



Nigerian Breweries Plc

Growing Through Acquisition

April 26, 2016

Q1 Ended March 31, 2016

Executive Summary

- The strategic move the company adopted to operate in the value segment is delivering the right results
- However, the difficult operating environment and stiff competition had an adverse impact on NB profit margins as at Q1, March 2016
- The company recorded an improved performance due to its strong route-to-market, increased sales during the Easter period and a higher number of sales days in the period compared to 2015
- It plans to maintain its twin agendas of cost and market leadership supported by innovation
- The company also plans to continue the use of commercial papers to meet its financing needs
- The company may need a longer tenored debt programme to cope with the expected increase in interest rate
- We estimate a dividend per share of N4.99 for the FY 2016
- **Our fair value of the shares of NB is N112.87**
- **We change our rating of the shares of NB from a BUY to a HOLD at the current market price of N106.09 per share**

1.0 Q1 2016 Performance Analysis:

Nigerian Breweries Plc (NB) recorded an improved performance in Q1 March, 2016 despite the challenging operating environment. The company's performance was driven by its strong route-to-market, increased sales during the Easter period. The gains from its consolidation of Consolidated Breweries has also improved its performance. The unaudited Q1 2016 result for the period ended March 2016 shows that Turnover (T/O) increased by 10.92% to N77.55bn, compared with N69.92bn in 2015. The cost of sales increased by 11.85% to N40.27bn from N36.01bn in Q1 2015. The rise in the cost of sales could be attributed to the rise in input costs. The cost of raw materials and consumables rose by 30.44% to N24.56bn in Q1 2016 from N18.83bn in 2015. The cost of sales as a percentage of T/O increased marginally to 51.93% from 51.49% as at Q1 2015. The administrative, selling and distribution expenses increased by 9.92% to N19.43bn. These expenses as a percentage of turnover decreased marginally to 25.05% in Q1 2016 from 25.28% in Q1 2015.

The other operating income stood at N143.57mn as at Q1 2016, representing an increase of 11.19%, compared with N129.13mn in Q1 2015. The company recorded a finance cost of N3.05bn in Q1 2016 a 49.58% increase from N2.04bn in Q1 2015 while finance income fell by 44.42% to N59.38mn. The Profit Before Tax (PBT) rose to N15.01bn, an increase of 3.94% from N14.44bn in 2015. The tax provision also increased by 5% to N4.55bn, from N4.34bn. The Profit After Tax (PAT) was N10.45bn in Q1 2016, from N10.10bn in 2015, representing an increase of 3.49%. There was a decline in the company's profit margins in Q1 2016, compared with Q1 2015. **This was a reflection of the challenges the company faced in the difficult operating environment, rising inflation, increased finance and input costs and weak consumers' spending.**

Table 1:	HOLD
Current Price	106.09
Fair Value	112.87
Price Target	112.87
Horizon	One Year

The T/O increased by 10.92% to N77.55bn in Q1 2016.

There was a decline in the company's profit margins in Q1 2016, compared with Q1 2015.

Table 2: Financial Performance (N'bn)

	Q1 2016	Q1 2015	%Δ
T/O	77.55	66.92	10.92
EBIT	17.99	16.37	9.93
PBT	15.01	14.34	3.94
PAT	10.45	10.10	3.49
GP* Margin	48.07%	48.51%	(0.21%)
EBIT Margin	23.20%	23.41%	(0.43%)
PBT Margin	19.35%	20.65%	(1.30%)
PAT Margin	13.48%	14.45%	(0.97%)

*GP- Gross Profit

Source: Company Annual Account – 2015 and FSDH Research Analysis

Given the run rate, the company should meet and surpass its previous year's performance.

The Gross Profit margin decreased to 48.07% in Q1 2016 while the Earnings Before Interest and Tax (EBIT) margin declined to 23.20% from 23.41% in Q1 2015. The PBT margin decreased to 19.35% in Q1 2016 from 20.65% as at Q1 2015. The PAT margin currently stands at 13.48% in Q1 2016, down from 14.45% in the corresponding period of 2015. This result also indicates that the percentage of T/O, PBT, and PAT in the Q1 2016 to the Audited T/O, PBT and PAT for the period ended December 2015 are: 26.39%, 27.53% and 27.47%, respectively. **Given the run rate, the company should meet and surpass its previous year's performance.**

The cash and bank balances recorded an increase of 93.16% to N9.86bn in Q1 2016 from N5.11bn in FY 2015.

