

RATING: HOLD

Target Price: NGN128

Income Statement Summary

	FY2017 NGN'bn	FY2016 NGN'bn	
Revenue	344.56	313.74	9.82%
Cost of sales	201.01	178.22	12.79%
Finance cost	10.66	13.65	-21.85%
PBT	46.63	39.67	17.53%
PAT	33.05	28.42	16.30%
EPS	4.13	3.58	15.36%

Ticker Information

Last Price	124.50
Year High	152.68
Year Low	124.50
YtD % Change	-7.71%
P/E	30.67
P/B	5.59
Market Cap.	995bn

Analyst: Favour Usifo

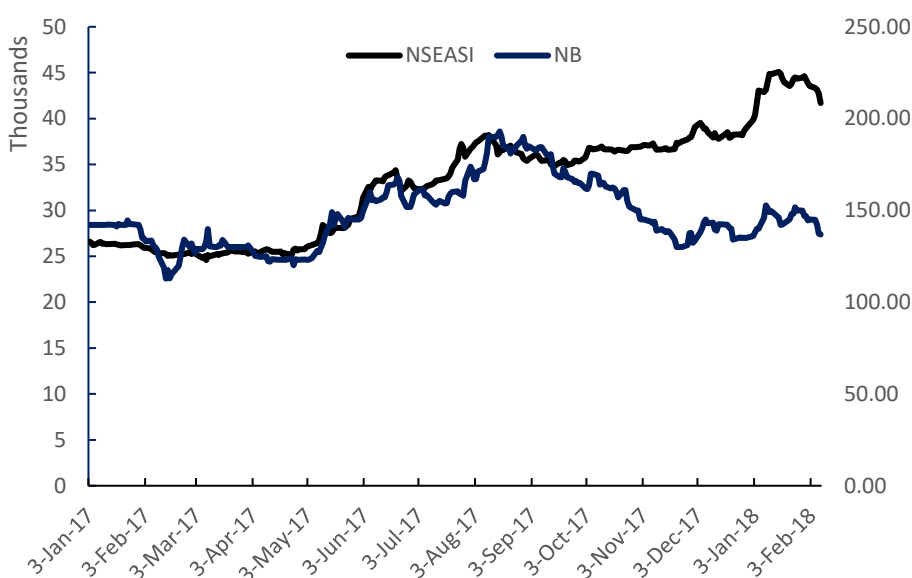
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Company Brief

Nigerian Breweries Plc is the pioneer brewing company in Nigeria. The company's activities include the brewing and marketing of alcoholic drinks such as lager beer and stout, and non-alcoholic drink categories like Malt, Energy drinks, Ready-to-Drink, and Soft Drinks.

The commencement of its operations via its first brewery in Lagos kick started the brewery industry in Nigeria. Despite being the brewer with the largest market share in the Nigerian brewery sector, the company still embarks on projects bordered around expansion, innovation and customer satisfaction majorly through brown field investments, innovation and customer satisfaction from its diverse product portfolio.

Share Price Trend



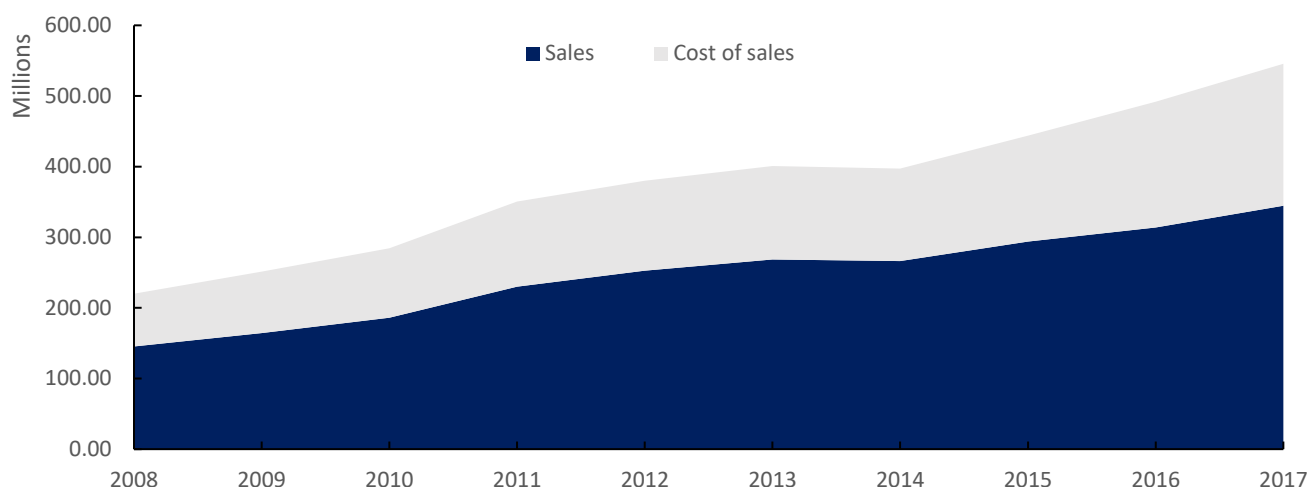
Source: Bloomberg, NSE, NB Annual Report

Topline Growth Hindered by Pricing Constraints

With a ten (10) year Compound Annual Growth Rate (CAGR) of approximately 9.00% in 2017, Nigerian Breweries recorded consistent top line growth, until 2012 when sales growth declined by 1401bps to 9.80%. Furthermore, due to the economic headwinds which began in the middle of 2014, the company witnessed a dip in topline growth by 83bps to NGN266.37bn (vs NGN268.61bn in 2013).

