AFRINVEST
CONSULTING

Brewery Sector Update
April 2022

Analyst: Damilare Asimiyu
+234 (1) 270 1680 ext. 1054
dasimiyu@afrinvest.com

Research Director: Abiodun Keripe
+234 (1) 270 1680 ext. 1034
akeripe@afrinvest.com

Potential in a Constrained Market

Industry Outlook: Accumulate

Executive Summary

In 2021, the global beer market rebounded from the pandemic-induced contraction in 2020 as revenue and sales volume grew 3.4% y/y and 2.5% y/y respectively to US$544.0bn and 182,000 kilolitres (kl) according to estimates from **Statista** and **Kirin Holdings**. In part, we attribute the timely rebound of the global beer market to the synchronized easing of COVID-19 restriction guidelines, following the development and continued rollout of vaccines in both the advanced and emerging economies. Also, the timely rollout of the unprecedented +US$10.0tn stimulus packages between 2020/21 by global governments (especially, US: +US$3.5tn, and Europe: +US$3.8tn), provided the needed impetus for the rebound in global consumption in 2021, including beer consumption.

On the domestic front, the brewery industry revenue rebounded 34.9% y/y in 2021 to ₦780.0bn (highest on record), from the pandemic-induced contraction of 1.5% y/y in 2020 (at ₦578.2bn). This was buoyed by the positive spill-over effect of the stimulus injection of about ₦2.8tn (2020/21) and the full restoration of social activities. The highest revenue jump of the proxied brewers, 53.7% y/y, was reported by GUINNESS, which fully offset the 20.6% y/y contraction in 2020. GUINNESS also reclaimed part of the market share lost in 2020 as improved sales strategy delivered 20.3% market share compared to 17.8% in 2020. Likewise, NB and INTBREW grew revenue in 2021 by 29.7% y/y and 33.3% y/y respectively as the brewers' adjusted sales and marketing strategies to suit the dynamics of the "new normal".

Meanwhile, the combined impact of exchange rate devaluation (official rate: down 8.0% to ₦410.40/US$1.00), high average inflation rate (2021: 17.0% vs 2020: 13.2%), logistic bottlenecks, and excise charge on beer (₦0.40/cl), wines (₦1.50/cl), and spirits (₦2.00/cl) sustained the pressure on brewers' cost of sales (COGS) and margins in 2021. Industry's COGS rose 33.3% y/y to ₦527.6bn while COGS margin printed at 67.6% - 80bps shy of 2020 level. Nevertheless, industry pre-tax profit (ex. INTBREW) rebounded to a near pre-pandemic level with a y/y growth of 636.1% to print at ₦29.5bn (2020: -₦5.5bn), led by NB with 80.4% share at ₦23.7bn (2020: ₦11.6bn).

Outline

- ***Executive Summary***
- ***Investment Thesis***
- ***Overview of Global Beer Market in 2021***
  - ⇒ *Sales Rebounded to Near Pre-pandemic Level*
- ***Overview of the Domestic Brewery Industry in 2021***
  - ⇒ *Financial Performance Analysis*
  - ⇒ *Competitive Dynamics*
- ***Outlook on Industry Operating Environment***
- ***Outlook on Operational & Financial Performance***
- ***Industry Pricing & Valuation***
- ***Company Profiling***
  - ⇒ *Strategy & Performance Analysis*
  - ⇒ *Outlook and Valuation*

In FY:2022, we estimate industry revenue and pre-tax profit would grow by 12.3% y/y and 59.7% y/y respectively. This we expect to be driven by the modest economic growth outlook of 2.9%, increased social functions, modest price adjustment (especially on non-alcoholic brands), and low COVID-19 risk. However, potential downside risks to these projections include high inflationary pressure on cost of production and consumers' wallet, potential reduction in sales due to pass through effect of the new sugar tax, and resurgence in COVID-19 disruption. Based on our valuation outcome, we rate the shares of NB and GUINNESS a "BUY" and an "HOLD" respectively, as their closing share prices of ₦40.45 and ₦71.00 on 31st March 2022, represents a discount of 43.7% and 8.0% to our target prices. However, INTBREW shares remain "UNRATED" due to the company's multiyear costs and leverage challenges and negative net income position.

AFRINVEST

CONSULTING

Investment Thesis

Nigeria's demographic (+206.0m population with +100.0m within the beer consuming age) and status as Africa's biggest economy by GDP size (US$514.1bn in 2021 - IMF) presents a compelling case for brewing business relative to other markets on the continent. In addition, the growing social recognition of both alcohol and non-alcoholic drinks, especially among the teeming youth population (for relaxation purposes) holds positive for the outlook of the industry, given the projection that Nigeria's population would reach 401.0m by 2050 according to the United Nations (UN).