Table 3: Quarterly Result Highlights (N'bn)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Turnover	77.55	78.99	63.25	81.75	69.92
PBT	15.01	16.95	6.57	16.55	14.44
PAT	10.45	11.88	4.70	11.38	10.10

Source: Company Annual Account – 2015 and FSDH Research Analysis

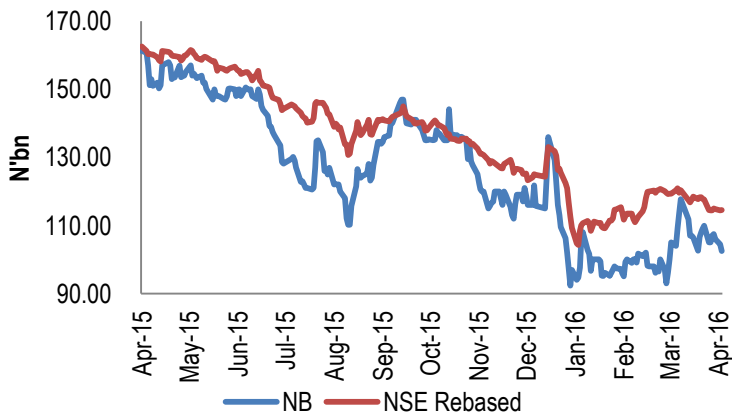
A cursory look at the balance sheet position as at Q1 2016 compared with FY December 2015 shows a decrease in the company's fixed assets. The total fixed assets decreased marginally by 0.81% to N296.31bn in Q1 2016 from N298.74bn in FY 2015. The inventory also decreased by 5.32% to N26.90bn from N28.41bn in FY 2015. The cash and bank balances recorded an increase of 93.16% to N9.86bn in Q1 2016 from N5.11bn in FY 2015. The trade debtors and other receivables increased in Q1 2016 by 49.09% to N24.62bn, from N16.51bn in FY 2015. The trade creditors and other payables decreased by 2.39% to N83.21bn from N85.25bn as at FY 2015. The working capital stood at a negative N69.36bn in 2016 from a negative N82.60bn in FY 2015, while net assets for the period increased by 6.11% to stand at N182.84bn, from N172.32bn as at FY 2015. The company relied heavily on free credit from suppliers

and distributors to finance its operations. **The total assets of the company which stood at N366.74bn as at Q1 2016 was financed by a mix of equities and liabilities in the ratio of 49.86% and 50.14% respectively.** Our analysis of the liabilities shows that the short-term liabilities stood at N139.79bn, accounting for 76.02% of the total liabilities. The short-term liabilities constituted mainly of trade and other payables. The long-term liabilities stood at N44.11bn accounting for 23.98% of the total liabilities. Long-term liabilities constituted mainly of deferred tax liabilities which stood at N32.24bn in Q1 2016 an increase from N31.91bn in FY 2015.

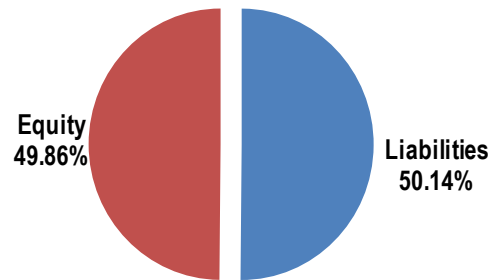
The short-term liabilities constituted mainly of trade and other payables.

The net cash from operating activities rose to N10.61bn in Q1 2016 from N4.83bn in 2015 representing a growth of 119.67%. This also indicates efficiency in the management of working capital as less cash resources were tied down in inventory and purchases of foreign exchange.

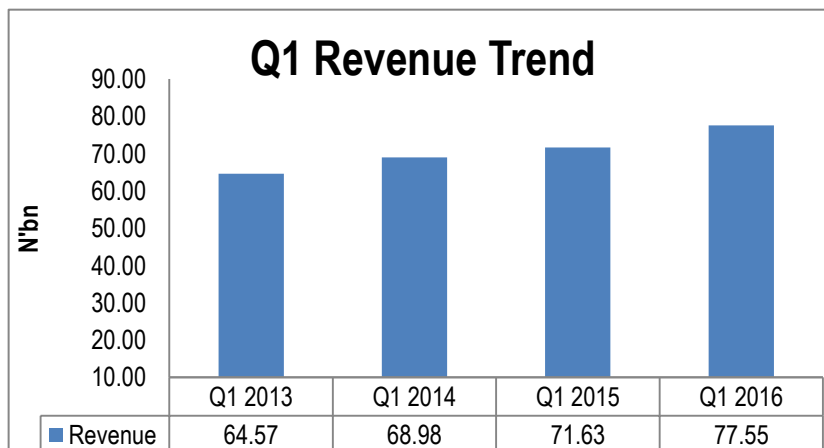
NB VS NSE Rebased (Apr'15 -Apr'16)



