



SEVEN-UP BOTTLING COMPANY PLC Q2'09

Equity|Nigeria|Food and Beverage

Vetiva Research

06 January 2010

EVENT

Seven-Up Bottling Company Plc ("7-Up" or "The Company") on 4th January 2010, released its Q2'09/10 result, showing Turnover and Profit After Taxation of ₦17.85 billion (+17.35% YoY) and ₦853.72 million (+6.63% YoY) respectively. This performance exceeds our conservative Turnover and After Tax Earnings forecasts of ₦16.84 billion (by 6.02%) and ₦676.64 million (by 26.17%) respectively. The Company traditionally releases only full year and half year results.

Results (N'Millions)	Q2 '09	Q2 '08	% Change	FY Forecast	Q2% of FY Forecast
Turnover	17,853	15,214	17.35%	37,653	47%
PBT	1,004	980	2.42%	2,490	40%
Tax	(151)	(180)	-16.13%	(747)	-20%
PAT	854	801	6.63%	1,743	49%

Source: Vetiva Research & NSE

7-Up's performance was quite notable, in view of challenges confronting the firm in the 2008/9 financial year. Even though sales grew YoY, the company's profitability margins were negatively impacted. In our FY'08 report, we had envisaged depressed profitability margins due to increased import costs, coupled with increased sugar prices, and we had conservatively estimated a reduction in half year earnings. However, the Company surpassed our conservative forecast (which was premised mainly on its highly leveraged position and adverse macro-economic conditions) for top and bottom lines by 6.02% and 26.17% respectively.

As at FY'08, the Company had the highest Debt to Equity Ratio of 0.94 and lowest Interest Coverage Ratio of 2.16x in its Sector, further indicating high proximity to its debt threshold in that period. Subsequently, it has been grappling with increased interest expenses arising from a spike in interest rates, increased input costs and unfavorable exchange rate movements affecting its foreign currency denominated loans. According to Management, these loans have now been converted to Naira denominated loans.

In the packaged drinks sub-sector, 7-Up controls c.25% market share, second only to NBC which controls c.65% of the entire market, while the remaining 10% is controlled by the numerous fringe players within the same market space. In light of the above mentioned challenges, we remain cautious about the Company's ability to improve its profitability profile in the near term.

EARNINGS AND PROFITABILITY UPDATE

The Company's profitability margins declined marginally to 5.62% (PBT) and 4.78% (PAT), from 6.44% and 5.26% respectively as at FY'08/9. 7-Up is currently trading at a **PE multiple of 9.52x and a forward P/E multiple of 6.47x**, relative to a sector and market average of 9.62x and 14.23x respectively.

FORECAST

Our FY'09/10 forecast for Turnover and PAT stands at **₦37.65 billion and ₦1.74 billion** respectively. We expect FY'09 EPS to stand at ₦3.40, with a Dividend Per Share of ₦1.56.

Fair Value Range
₦31.87 – ₦38.18

Stock Data

Current Price (₦): 29.40
Trailing EPS (₦): 3.09
Trailing P/E (x): 9.52

Symbol: 7UP
Industry: Food & Beverage
Share Vs Ind. Group: Neutral
Ind. Group Vs Market: Overweight

Net Assets (₦): 17.26
Price/Book (x): 1.70
ROAA (%): 19.48
ROAE (%): 5.71

Shares Outstanding (mn): 512
Year High (₦): 40.97
Year Low (₦): 27.00

Share Price Performance
30 Days (%): 3.70
90 Days (%): (8.13)
52 weeks (%): (23.85)

SEVEN-UP VS F & B SECTOR VS NSE ALSI (YTD)

Rebased 02/01/09 = 1



Source: NSE; Vetiva Research

Vetiva Equity Research

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RECOMMENDATION

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

OUTLOOK

Over the years, 7-Up has been gradually gaining market share, more recently (slightly aided) by the introduction of its premium bottled drinking water brand "Aquafina", which was met with positive consumer demand. However, in terms of the level of advertisement and investments in distribution network structures, as is key for its industry, the Company remains a laggard relative to its peers. We opine that the company will need to implement strategies to make for an optimal distribution system to aid its market penetration.

Further to our discussions with respect to the Company's distribution system, there are some products, such as the variants of Mirinda (Mirinda Apple and Mirinda Tango) and Seven-Up Free (its Diet variant), which are only available to a very small segment of the market and not well known by a larger segment of the market. 'Teem', its bitter lemon soft drink, was only recently introduced to the Lagos market. The Company's relatively passive response in addressing issues of distribution may negatively impact its financial performance going forward, especially as its peers are noted to be more aggressive in this regard.