Nigeria's demographic (+206.0m population with +100.0m within the beer consuming age) and status as Africa's biggest economy by GDP size presents a compelling case for brewing business relative to other markets on the continent

However, brewery industry players in Nigeria have remained constrained at optimising this potential due to myriad systemic challenges. On the supply side, endemic constraints such as exchange rate volatility, poor power supply, multiple taxation, crises in major agrarian raw material bases, and logistic constraints have continued to stoke pressure on brewers' cost lines. This is evident as industry's EBITDA margin (ex. INTBREW) which averaged 25.5% annually in the decade to 2015 printed below 20.0% in each of the last six years. From the demand side, weak economic growth, high inflation and unemployment rates have continued to weigh on consumption potential, evident in Nigeria's poor per-capita GDP (US$2,360.0 – World Bank) which ranked outside the top 10 in Africa in 2021 despite recording a 7-year high GDP growth rate of 3.4% y/y.

However, brewery industry players in Nigeria have remained constrained at optimising this potential due to myriad systemic challenges.

Although the positive spill-over effect of the stimulus injection in 2020/21 (circa, ₦2.8tn) and the full restoration of social activities buoyed industry performance in 2021 with revenue and pre-tax profit rebounding 34.9% and 128.3% y/y respectively, our short-to-medium term optimism on the industry remained modest. Our position is hinged on the earlier highlighted challenges and the complete phase-out of the stimulus injection which also supported demand in 2021. As such, we expect industry margins to remain pressured in the near term, as brewers remain constrained to fully pass cost pressure to consumers. Also, we think the growth rate of consumer demand would remain thin in the near term, given that the government has not demonstrated the willingness to drive policies that can accelerate job creation and tame inflationary pressure.

Notwithstanding, we believe the resilient nature of Nigerian brewers would be sustained into the future to deliver impressive return to investors.

Notwithstanding, we believe the resilient nature of Nigerian brewers would be sustained into the future to deliver impressive return to investors. The current average EBITDA multiple of the Nigerian brewery indus-

The current average EBITDA multiple of the Nigerian brewery industry, 3.4x, underscore its attractive valuation compared to emerging market peers of Kenya (9.6x), Brazil (10.2x), China (24.3x), and India (93.2x).

try, 3.4x, underscore its attractive valuation compared to emerging market peers of Kenya (9.6x), Brazil (10.2x), China (24.3x), and India (93.2x). Also, the Price-to-Earnings (P/E) ratio of the Nigerian brewery industry, 34.5x, compares favourably to selected emerging and frontier market peers of India (179.2x), China (77.2x), Kenya (32.8x), Brazil (19.2x), Turkey (13.8x), and Ghana (5.5x). Based on our valuation outcome, we valued the share price of Nigerian Breweries Plc (NB) and Guinness Nigeria Plc (GUINNESS) at ₦58.14 and ₦76.66 per unit respectively, representing an upside potential of 43.7% and 8.0% compared with the closing price of ₦40.45 and ₦71.00 as of 31st March 2022. Meanwhile, International Breweries Plc's (INTBREW) share remains "UNRATED" due to the company's multiyear costs and leverage challenges and negative bottom line.

we valued the share price NB and GUINNESS at ₦58.14 and ₦76.66 per unit respectively, while INTBREW share remains "UNRATED."

Overview of the Global Beer Market in 2021

Sales Rebounded to Near Pre-pandemic Level

In 2021, the global beer market rebounded from the pandemic-induced contraction in 2020 as revenue and sales volume grew 3.4% y/y and 2.5% y/y respectively to US$544.0bn and 182,000 kilolitres (kl) according to estimates from **Statista** and **Kirin Holdings**. In part, we attribute the timely rebound to the synchronized easing of COVID-19 restriction, following the development and continued rollout of vaccines in both the advanced and emerging economies. Also, the timely rollout of the unprecedented +US$10.0tn stimulus packages between 2020/21 by global governments (especially, US: +US$3.5tn, and Europe: +US$3.8tn), provided the needed impetus for the rebound in global consumption level in 2021, including beer consumption. Measured by volume of sales, AB-InBev, Heineken, and Carlsberg topped the global beer market accounting for 25.7%, 12.2%, and 6.1% shares respectively in 2021.

Furthermore, the global beer market remains dominated by Asia, Europe, and Central & South America, each with market shares north of 30.0%, 25.0%, and 15.0% respectively, while the share of the market controlled by Africa stood at 7.4%, representing a +200bps improvement over c.5.0% controlled in the decade to 2010. In 2021, the Czech Republic (468.4 litres), Spain (417.2 litres), and Germany (411.2 litres) topped the global chart in terms of average per capita beer consumed, while Germany (US$1,907.78), Poland (US$1,737.94), and Lithuania (US$1,585.94) reported the highest average per capita spending on beer consumption.