Financing Mix



Q1 Revenue Trend



1.1 FY 2015 Performance Analysis:

The audited Full Year (FY) 2015 result for the period ended December 2015 shows that Turnover T/O increased by 10.34% to N293.91bn, compared with N266.37bn in 2014. The cost of sales also increased by 15.79% to N151.44bn from N130.79bn in FY 2014. The cost of sales as a percentage of T/O increased to 51.53% from 49.10% as at FY 2014. The administrative, selling and distribution expenses increased by 14.59% to N80.72bn. These expenses as a percentage of turnover increased to 27.46% in FY 2015 from 26.44% in FY 2014.

The T/O dropped by 10.34% to N293.91bn in FY 2015.

The other operating income stood at N483.91mn as at FY 2015, representing a decrease of 71.82%, compared with N1.72bn in FY 2014. This decline was as a result of the decrease in income from contract brewing and management services. Income from these services fell to N60mn from N1.24bn in 2014. The company recorded financial charges of N8.22bn in FY 2015, a 34.80% increase from N6.10bn in 2014.

The financial charges include a net foreign exchange loss of N752mn a decrease from the loss of N1.13bn in 2014. The Profit Before Tax (PBT) fell to N54.51bn, a decrease of 11.30% from N61.46bn in 2014. The tax provision also decreased by 13.11% to N16.46bn, from N18.94bn. The Profit After Tax (PAT) was N38.06bn in FY 2015, from N42.52bn in 2014, representing a decrease of 10.50%.

There was a decline in the company's profit margins in FY 2015, compared with FY 2014. This was a reflection of the challenges the company faced as the cost of doing business increased mainly due to weak consumers' spending and foreign exchange rate.

There was a decline in the company's profit margins in FY 2015, compared with FY 2014.

The Gross Profit margin decreased to 48.47% in FY 2015, while the Earnings Before Interest and Tax (EBIT) margin declined to 21.17% from 25.10% in FY 2014. The PBT Margin in FY 2015 decreased over the FY 2014 figure.

Table 4: Profitability Analysis (N'bn)

	FY 2015	FY 2014	FY 2013	FY 2012
T/O	293.91	266.37	268.61	252.67
EBIT	62.23	66.86	69.17	64.61
PBT	54.51	61.46	62.24	55.62
PAT	38.06	42.52	43.08	38.04
GP Margin	48.47%	50.90%	50.81%	49.65%
EBIT Margin	21.17%	25.10%	25.75%	25.57%
PBT Margin	18.55%	23.07%	23.17%	22.01%
PAT Margin	12.95%	15.96%	16.04%	15.06%

Source: Company Annual Account – 2015 and FSDH Research Analysis

The PBT margin decreased to 18.55% in FY 2015 from 23.07% as at FY 2014. The PAT margin currently stands at 12.95%, down from 15.96% in the corresponding period of 2014.

1.2 Analysis of Cash Flow Statement:

The company generated an increase in cash profit during the year.

NB generated a net decrease in cash flow of N19.58bn in the year 2015 from a net decrease in cash flow of N4.06bn it generated in 2014. The acquisition of property, plant and equipment, the payment of dividend and the repayment of loans and borrowings significantly depleted the cash flows of the company. The cash profit generated from the core operations increased to N90.66bn in 2015 from N89.43bn in 2014. However, the ratio of the cash profit generated from core operating activities to the revenue decreased to 30.85% in 2015 from 33.57% in 2014. This means that less of its revenue translated into cash in 2015 than in 2014. The current challenges in the country are part of the factors responsible for this.

NB generated a net decrease in cash flow of N19.58bn in the year 2015 from a net decrease in cash flow of N4.06bn it generated in 2014.

The cash flow generated from operating activities increased to N106.77bn in 2015 from N94.02bn in 2014 while the net cash generated after tax increased from N60.86bn to N72.63bn. The net cash generated from operations was sufficient to cover the investment needs of the company. Thus it was able to reduce part of its loan obligation and paid interest on loans. However, the cash generated from operations was not sufficient to cover the payment of dividend. Therefore, the company closed the year with a negative net cash flow.

