



# NIGERIAN BOTTLING COMPANY PLC Q3'09

Equity|Nigeria|Food and Beverage

## Vetiva Research

29 December 2009

### EVENT

Nigerian Bottling Company Plc ("NBC" or "the Company") recently released its Q3'09 result, which showed **Turnover of ₦64.74 billion (+14.64% YoY)** and **Profit After Tax of ₦1.29 billion (+32.55% YoY)**. The Company recorded an Extraordinary Item amounting to ₦1.00 billion, resulting in Profit After Tax & **Extraordinary Item of ₦2.29 billion** (135.22% YoY). The result was in line with our Turnover forecast of ₦64.85 billion, while PAT was below expectation of ₦2.29 billion respectively.

Results (N'Millions)	Q3 '09	Q3 '08	% Change	FY Forecast	Q3% of FY
Turnover	64,740	56,474	14.64%	85,686	76%
PBT	2,753	1,331	106.84%	3,295	83.54%
Tax	(1,462)	(357)	309.52%	(1,586)	-92%
PAT	1,291	974	32.55%	2,591	49.83%
Extraordinary Items	1,000	-	0.00%	-	0.00%
PAT & Extraordinary Items	2,291	974	135.22%	2,591	88.43%

Source: Vetiva Research, NSE

NBC's performance was quite notable, relative to its performance in the corresponding quarter of the last financial year (though we note that last year's performance was impacted by the fire incident at its Benin plant), however, QoQ the results were less impressive than expected. The Company recorded a PAT of ₦1.291 billion before Extraordinary Item, relative to ₦974 million\*, in 2008 (-42% YoY). However, we also note a significant increase in the effective taxation (the company had deferred tax liability of ₦3.34 billion as at FY'08) of the Company, which further pressurized earnings for the reporting period. We attribute the Extraordinary Item recorded to insurance claims paid in respect of the fire incident noted above. Total claims in connection with the incident was ₦3.16 billion out of which ₦2.00 billion has been paid, with the balance of ₦1.16 billion expected to be paid out at the end of its 2009 financial year.

According to the Company, the re-construction & upgrading of its equipment at the Benin plant has been completed, thereby significantly reducing costs associated with the outsourcing of packaging of its Five Alive brand. In recent times, NBC's juice brand 'Five Alive' had witnessed intense competition from other players (such as 'Chivita' and 'Dansa Drinks'). However, NBC has risen to the challenge with the introduction of its new and innovative variants of 'Five Alive' into the market as well as new improved and attractive packages and bottles for 'Five Alive' and 'Coke' respectively. These innovations have been met by positive consumer demand and has enabled the firm successfully reclaim some previously lost market share. In light of the above, our expectation is that the increasing penetration of the 'Five Alive' brand will positively impact top line in subsequent quarters.

Contrary to rumors about the relocation of NBC plants from Nigeria, (which majorly came on the heels of the closure of NBC's concentrate plant in Ogun State); management has reiterated its commitment to the Nigerian market. The Company outlined major investments during the year to include: the construction of an ultra modern bottling plant in Abuja, re-construction of its Benin plant in Edo State, the on-going upgrade of 13 bottling facilities across the country, the introduction of new lightweight and durable ultra glass packaging for core brands, as well as on-the-go packaging facilities for the soft drinks.

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\*The earnings in the year 2008 were severely impacted by the fire incident.

Fair Value Range

₦21.47 – ₦23.50

### Stock Data

Current Price (₦): 20.40  
Trailing EPS (₦)\*: 1.02

Symbol: NBC  
Industry: Food & Beverages  
Share Vs Ind. Group: Neutral  
Ind. Group Vs Market: Overweight

Net Assets (₦): 24.15  
Price/Book (x): 1.17  
ROAA (%): 0.03  
ROAE (%): 0.07

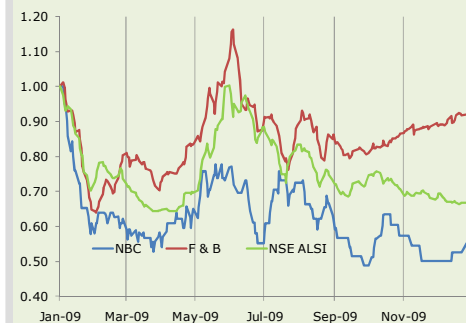
Shares Outstanding (mn): 1,308  
Year High (₦): 36.93  
Year Low (₦): 18.05