Estimates	2008A	2009A	2010E	2011E	2012E
Naira					
EPS	3.14	2.98	3.40	4.01	4.74
EPS Change (YOY)	31.88%	-4.91%	13.97%	18.00%	18.00%
Dividend Payment (DPS)	1.50	1.50	1.56	1.44	1.70
Payout Ratio	48%	50%	46%	36%	36%

Valuation	2008A	2009A	2010E	2011E	2011E
P/E	12.43	10.01	8.64	7.33	6.21
P/Book	2.77	1.92	1.71	1.54	1.40
Dividend Yield	3.85%	5.02%	5.32%	4.91%	5.80%

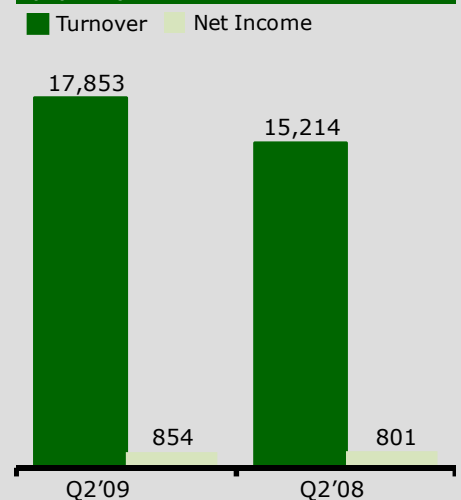
Source: Vetiva Research & Company Financials

Metrics	7-Up	DSR	NBC	FMN	Nestle
Current Price	29.40	15.10	22.52	37.50	239.50
Trailing EPS	3.09	1.27	1.02	3.68	15.23
PE	9.51	11.89	22.08	7.32	15.73
DPS	1.50	1.20	n/a	0.50	12.55
DY (%)	5.02%	7.95%	n/a	1.33%	5.24%
Payout Ratio	48.54%	65.84%	n/a	21.95%	99.49%
ROE	19.48%	80.91%	0.07%	23.13%	109.15%
ROA	5.71%	40.39%	0.03%	6.87%	33.05%
Outstanding Shares(mn)	512	12,000	1,309	1,708	661

Source: Vetiva Research & NSE

TURNOVER AND NET INCOME

Naira Million



Source: Vetiva Research & NSE



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Forecast (N'mn)	2008A	2009A	2010E	2012E	2012E
Turnover	30,572	34,864	37,653	41,418	45,560
PBT	2,480	2,223	2,490	2,938	3,467
Tax	(872)	(694)	(747)	(881)	(1,040)
PAT	1,608	1,529	1,743	2,057	2,427
Absolute Dividend	769	769	802	740	874
Earnings per share (N)	3.14	2.98	3.40	4.01	4.74
Dividend per share (N)	1.50	1.50	1.56	1.44	1.70
Net Assets per share (N)	14.09	15.58	17.22	19.03	21.04
P/E (x)	12.43	10.01	8.64	7.33	6.21

Source: Vetiva Research & NSE

VALUATION

In valuing 7-Up, we applied the Discounted Cash Flow Method; we have assumed a WACC of 14.36% and Cost of Equity of 15.93%, which is composed of a risk free rate of 4.39%, risk premium of 7%, Beta of 0.22 and a Terminal Growth Rate of 3.5%. Using Sensitivity Analysis to vary the Discount Factor and Growth Rate, we derived a Fair Value range of ₦31.87 – ₦38.17.

We expect the stock to trade within this range in normal market conditions. The Company currently trades at a Trailing PE of 9.52x, and we applied this to our 4-Year Earnings CAGR of 15%, which gives a Price to Earnings Growth Ratio of 0.64 i.e. (PEG Ratio=0.64).

Q2 2009 PROFIT & LOSS, B.SHEET EXTRACTS

NAIRA BILLIONS	2009	2008	%Change
TURNOVER			
TURNOVER	17.853	15.214	17.35%
PROFIT BEFORE TAXATION			
PROFIT BEFORE TAXATION	1.004	0.980	2.42%
TAXATION			
TAXATION	(0.151)	(0.180)	-16.13%
PROFIT AFTER TAXATION			
PROFIT AFTER TAXATION	0.854	0.801	6.63%
BALANCE SHEET			
FIXED ASSET			
FIXED ASSET	18.523	18.592	-0.37%
STOCK			
STOCK	6.959	4.997	39.26%
TRADE DEBTORS			
TRADE DEBTORS	0.232	0.225	3.31%
OTHER DEBIT BALANCE			
OTHER DEBIT BALANCE	1.437	1.267	13.42%
CASH AND BANK BALANCES			
CASH AND BANK BALANCES	5.222	6.798	-23.18%
TRADE CREDITS			
TRADE CREDITS	1.546	1.618	-4.45%
SHORT TERM BORROWINGS			
SHORT TERM BORROWINGS	3.574	7.010	-49.02%
OTHER CREDIT BALANCES			
OTHER CREDIT BALANCES	18.415	14.977	22.96%
WORKING CAPITAL			
WORKING CAPITAL	1.737	1.414	22.84%
NET ASSETS			
NET ASSETS	8.838	7.984	10.70%

Source: Vetiva Research & NSE



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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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