N'bn	2015	2014
Cash Profit From Core Operations	90.66	89.43
Changes In Working Capital	16.10	4.59
Cash From Operating Activities	106.77	94.02
Income Tax Paid	(18.92)	(20.15)
Net Cash From Operating	72.63	60.86
Net Cash Used In Investing	(32.36)	(28.59)
Net Cash Generated by/(Used in) Financing Activities	(59.84)	(36.33)
Cash Generated for the Year	(19.58)	(4.06)
Ratio of Cash Flow from Core Operations to Revenue	30.85%	33.57%
Ratio of Net Cash from Operation to PPE Investment	253.70%	191.01%

Source: Company Annual Account – 2015 and FSDH Research Analysis

2.0 Analysis of Return on Equity

The ROE of the company dropped from 24.74% in 2014 to 22.09% in 2015.

The Return on Equity (ROE) of the company dropped from 24.74% in 2014 to 22.09% in 2015. Using the DuPont analysis, we linked the drop in the ROE to the drop in the profit margin. Increased operational costs mainly due to rising inflation and the volatility in the foreign exchange rate were principally responsible for the drop in the profit margins in FY 2015. **Despite the drop in ROE, the equity multiplier and asset turnover increased indicating an improvement in the operational efficiency of the company.**

		2015	2014
Profitability	PAT	38.06	42.52
	Turnover	293.91	266.37
	Profit Margin	12.95	15.96
Operating Efficiency	Turnover	293.91	266.37
	Total Assets	356.22	349.23
	Asset Turnover (x)	0.83	0.76
Financial Leverage	Total Assets	356.22	349.23
	Equity	172.239	171.883
	Equity Multiplier (x)	2.07	2.03
Return on Equity (ROE)		22.09%	24.74%

Source: Company Annual Account – 2015 and FSDH Research Analysis

3.0 Commercial Paper Programme:

In 2015, NB established a N100bn Commercial Paper three year programme. The company obtained an “Aa” rating from Augusto & Co Limited and it listed the programme officially on the FMDQ OTC Securities Exchange (FMDQ) platform in November 2015. The Commercial Paper provides an alternative source of working capital funding for NB. The first tranche of N20bn for 82 days with 12.5% yield per annum attracted 17.7bn of funds. The company also uses funds from this programme to repay existing financial obligations with interest rates of 15% to 16%.

As at FY 2015, NB had Commercial Papers totalling N19.04bn. These commercial papers consist of three issuances of N9.2bn, N8.5bn and N1.9bn with durations of 90, 182 and 269 days and yields of 7.3%, 8.2% and 8.88% respectively. As at Q1 2016, the company had commercial papers totalling N17.76bn a decline from the position in FY 2015.

4.0 Drivers of Performance:

The following factors affected the performance of the company:

Positive Factors:

- Strong and effective route-to-market
- Synergy arising from acquisition and merger
- Market leadership
- Innovative product offerings
- The growth of new hypermarkets and supermarkets
- Growth in the value brands

NB's total foreign exchange exposure as a result of imported materials stood at N24.93bn in FY 2015, from N30.95bn in FY 2014.

Negative Factors:

- The weak consumer spending power
- Rising input costs
- Difficult operating environment
- Devaluation of the currency

The company made N5bn cost synergies in 2015 and anticipates additional N1.5bn cost synergies in 2016. NB's total foreign exchange exposure as a result of imported materials stood at N24.93bn in FY 2015, from N30.95bn in FY 2014.

The imported materials accounted for 14.85% of total brought-in-materials, while local materials accounted for 85.15% of total brought-in-materials. The company's exports in FY 2015 accounted for 0.01% of total revenue, unchanged from 2014.

4.1 Strategic Focus:

NB plans on taking advantage of any upswings in the market by maintaining its twin agendas of costs leadership and market leadership. The cost leadership agenda involves; revenue management, cost optimization, consumer value engineering and synergies. The market leadership agenda involves: increased market share, strong brands and affordable prices. Cost leadership fuels market leadership and market leadership drives scale for cost leadership. Both agendas are driven by innovation. The company's main action points to achieve these twin agendas include:

- Control the increases in pricing as the company has recognized the huge pressure on consumers purchasing power

NB's plans on taking advantage of any upswings in the market by maintaining its twin agendas of costs leadership and market leadership.

The company plans to source 60% of its materials locally by 2020.

- The company plans to source 60% of its materials locally by 2020. At the moment, it sources raw materials like sugar, sorghum, malted sorghum and cassava locally
- Drive growth by continuing to be a leader in the value segment as long as consumer purchasing power is diminished
- NB also plans to play in the Ready-To-Drink (RTD) segment of the market which it was not a player in last year
- NB will also give priority to issuance of commercial papers as it provides lower interest rates. We think interest rates may rise very soon in the market. Therefore, a strategy to take on a longer tenored debt programme may benefit the company.