In FY2017, revenue advanced by 9.82% to NGN344.56bn, which was well within our expectations. We attribute this to constraints in the ability to transfer costs to final consumers through higher product prices in 2017 as

against 2016 and a single digit decline in volume, particularly in the stout and malt brand category.



Source: NB Annual Report

Being the brewery with the largest market share of c.70%, the company’s performance has largely been supported by factors such as its brand equity, innovation, diverse brand portfolio, customer appeal and efficient distribution channel. We however note a decline in market share in FY2017 and attribute this to the delay in price hikes by other competitors during the period.

Based on our analysis of the company’s fundamentals and given our projections based on the current run rate and macro-economic conditions, we expect revenue to advance by 8.97% to NGN375bn in FY2018.

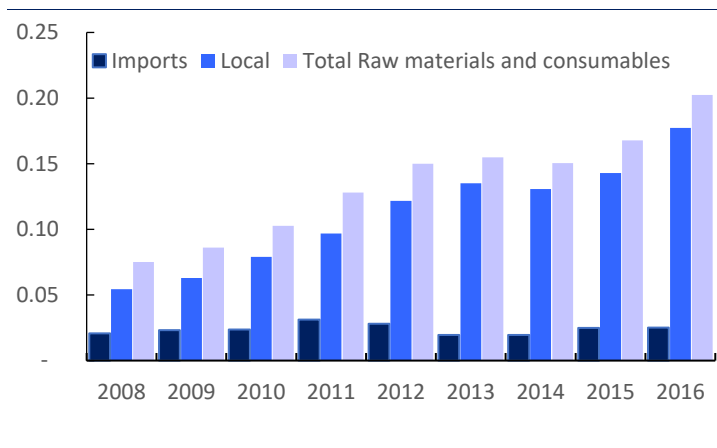
Costs Pressured by Exchange and Inflation Rates

NB’s cost of sales growth averaged 9.83% in the last five (5) years. In FY2017 however, cost of sales advanced by 12.79% due to the high exchange and inflation rate environment in the period. In terms of the actual naira value, average cost of goods sold during the period was approximately NGN201.01bn (vs. NGN178.22bn in 2016).

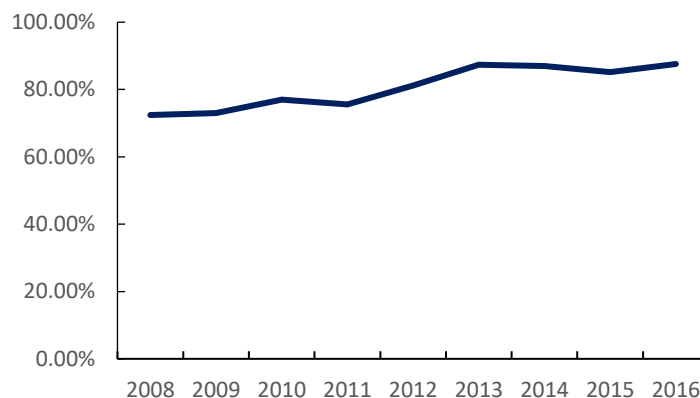
The largest cost component in this category remained raw materials and consumables which pushed up by 13.43% to NGN128.86 in FY2017. In line with the company’s twin agenda of cost and market leadership, the proportion of local content to imported raw materials remained high. ***We expect this to increase in the medium term and improve cost ratios. We however expect the***

positive outlook on commodity prices in 2018 to place some constraints on cost reduction efforts in FY2018.

