

RESEARCH REPORT – NIGERIA BREWERIES PLC

| Valuation Metrics | Mar 2011 |
|-------------------|----------|
| Target Price (N) | 83.25 |
| Current Price (N) | 75.00 |
| EPS (N) | 4.01 |
| PE Ratio | 18.70 |
| P/Bv | 12.18 |
| P/Sales | 3.05 |
| Forward EPS | 4.29 |
| Forward PE | 17.48 |

Clearly the market leader in the brewed product market and Fast Moving Consumer Goods industry by way of product turnover, Nigeria Breweries Plc continues to meet our projections with strong profit figures revealing its market acumen as shown in its audited results for the financial year end (December 2010) released on Tuesday, 1st of March 2011.

- ❖ Based on the recently released Full year result, the company's 2010 turnover grew 13% to N185.86billion from N164.20 billion in December 2009. The growth in turnover was primarily driven by improvements in supply of products and the benefits of increased investment in the company's brand.
- ❖ The Full year results show growth in profitability figures with Profit before Tax increasing marginally by 8% from N41.39billion in December 2009 to N44.88billion in 2010. And as we have projected in our third quarter 2010 results analysis, Profit after Tax grew 9% from N27.91 billion in December 2009 to N30.33 billion in December 2010 (we projected N30.50billion). The increase was as a reduction in operational costs, improvements in supply of products, and significant increase in commercial investments for brand support.
- ❖ The company declared a final dividend of N9.453 billion (N1.25 per ordinary share of 50k) in addition to the interim dividend (in May 2010) of N8.96billion (N1.15 per share) to make a total of N18.143billion (N2.40 per share) represented a dividend yield of 3.2%.
- ❖ Net profit however improved by 9% from N27.91 billion in 2009 to N30.33 billion in 2010, this is attributable to a 67% decrease in interest expenses and an 8% decrease in taxation
- ❖ Based on our estimation of a forward EPS of N4.03 for Nigeria Breweries and an Industry PE Ratio of 20.66; we arrived at an average intrinsic value of **N83.25** for each share of Nigerian Breweries Plc. At the current price of N75.00 per share, the company is trading at 11% below its intrinsic value. We therefore recommend a **BUY** on the shares of Nigerian Breweries at the current market price.

Table 1: Summary of Financial Ratios

| | Dec-05 | Dec-06 | Dec-07 | Dec-08 | Dec-09 | Dec-10 |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| EBITDA Margin (%) | 19.39% | 19.66% | 25.46% | 26.67% | 25.95% | 24.19% |
| Pre-tax Profit Margin (%) | 16.10% | 19.04% | 24.95% | 25.79% | 25.21% | 24.15% |
| Return on Equity (%) | 24% | 30% | 44% | 80% | 60% | 74% |
| Total Asset Turnover | 1.11 | 1.14 | 1.23 | 1.39 | 1.53 | |
| Average Collection days | 8.72 | 20.81 | 26.06 | 10.72 | 8.34 | |
| Current Ratio | 0.72 | 1.04 | 1.36 | 0.74 | 0.89 | |
| Earnings Per Share (N) | 1.09 | 1.44 | 2.50 | 3.40 | 3.69 | 3.96 |

Source: Company data, BGL Research

- ❖ Profitability margins point out improved performances over the years since 2006. In 2006 EBITDA margin increased from 19.66% in 2008 to 24.19%, mainly as a result of reductions in interest expenses in the year as indicated above. Pre-tax profit margin showed improvements rising from 15.10% in 2005 to 24.15% in 2010.
- ❖ Its earnings per share (EPS) witnessed growth with the firm's shareholders rewarded by the improved performances over the last 3 years. The company has an EPS of N4.01 (we projected N4.03), an 8% rise from N3.69 in 2009.

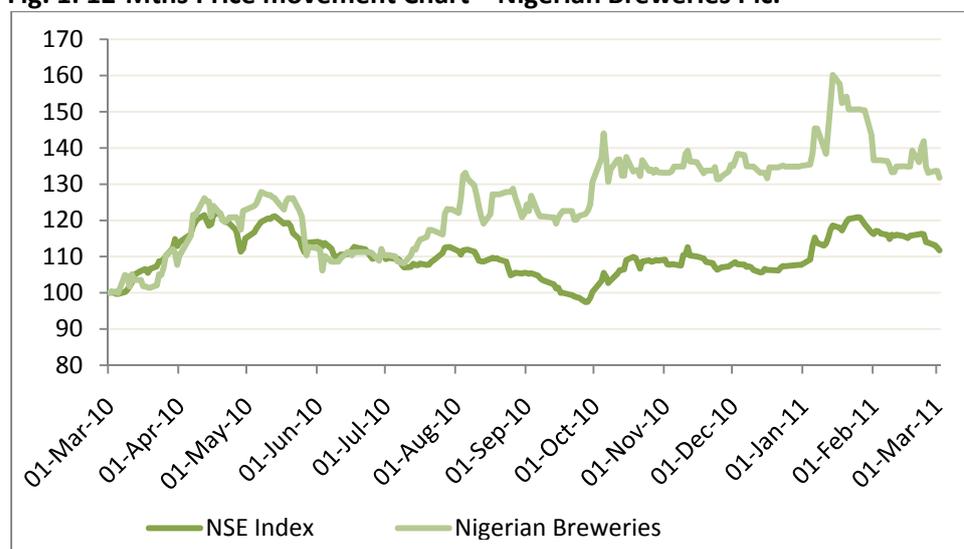
Table 2: Full year 2010 Results

| | Dec-10 N'million | Dec-09 N'million | % Change |
|--------------------------|---------------------|---------------------|----------|
| Gross Earnings | 185,862 | 164,206 | 13 |
| Profit Before Tax | 44,880 | 41,662 | 8 |
| Profit After Tax | 30,332 | 27,910 | 9 |

Source: NSE

- ❖ However, there are a number of potential risks to our estimates of the performance of Nigerian Breweries. Upside risks include: (1) Improvement in macro-economic conditions which will boost consumer confidence. (2) Higher than expected sales growth driven by volume growths and price cuts. (3) Above forecast earnings margins delivered through cost savings.
- ❖ Downside risks include: (1) Deterioration in macro-economic conditions and consumption. (2) Lower than expected organic sales growth due to price increases depressing volume growth. (3) Lower than expected sales growth due to loss of market share as a result of incursion by new brewery players (Carlsberg and SABMiller). (4) Below forecast earnings margins due to rising raw material costs.

Fig. 1: 12-Mths Price movement Chart – Nigerian Breweries Plc.



Source: Nigerian Stock Exchange, BGL Research

REQUIRED DISCLOSURES

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BGL Research: Investment Ratings and Recommendations

| BGL Rating | Definition | Recommendation |
|--------------------|---|-----------------------|
| Overvalued | Target Stock Price is more than 20% below Current Stock Price. | Sell |
| Neutral | Target Stock Price is within 20% below/above Current Stock Price. | Hold |
| Undervalued | Target Stock Price is more than 20% above Current Stock Price. | Buy |

DEFINITION OF RATINGS

Overvalued (O): A stock is deemed to be overvalued if the forecast return is more than a negative 20%. A SELL recommendation is therefore placed on the stock.

Neutral (N): A stock is rated neutral if the forecast return ranges within +/- 20%. A HOLD recommendation is therefore placed on the stock.

Undervalued (U): A stock is said to be undervalued if the forecast return more than 20%. A BUY recommendation is therefore placed on the stock.

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