5.0 Business:

NB is primarily involved in the brewing, marketing and selling of lager, stout, non-alcoholic drinks and soft drinks. In 2014, an enlarged Nigerian Breweries Plc emerged from the acquisition of Consolidated Breweries Plc. Consequent on the acquisition; the Company acquired a 89.3% majority equity interest in Benue Bottling Company (BBC). NB also obtained three additional breweries (Imagbon, Awo-Omamma and Makurdi) culminating in the enlarged company having eleven breweries. The breweries are: Lagos Brewery, Ibadan Brewery, Kudenda (Kaduna) Brewery, Ijebu – Ode (Imagbon) Brewery, Aba Brewery, Ama Brewery, Onitsha Brewery, Awo-Omma Brewery, Kakauri (Kaduna) Brewery, Ota Brewery and Makurdi Brewery. NB also has two malting plants, a standalone malting plant in Aba and another that is part of the Kudenda (Kaduna) Brewery. It also has Sales Offices and Depots across the country.

NB portfolio includes the following brands: Star, Gulder, Maltina, Legend Extra Stout, Amstel Malta, Heineken, Fayrouz, Climax, Goldberg lager, Malta Gold, Ace Passion, “33” Export, Williams, Turbo King, More, Maltex, Hi Malt, Breezer and Life Continental. In 2015, it launched Strongbow (Gold Apple) into the market. NB also extended the Star brand to include Star Triple X as well as the Ace brand to include Ace Roots and Ace Rhythm.

NB is primarily involved in the brewing, marketing and selling of lager, stout, non-alcoholic drinks and soft drinks.

The company currently exports to the United Kingdom, Netherlands, United States of America; other parts of Africa as well as part of the Middle East and Asia.

A breakdown of the shareholding structure shows that three companies; Heineken Brouwerijen, Distilled Trading International and Stanbic Nominees Nigeria have more than 5% interest in NB. As at December 2015, they held 35.99%, 15.61% and 12.88% shareholding respectively. Both Heineken Brouwerijen and Distilled Trading are part of Heineken N.V. of the Netherlands. **Technically as at December 2015, Heineken N.V. of the Netherlands held a 54.29% interest in NB.**

Table 7: Shareholding Structure as at 31st, December 2015

Shareholders	No. of Shares Held	% of Shareholding
Heineken Brouwerijen BV	2,853,760,692	35.99
Distilled Trading International BV	1,237,500,160	15.61
Stanbic Nominees Nigeria Limited	1,021,265,655	12.88
Others	2,816,574,381	35.52
Total	7,929,100,888	100.00
Heineken Brouwerijen BV and Distilled Trading are part of Heineken N.V. of the Netherlands.		
Source: Company Annual Account – 2015		

Table 8: Company Summary

Ticker	NB
Sector	Consumer Goods
Sub-Sector	Beverages-Brewers/Distillers
Date of Incorporation	1946
Date of Listing	1973
Financial Year End	December
Number of Fully Paid Share	7,929,100,888
Current Capitalization(NGN)	841,198,313,208
NSE Capitalization (NGN)	8,547,975,285,715
% of NSE Capitalization	9.84
52 Week Low NGN	158
52 Week High NGN	92.33
YTD Return (%)	(18.46)
52 Weeks Average Volume Traded	2,111,908
Trailing EPS NGN	4.84
Trailing P/E Ratio (X)	21.92

As at April 25, 2016

Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 9: Directors' Shareholding as at February 10, 2016

Director	Position	Holdings
Chief Kolawole B. Jamodu, CFR	Chairman	486,704
Mr. Nicolaas A. Vervelde (Dutch)	MD/CEO	Nil
Mr. Olusegun S. Adebajji	Non-Executive Director	200,000
Mr. Franco M. Maggi	Executive Director	Nil
Mr. Hubert I. Eze	Executive Director	41,383
Mr. Victor Famuyibo	Executive Director	162,658
Chief Samuel O. Bolarinde	Non-Executive Director	711,603
Mr. Sijbe Hiemstra (Dutch)	Non-Executive Director	Nil
Mr. Thomas A. de Man (Dutch)	Non-Executive Director	Nil
Mrs. Ifueko M. Omoigui Okauru	Non-Executive Director	35,992
Dr. Obadiah Mailafia	Non-Executive Director	Nil
Mr. Atedo N.A. Peterside, CON	Non-Executive Director	Nil*
Mr. Hendrik A. Wymenga (Dutch)	Executive Director	Nil
Mrs. Ndidi O. Nwuneli, MFR	Non-Executive Director	Nil
Mr. Roland Pirmez	Non-Executive Director	Nil
Mr. Mark P. Rutten	Executive Director	Nil

* Has indirect holding of 12.5 million units (shares) via The First ANAP Domestic Trust.

