39	185,862	164,206	13.19	238,818
PBT	37,282	31,710	17.57	44,880	41,399	8.41	57,892
PAT	24,827	21,137	17.46	30,332	27,910	8.68	39,367
PBT Margin (%)	23.31	24.26	(0.95)	24.15	25.21	(1.06)	24.24
PAT Margin (%)	15.52	16.17	(0.65)	16.32	17.00	(0.68)	16.48

Nigerian Breweries Vs NSE ASI Rebased (Nov. 10 - Nov. 11)



## Directors as at February 23, 2011

Name	Position	Holding
Chief Kola B. Jamodu	Chairman	431,704
Mr. Nicolaas A. Vervelde	Managing Director/CEO	Nil
Mr. Olusegun Adebajji	Non-Executive Director	200,000
Mr. Hubert I. Eze	Sales Director	41,383
Mr. Victor Famuyibo	Human Resource Director	Nil
Mr. Jasper Hamaker	Finance Director	Nil
Mr. Paul Hamers	Non-Executive Director	Nil
Mr. Jan C. van der Linden	Marketing Director	Nil
Mr. Thomas A. de Man	Non-Executive Director	Nil
Mr. Atedo Peterside	Non-Executive Director	15,000,000
Mr. Hendrik Wymenga	Technical Director	Nil
Mr. Ishmael E. Yamson	Non-Executive Director	Nil

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