

Brighter prospects but pricey valuation

8th March, 2021

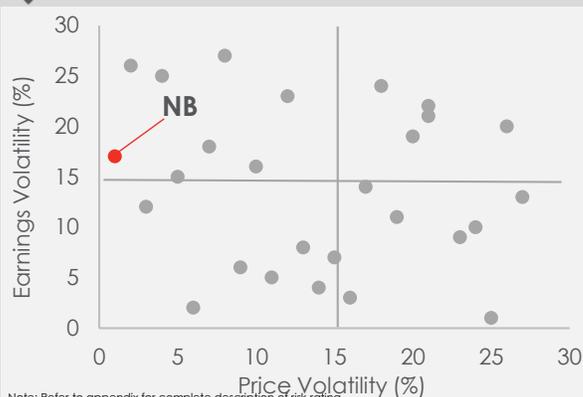
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Risk Rating: Low



Key Data

Last Price (₦)	49.5
Last Price (\$)	0.12
52 week High/Low (₦)	63.25/ 22.00
1M Price Change (%)	-18.9
3M Price Change (%)	-11.6
6M Price Change (%)	+23.8
YTD Change (%)	-11.6
Beta	1.34
Market Capitalization (₦'bn)	395.8
Market Capitalization (\$'mn)	965.5
Shares Outstanding. (Units'm)	7,996.9
Float (%)	46.7%
Dividend Yield (%)	1.4

Price Performance Chart



Sources: Bloomberg, United Capital Research

Stock Rating
SELL

Target Price
Old: N45.3
New: N39.7

Expected Return
-19.8%

In its recently released FY-2020 scorecard, NB reported a 4.3% y/y growth in Revenue, printing at N337.0bn, from N323.0bn in FY-2019. The growth in Revenue was driven by a solid recovery in H2-2020 where Revenue grew 21.2% y/y compared to 10.8% y/y decline in H1-2020. The company faced significant cost pressures during the year, emanating from inflationary pressures and naira devaluation impact on raw material costs. As a result, Gross profit fell 9.6% y/y to N118.7bn. Despite controlled Operating expenses, higher Finance costs (up 50.8% y/y) pressured profitability during the year as Pre-Tax profits and Net income plunged 50.4% and 54.3% to N11.6bn and N7.4bn, respectively. We review our forecasts for the company and present our outlook below.

Strong recovery in H2-2020 rescues FY-2020 revenue: In H1-2020, Covid-linked pressures which led to the closure of on-trade channels (clubs & bars) as well as a ban on social gatherings pressured Revenue, which declined 10.8% y/y in H1-2020. However, in H2-2020, the relaxation of Covid-19 restrictions and gradual return to normality supported recovery in Revenue. In addition, prior price increment in Nov-2019 and Feb-2020 crystalized. As a result, Revenue in H2-2020 grew 21.2% y/y. Overall, FY-2020 Revenue grew 4.3% y/y to N337.0bn from N323.0bn in FY-2019. Across product segments, the premium beer segment recorded the most impressive growth, growing double-digit, led by gains in Heineken and Tiger. In addition, NB impressively grew ahead of the market, garnering a stronger market share in FY-2020.

Devaluation and inflationary pressures impact costs: In FY-2020, Cost of Sales grew, faster than Revenue, up 13.9% y/y to N218.4bn from N191.8bn in FY-2019. Consequently, cost margin grew 542bps y/y to 64.8% in FY-2020. The increase in Cost of sales was driven by the increase in the naira cost of imported raw materials (Barley & Hops) due to the devaluation of the naira as well as inflationary pressures on locally sourced materials (Sorghum, Cassava & Packaging Materials).

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Consequently, Gross profit fell 9.6% y/y to N118.7bn in FY-2020 from N131.3bn in FY-2019 while Gross margin fell 542bps to 35.2% in FY-2020.

Reduced commercial activity & controlled personnel cost keeps Opex in check:

Operating expenses declined 7.4% y/y to N89.9bn in FY-2020 from N97.1bn in FY-2019. The decline in Opex was driven by a synchronized decline in Marketing & Distribution expenses (down 9.0% y/y) and Administrative expenses (down 0.7% y/y). The decline in Marketing & Distribution expenses was driven by reduced commercial and promotional activities evident in the 13.8% decline in Advertising & Sales promotion. Also, Personnel expenses was kept in check, supporting the flattish decline in Administrative expenses. Nevertheless, Operating profit declined 15.9% y/y to N29.6bn in FY-2020.