### Share Price Performance

30 Days (%): 1.29  
90 Days (%): (11.30)  
52 weeks (%): (39.12)

### NBC VS FOOD & BEVERAGE VS NSE ALSI (YTD)

Rebased 02/01/09



Source: Vetiva Research

### Vetiva Equity Research

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## EARNINGS AND PROFITABILITY UPDATE

The Company's **PBT and PAT Margin increased to 4.25% and 3.54%**, from 2.36% and 1.72% respectively relative to Q3'08. However, we note that QoQ PBT margin declined from 5.26%, while PAT margin increased from 3.48%. The Company is currently trading at a Trailing **PE multiple of 20.03x** and a forward P/E of 10.30x, relative to a sector and market average of 9.32x and 14.35x.

## FORECAST

Our FY'09 forecasts for Turnover and PAT are **₦85.68 billion and ₦2.60 billion** respectively. We have revised our FY'09 Earnings per Share and Dividend per Share forecast downwards to **₦1.98 and ₦0.59** respectively.

## OUTLOOK

We believe the company will sustain its performance and profitability in FY'09. However, we express concerns about the company's haulage costs, i.e. costs associated with transportation of its Five Alive and Eva Brands. The market for the company's product in Lagos has been growing over the years and as a result the cost of transporting products from Benin to Lagos is steadily becoming significant. We opine that the location of the Benin factory does not make for an optimal distribution and transportation structure/system, due to the high cost of transportation being incurred. However, we believe the firm will be able to sustain its earnings in FY'09 and this assumption is based largely on the buoyant festive sales and the payment of the balance of insurance claims for which the company had made provisions for in the prior year.

## RECOMMENDATION

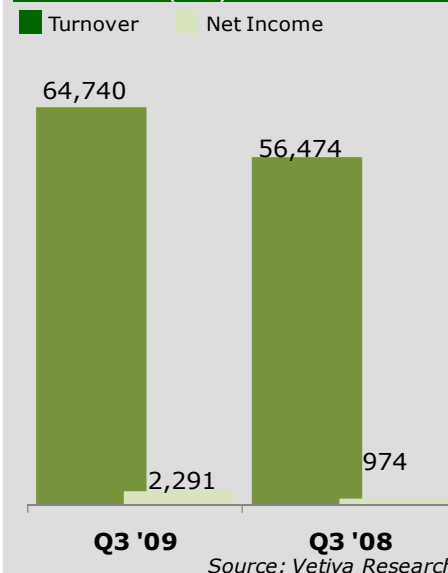
We retain our rating **"Neutral"** on the Company and recommend a **"Hold"** at the current market price.

Estimates	2007A	2008A	2009E	2010E	2011E
<b>Naira</b>					
EPS	2.42	0.01	1.98	1.98	2.05
EPS Change (YOY)	201.69%	-99.51%	n/a	0.24%	3.14%
Dividend Payment (DPS)	0.75	n/a	0.59	0.64	0.65
Payout Ratio	0.31	n/a	0.45	0.32	0.32
<b>Valuation</b>					
P/E	9.08	n/a	10.30	10.28	9.97
P/Book	1.26	1.61	1.12	1.03	0.94
Dividend Yield	3.41%	n/a	2.91%	3.11%	3.21%

Source: Vetiva Research

## TURNOVER AND NET INCOME

Naira Million (₦m)