Source: Company Annual Account – 2015

6.0 Product Analysis:

NB has a product portfolio made up of both the alcoholic and the non-alcoholic products. Major competitors for NB in these categories include Guinness Nigeria with brands like Guinness, Harp, Dubic, Satzenbrau, Smirnoff, Snapp and Orijin. SAB Miller is also a new major competitor with regional brands like Hero, Trophy Lager, Castle Milk Stout, Grand Malt and Beta Malt.

6.1 Alcoholic:

NB has products in the Cider, Ready-To-Drink, Lager and Stout segments of the alcoholic market. The brands under these segments are:

- **Stout:** Legend Extra Stout, Williams Dark Ale and Turbo Kings Dark Ale. The competing products are Guinness Foreign Extra Stout, Guinness Africa Special, Castle Milk Stout and Guinness Extra Smooth
- **Cider:** Strongbow Apple Cider. Competing brands include foreign brands like Magners Irish Cider, Savanna Dry and Kopparberg
- **Ready-To-Drink:** Ace-Passion Apple Spark, Ace Roots, Ace Rhythm, Star Radler and Breezer (Orange, Pineapple and Watermelon). Competing products include Smirnoff Ice, Snapp and Orijin.
- **Lager:** Star (including Star Lite and Star Triple X), Goldberg, Life Continental, "33" Export, More, Heineken and Gulder. Competing products in this segment include Harp, Dubic, Satzenbrau, Hero, Trophy Lager and readily available foreign brands like Corona Extra, Stella Artois, Becks and Budweiser.

NB has products in the Cider, Ready-To-Drink, Lager and Stout segments of the alcoholic market.

NB has products in the Malt, Herbal Energy and Carbonated Soft Drinks segments of the Non-Alcoholic market.

6.2 Non-Alcoholic:

NB has products in the Malt, Herbal Energy and Carbonated Soft Drinks segments of the Non-Alcoholic market. The brands under these segments are:

- **Malt:** Maltina (including Maltina SIP-IT), Amstel Malta, Malta Gold, Maltex and Hi Malt. Competing brands include Malta Guinness (including Malta Guinness Low Sugar), Beta Malt and Grand Malt.
- **Energy Drink:** Climax. Competing brands include Power Horse and Red Bull
- **Carbonated Soft Drinks:** Fayrouz. Competing businesses in this segment include Coca-Cola Company with brands like Coca Cola, Fanta, Sprite and Bitter Lemon. The La Casera Company with brands like La Casera, Latina and Smoov. The Seven Up Bottling Company with brands like Pepsi, Mountain Dew, 7up, Mirinda and Teem.

7.0 SWOT Analysis:

<p>7.1 Strengths:</p> <ul style="list-style-type: none"> ○ Strong route-to-market ○ Innovative and enlarged product offerings ○ Strong alliance with parent company 	<p>7.2 Weaknesses:</p> <ul style="list-style-type: none"> ○ Declining profit margins ○ Increased finance costs
<p>7.3 Opportunities:</p> <ul style="list-style-type: none"> ○ Large market size in Nigeria ○ Growth in the value segment 	<p>7.4 Threats:</p> <ul style="list-style-type: none"> ○ Rising input costs ○ Weak consumer spending power ○ Stiff competition within the industry ○ Security challenges especially in the Northern parts of the country

8.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- The synergy arising from the acquisition and merger
- Strategy to control price increases
- Driving efficiency through local sourcing of inputs
- Market leadership
- Innovative product offerings
- The growth of new hypermarkets and supermarkets
- Growth in the value brands
- Aggressive advertisement

Negative Factors:

- The prevailing stiff competition in the industry
- The current weak consumers' spending power
- Difficult operating environment

We estimate a dividend per share of N4.99 for the FY 2016.