Surge in debt level drives Finance cost higher...pressures profits: In FY-2020, NB actively raised short term debt finance from the capital market, exploiting the low yield environment. Thus, the company's aggregate debt level surged, climbing higher by 64.1% y/y to N91.4bn at the end of FY-2020. Consequently, Interest expense grew 50.8% y/y to N18.3bn in FY-2020. Meanwhile, Interest income fell 5.5% y/y and consequently pulled Net Finance cost higher by 52.1% y/y. This pressured Pre-Tax profits, which declined 50.4% y/y to N11.6bn for FY-2020, from N23.4bn in FY-2019. Piling further pressure, Effective tax rate jumped by 532bps to 36.4% for FY-2020, pushing Net Profit further lower, down 54.3% y/y to N7.4bn at the end of FY-2020.

Volume and price growth to support Revenue recovery: Looking ahead, we anticipate sustained recovery in Revenue supported by volume growth as well as expected price increments by the company. Volume growth will be supported by improved market acceptance of recently introduced brands and flavours in the premium and malt segment of the company's product lines. Sustained investment in market channels as well as sustained return to normality would support demand from on-trade channels. Also, we note that the beer industry is in steep losses as it has struggled to pass on cost increases to consumers. However, with the recent surge in costs due to the naira devaluation, brewers are expected to implement more price increments in FY-2021. We expect this to further support Revenue. We forecast a Revenue growth of 11.3% y/y to N375.1bn for FY-2021e.

Price increase to support margins and profit growth: Following the significant cost pressures in FY-2020, we expect further price increases in FY-2021e. We expect these increases to strengthen the company's margins and consequently improve profitability. Also, we expect the cost pressures of FY-2020 to dissipate through the course of the year as the FX situation improves. We project Gross margin and Operating margin to edge higher by 178bps y/y and 147bps y/y. We forecast Net income growth of 74.8% y/y to N12.9bn in FY 2021e.

...we anticipate a significantly improved performance in FY-2021e as price and volume growth will support improved Revenue and Profit.

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Brighter prospects but pricey valuation: We recognize the improved outlook for NB due to improved pricing, volume growth and controlled cost pressures. However, we consider the current price of the stock expensive. NB trades at a PE ratio of 53.8x, a significant premium of 87.8% over our peer average as well as a 35.2% premium over NB's historical average. Following the updates to our forecasts for FY-2021e, we set a target price of N39.72/s and place a SELL recommendation on the stock due to the 19.8% downside on the stock.

**...we set our year-end
Target Price at N39.72/
share with a SELL rating
on the stock.**

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Financial Highlights (N'Mn)			
Headlines	FY - 2020	FY- 2019	Change
Revenue	337,046	323,006	4.3%
Cost of Sales	-218,355	-191,757	13.9%
Gross Profit	118,691	131,250	-9.6%
Other Income	828	1,005	-17.6%
Operating Expense	-89,914	-97,051	-7.4%
Operating Profit	29,605	35,204	-15.9%
Finance Income	246	261	-5.5%
Finance Costs	-18,275	-12,115	50.8%
Profit Before Tax	11,577	23,351	-50.4%
Taxation	-4,208	-7,246	-41.9%
Profit After Tax	7,368	16,105	-54.2%
	FY - 2020	FY - 2019	
Cash and Cash Equivalents	30,370	6,361	377.4%
Trade & Other Receivables	11,417	21,307	-46.4%
Trade & Other Payables	139,201	102,783	35.4%
Total Debt	91,447	55,720	64.1%
Total Assets	445,857	382,778	16.5%
Net Assets	161,179	167,750	-3.9%
Gross Margin	35.2%	40.6%	-5.4%
Cost to Sales	64.8%	59.4%	5.4%
Net Margin	2.2%	5.0%	-2.8%
Leverage (Debt/Equity)	56.7%	33.2%	23.5%
Leverage (Net Debt/Equity)	37.9%	29.4%	8.5%
Price(N)	49.5		
Trailing 12M EPS(N)	0.92		
BVPS(N)	20.2		
Trailing 12M P/E (x)	53.7		
P/BV (x)	2.5		
Trailing 12M ROAE	4.5%		
Proposed Dividend (N)	0.69		
Dividend Yield	1.4%		
Qualification Date	March 10, 2021		
Closure of Register	March 11-17, 2021 (both dates inclusive)		
Payment Date	April 22, 2021		

Disclosure Appendix

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Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).

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Forte Oil Plc	g
International Breweries Plc	a,h
Nigerian Breweries Plc	h
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