Source: Vetiva Research



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Metrics	7-Up	DSR	NBC	FMN	Nestle
Current Price	29.40	14.65	20.4	35.60	239.50
Trailing EPS	2.98	1.27	1.02	3.68	15.23
PE	9.87	11.54	20.03	7.32	15.73
DPS	1.50	1.20	n/a	0.50	12.55
DY (%)	5.10%	8.19%	n/a	1.40%	5.24%
Payout Ratio	50.27%	65.84%	n/a	21.95%	99.49%
ROE	22.70%	79.65%	0.07%	23.13%	109.15%
ROA	7.05%	48.22%	0.03%	6.87%	33.05%
Outstanding Shares(mn)	512	12,000	1,309	1,708	661

*Source: Vetiva Research, NSE*

Forecast (N'mn)	2007A	2008A	2009E	2010E	2011E
Turnover	68,529	80,080	85,686	91,684	98,101
PBT	4,347	2,441	3,295	3,510	3,720
Tax	(1,175)	(260)	(1,586)	(912)	(1,042)
PAT	3,172	16	2,591	2,597	2,678
Absolute Dividend	982	n/a	777	831	857
Earnings per share (₦)	2.42	0.01	1.98	1.98	2.05
Dividend per share (₦)	0.75	n/a	0.59	0.64	0.65
Net Assets per share (₦)	17.46	16.75	18.25	19.90	21.69
P/E (x)	9.08	2,256.18	10.30	10.28	9.97

*Source: Vetiva Research, NSE*

## VALUATION

In valuing NBC, we applied the Discounted Cash Flow Method. We have assumed a Cost of Equity of 19.22% which is composed of a risk free rate of 14.39%, a risk premium of 7%, Beta of 0.69 (NBC is 100% equity financed) and a Terminal Growth Rate of 3.5%. Using a Sensitivity Analysis to vary the Discount Factor and Growth Rate, we derived a Fair Value range of ₦21.47 – ₦23.49.

We expect the stock to trade within this range in Normal Market conditions.

## Q3 2009 PROFIT & LOSS, B.SHEET EXTRACTS

NAIRA BLLIONS	2009	2008	Change%
TURNOVER	64.74	56.74	14.10%
PROFIT BEFORE TAXATION	2.75	1.331	106.84%
TAXATION	(1.46)	(0.36)	309.52%
PROFIT AFTER TAXATION	1.29	0.97	32.55%
EXTRAORDINARY ITEMS	1.00	-	-
PAT & EXTRAORDINARY ITEMS	2.29	0.97	135.22%
FIXED ASSET	40.67	35.48	14.65%
OTHER ASSET	22.76	16.54	37.66%
LIABILITIES	39.23	30.10	30.34%
WORKING CAPITAL	10.87	9.44	15.12%
NET ASSET	24.15	21.86	10.48%

*Source: Vetiva Research*



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## INVESTMENT RECOMMENDATIONS

Vetiva uses a 5-tier recommendation system for stocks under coverage: Buy, Accumulate, Neutral, Reduce and Sell.

**Buy/Overweight**  $\geq +20\%$  expected absolute price performance

**Accumulate**  $+10\%$  to  $+20\%$  expected absolute price performance

**Neutral/Hold**  $\pm 10\%$  range expected absolute price performance

**Reduce**  $-10\%$  to  $-20\%$  expected absolute price performance

**Sell/Underweight**  $\geq -20\%$  expected absolute price performance

### Definition of Ratings

**Buy/Overweight** recommendation refers to stocks that are highly undervalued but with strong fundamentals and where potential return in excess of or equal to **20%** is expected to be realized between the current price and analysts' target price.

**Accumulate** recommendation refers to stocks that are undervalued but with good fundamentals and where potential return of between **10%** and **20%** is expected to be realized between the current price and analysts' target price.

**Neutral/Hold** recommendation refers to stocks that are correctly valued with little upside or downside where potential return of between  **$\pm 10\%$**  is expected to be realized between current price and analysts' target price.

**Reduce** recommendation refers to stocks that are overvalued but with good or weakening fundamentals and where potential return of between  **$-10\%$**  and  **$-20\%$**  is expected to be realized between current price and analysts' target price.

**Sell/Underweight** recommendation refers to stocks that are highly overvalued but with weak fundamentals and where potential return in excess of or equal to  **$-20\%$**  is expected to be realized between current price and analysts' target price.,



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