Looking at the medium to long-term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate a Turnover of N326.97bn, N371.93bn, N427.53bn, N491.45bn and N562.46bn for the periods ending December 2016, 2017, 2018, 2019 and 2020. We estimate EBIT of N64.75bn, N75.07bn, N86.92bn, N109.24bn and N123.88bn, and EBITDA of N100.81bn, N116.53bn, N134.81bn, N164.79bn and N188.60bn for the same period using EBIT margins of 19.80%, 20.18%, 20.33%, 22.23% and 22.03% respectively. Our PBT forecasts for the periods are: N60.97bn, N74.46bn, N88.16bn, N113.31bn and N130.34bn. Adjusting for tax, our PAT forecasts are N42.16bn, N51.49bn, N60.96bn, N78.35bn and N90.13bn. PAT margin for the period are 12.89%, 13.84%, 14.26%, 15.94% and 16.02%. Our forecast final dividend for the FY 2016 is N4.99 per share.

Table 10: Income Forecast (2016-2020)

N'bn	DecA-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Turnover (Net Sales)	293.91	326.97	371.93	427.53	491.45	562.46
Cost of Sales	(151.44)	(168.04)	(189.29)	(216.73)	(239.30)	(273.88)
Gross Profit	142.46	158.93	182.64	210.80	252.14	288.58
Admin, Selling & Distribution Expenses	(53.82)	(59.77)	(67.99)	(78.15)	(89.83)	(102.81)
Depreciation	(26.90)	(36.06)	(41.46)	(47.89)	(55.55)	(64.72)
Other Operating Income	0.48	1.65	1.88	2.16	2.48	2.84
EBIT	62.23	64.75	75.07	86.92	109.24	123.88
EBITDA	89.12	100.81	116.53	134.81	164.79	188.60
Net Finance Cost	(7.71)	(3.79)	(0.61)	1.24	4.07	6.46
PBT	54.51	60.97	74.46	88.16	113.31	130.34
Taxation	(16.46)	(18.81)	(22.97)	(27.20)	(34.96)	(40.21)
PAT	38.06	42.16	51.49	60.96	78.35	90.13

Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 11: Earnings Forecast (2016 - 2020)

	DecA-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
EBITDA Margin	30.32%	30.83%	31.33%	31.53%	33.53%	33.53%
EBIT Margin	21.17%	19.80%	20.18%	20.33%	22.23%	22.03%
PBT Margin	18.55%	18.65%	20.02%	20.62%	23.06%	23.17%
PAT Margin	12.95%	12.89%	13.84%	14.26%	15.94%	16.02%
EPS(N)	4.80	5.32	6.49	7.69	9.88	11.37
DPS(N)	4.80	4.99	6.09	7.21	9.27	10.67
Dividend Payout	100.01%	93.84%	93.84%	93.84%	93.84%	93.84%
Earnings Yield *	3.53%	4.71%	5.75%	6.81%	8.75%	10.07%
Dividend Yield *	3.53%	4.42%	5.40%	6.39%	8.22%	9.45%
P/E Ratio*	28.34	21.23	17.38	14.68	11.42	9.93
Number of Shares ('bn)	7.93	7.93	7.93	7.93	7.93	7.93
ROCE	28.79%	29.83%	31.54%	33.45%	36.68%	37.25%
ROE	22.08%	23.90%	27.33%	30.33%	35.27%	37.75%
Collection Days	15	14	14	14	14	14
Payment Days	136	137	137	137	137	137
Inventory Turnover	5.33	5.32	5.32	5.32	5.32	5.32
Asset Turnover	0.83	0.89	0.89	0.89	0.87	0.86
Current Ratio	0.41	0.34	0.40	0.44	0.50	0.52
Quick Ratio	0.21	0.13	0.21	0.26	0.33	0.36
Debt Ratio (Total Liabilities /Total Assets)	0.52	0.52	0.55	0.58	0.60	0.63
Interest Cover	7.57	16.66	38.62	49.68	69.38	87.42