Breakdown of Raw Material Costs



Local Component of Raw Material Costs

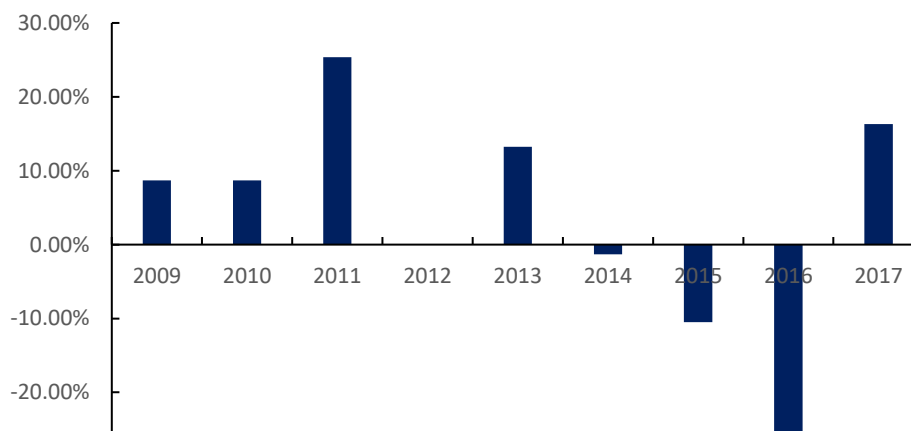


Source: NB Annual Report

Earnings Bolstered by Dip in Finance Costs

In FY2017, the company's Profit-after-tax advanced by 16.30% to NGN33.05bn (vs. NGN28.42bn in FY2016). This was largely driven by the 20.00% decline in finance costs during the period after foreign exchange losses declined by 33.38% to NGN5.02bn in FY2017. **We expect to see an improvement in FY2018 earnings to NGN38bn (+15.39%).**

Historical PAT Growth



Source: NB Annual Report

Summary of Results and Forecasts

Income Statement	2013 N'ooo	2014 N'ooo	2015 N'ooo	2016 N'ooo	2017 N'ooo	2018F N'ooo	2019F N'ooo
Revenue	268,613,518.00	266,372,475.00	293,905,792.00	313,743,147.00	344,562,517.00	375,468,719.23	409,147,113.13
Cost of sales	132,136,476.00	130,788,296.00	149,736,072.00	178,218,528.00	201,013,357.00	216,162,367.98	237,121,326.47
Gross profit	136,477,042.00	135,584,179.00	144,169,720.00	135,524,619.00	143,549,160.00	159,306,351.25	172,025,786.65
Other income	2,075,411.00	1,717,491.00	483,910.00	615,662.00	2,218,588.00	2,229,335.61	2,238,850.28
Mkt&dist expenses	42,949,612.00	42,200,086.00	58,454,978.00	61,312,319.00	66,898,905.00	73,650,476.87	79,883,816.72
Administrative expenses	26,431,464.00	28,240,685.00	23,969,498.00	21,924,801.00	21,747,783.00	24,968,380.54	26,516,071.24
Operating profit	69,171,377.00	66,860,899.00	62,229,154.00	52,903,161.00	57,121,060.00	62,916,829.45	67,864,748.98
Finance income	551,250.00	697,320.00	503,607.00	416,503.00	172,074.00	616,554.79	638,298.69
Finance cost	7,482,310.00	6,096,398.00	8,217,788.00	13,645,146.00	10,663,076.00	11,264,061.58	12,274,413.39
PBT	62,240,317.00	61,461,821.00	54,514,973.00	39,674,518.00	46,630,058.00	52,269,322.67	56,228,634.28
Taxation	19,159,968.00	18,941,568.00	16,458,850.00	11,257,553.00	13,581,499.00	14,136,036.35	15,765,601.36
Profit After Tax	43,080,349.00	42,520,253.00	38,056,123.00	28,416,965.00	33,048,559.00	38,133,286.32	40,463,032.92

Balance Sheet	2013 N'ooo	2014 N'ooo	2015 N'ooo	2016 N'ooo	2017 N'ooo	2018F N'ooo	2019F N'ooo
PPE	153,366,133.00	193,800,450.00	197,298,847.00	191,181,700.00	195,230,394.00	220,501,305.80	228,851,537.60
Non-current assets	207,474,164.00	292,297,302.00	298,737,478.00	292,587,256.00	294,735,253.00	326,246,443.76	345,145,502.16
Inventories	20,643,153.00	28,478,459.00	28,409,703.00	31,244,703.00	42,728,862.00	35,306,769.19	37,961,310.14
Current assets	45,285,469.00	56,931,861.00	57,481,198.00	74,559,212.00	87,492,840.00	75,093,053.89	80,274,365.35
Total assets	252,759,633.00	349,229,163.00	356,218,676.00	367,146,468.00	382,228,093.00	401,339,497.65	425,419,867.51
Total Equity	112,359,185.00	171,964,263.00	172,321,503.00	165,913,768.00	178,298,427.00	187,751,817.26	200,997,951.21
Current liabilities	100,295,715.00	114,025,572.00	140,078,105.00	144,255,147.00	156,052,965.00	154,100,860.35	162,299,525.50
Total liabilities	140,400,448.00	177,264,900.00	183,896,173.00	201,232,720.00	203,929,666.00	213,587,680.39	224,421,916.30
Total equity and liabilities	252,759,633.00	349,229,163.00	356,217,676.00	367,146,488.00	382,228,093.00	401,339,497.65	425,419,867.51

Key Ratios	2013	2014	2015	2016	2017	2018F	2019F
ROA	17.04%	12.18%	10.68%	7.74%	8.65%	9.50%	9.51%
ROE	38.34%	24.73%	22.08%	17.13%	18.54%	20.31%	20.13%

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