*At Our Fair Value of N112.87

Source: Company Annual Account – 2015 and FSDH Research Analysis

N'bn	DecA-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Property, Plant and Equipment	197.30	190.50	191.32	193.37	196.41	200.34
Investments	0.15	0.15	0.15	0.15	0.15	0.15
Other Receivables and Prepayments LT	0.68	0.89	1.17	1.54	2.03	2.68
Intangible Assets and Goodwill	100.61	123.81	152.37	187.50	230.74	283.96
Long Term Assets	298.74	315.36	345.01	382.57	429.34	487.12
Inventory	28.41	31.56	35.55	40.70	44.94	51.44
Trade Receivables	11.72	12.23	13.91	15.99	18.38	21.03
Other Receivables & Short Term Assets	12.24	8.40	9.39	10.62	12.04	13.62
Deposits/Balances & Cash	5.11	(1.01)	13.51	30.29	57.21	79.84
Current Assets	57.48	51.18	72.36	97.61	132.57	165.93
Total Assets	356.22	366.54	417.36	480.17	561.91	653.05
Trade Payables	56.40	63.05	71.02	81.31	89.78	102.75
Short Term Loans and Advances	22.21	11.11	10.00	9.00	8.10	7.29
Other Payables	28.84	18.41	35.78	54.52	74.09	96.69
Dividends Payable	12.40	38.06	39.56	48.31	57.20	73.52
Current Tax Payable	20.22	18.81	22.97	27.20	34.96	40.21
Current Liabilities	140.08	149.43	179.32	220.34	264.13	320.46
Working Capital/ Net Current Asset	(82.60)	(98.25)	(106.96)	(122.73)	(131.56)	(154.53)
Capital Employed	216.14	217.11	238.04	259.84	297.78	332.59
Deferred Taxation	31.91	27.37	33.43	39.58	50.87	65.35
Staff Retirement Benefits	11.90	13.31	16.26	19.25	24.74	28.46
Long Term Liabilities	43.82	40.68	49.69	58.83	75.61	93.81
Total Liabilities	183.90	190.12	229.01	279.17	339.74	414.27
Total Net Assets	172.32	176.42	188.35	201.01	222.17	238.78
Paid Up Share Capital	3.96	3.96	3.96	3.96	3.96	3.96
Share Premium	64.95	64.95	64.95	64.95	64.95	64.95
Share based payment reserve	0.37	0.37	0.37	0.37	0.37	0.37
General Reserve	102.96	107.06	118.98	131.63	152.78	169.39
Total Reserves	168.27	172.37	184.30	196.95	218.10	234.70
Total Equity	172.32	176.42	188.35	201.01	222.17	238.78
Total Equity & Liability	356.22	366.54	417.36	480.17	561.91	653.05

Source: Company Annual Account – 2015 and FSDH Research Analysis

9.0 Valuation:

We employed a relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

Assumptions:

- EV/EBITDA Multiple: 9.05x
- Debt: N22.21bn
- Cash: N5.11bn
- Number of shares in issue: 7.93bn

Applying the EV/EBITDA multiple of **9.05x**, we arrived at **N112.87** per share as the fair value.

The current market value of NB share is N106.09, the highest and the lowest closing prices in the last 52 weeks are N158 and N92.33 respectively. The forward earnings yield and dividend yield of the company at our fair value are 4.71% and 4.42% respectively. The total return, a combination of the capital appreciation and the dividend, generates an appreciation of 10.65%. This is less than our minimum equity return benchmark of 16.65% but higher than the 10% discount on market price. We therefore place a **HOLD** rating on the shares of Nigerian Breweries Plc at the price of N106.09 as of April 25, 2016. Our target price for the shares of Nigerian Breweries in the next one year is N112.87.

The fair value for Nigerian Breweries Plc is N112.87

9.1 Risks to Price Target:

The following risks may affect the price target:

- Increase in the yield on fixed income securities
- Drop in market liquidity
- Issuance of new equity
- Reduction in dividend payment

Company	Nigerian Breweries	Guinness**
Turnover (Net Sales)	293.91	118.50
Gross Profit	142.46	55.89
EBIT	62.23	15.67
PBT	54.51	10.80
PAT	38.06	7.79
GP Margin	48.47%	47.17%
EBIT Margin	21.17%	13.22%
PBT Margin	18.55%	9.11%
PAT Margin	12.95%	6.58%
ROE	22.09%	16.12%
Net Assets	172.32	48.34
Net Assets Per Share	21.73	32.10
PE Ratio	21.92x	-
Earnings Yield*	4.56%	-
<i>*As at April 25, 2016</i>		
<i>**Year End is in June</i>		

Rating	Criteria
BUY	Fair value of the stock is $\geq 16.65\%$ * compared with the current market price.
HOLD	Fair value of the stock ranges between -10% and 16.65% of the current market price.
SELL	Fair value of the stock is > 10% below the current market price.
<i>*16.65% is our estimated minimum equity return. It is the combination of our risk free rate and risk premium. Our risk free rate is the average yield on a five-year FGN Bond. We adopted a 5% risk premium and set the risk free rate every quarter.</i>	

Fair Value: This is the value of the ordinary shares of the company using the valuation method appropriate for the company. It is the intrinsic or true value of the stock based on fundamentals of the company. The market price may either trade at a premium or discount to the intrinsic value.

Price Target: This is the price that we believe the shares of the company will trade within our time horizon. Other risk factors may affect the attainment of this price. This price may or not be different from the intrinsic value.

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