According to the 2021 World Beer Index (WBI) report by **Expensivity**, Qatar has the highest average cost of beer in the world at US$11.26 per 33cl, while South Africa enjoyed the lowest average cost at US$1.68 per 33cl, supported by favourable regulations, large scale production, and robust domestic supply chain of raw materials. In 2022, the global beer market is projected to grow 16.4% y/y to US$643.0bn (Statista), supported by vaccine -powered reduction to the risk of fresh lockdown measures, improvement in the supply chain network, and global economic growth.

In 2021, the global beer market rebounded from the pandemic-induced contraction in 2020 as revenue and sales volume grew 3.4% y/y and 2.5% y/y respectively to US$544.0bn and 182,000 kilolitres.

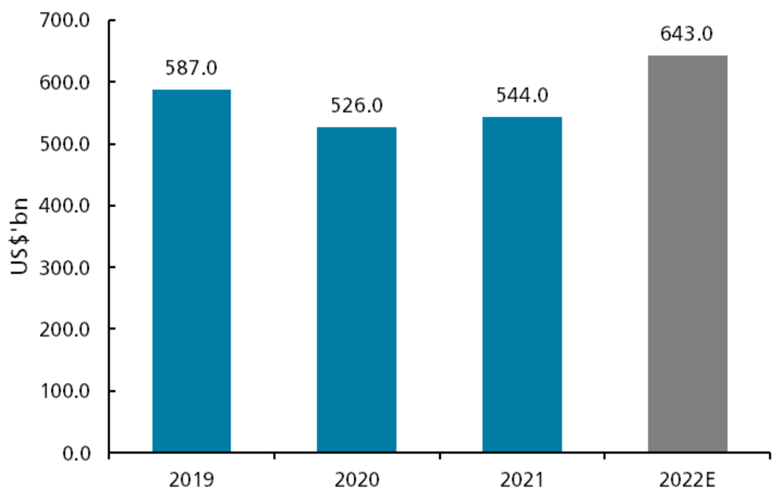
Measured by volume of sales, AB-InBev, Heineken, and Carlsberg topped the global beer market accounting for 25.7%, 12.2%, and 6.1% shares respectively in 2021.

In 2021, the Czech Republic (468.4 litres), Spain (417.2 litres), and Germany (411.2 litres) topped the global chart in terms of average per capita beer consumed, while Germany (US$1,907.78), Poland (US$1,737.94), and Lithuania (US$1,585.94) reported the highest average per capita spending on beer consumption.

AFRINVEST

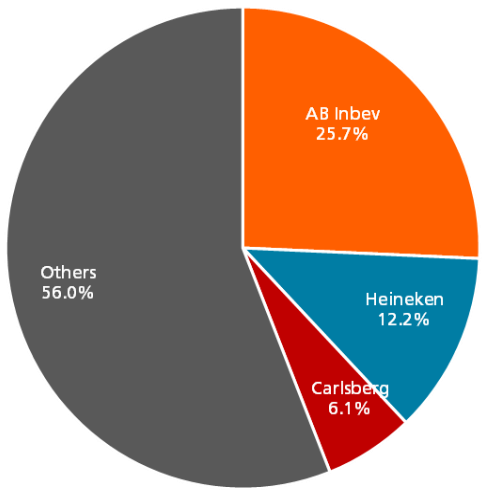
CONSULTING

Chart 1: Size of Global Beer Market & Projection



Source: Statista, Afrinvest Research

Chart 2: Market Share of Global Beer Industry (2021)



Source: Statista, Afrinvest Research

AFRINVEST CONSULTING

Overview of the Domestic Brewery Industry in 2021

In this section, we provide a brief assessment of the Nigerian brewery industry in 2021 under two broad themes – Financial performance and Competitive dynamics. Although there are four (4) listed brewers on the Nigerian Exchange (NGX) Limited, this analysis focused mainly on three (3) brewers – Nigerian Breweries Plc (NB), Guinness Nigeria Plc (GUINNESS), and International Breweries Plc (INTBREW) – with a combined market share of 98.7% based on FY:2021 financial results. Interestingly, Nigeria is the major market of these brewers, accounting for 99.97%, 99.08%, and 99.97% of the revenue of NB, GUINNESS, and INTBREW sequentially.

Financial Performance

Revenue Hit New Peak on Full Re-opening of the Economy

As projected in our 2020 brewery Industry report, "Resilience at a Snapping Point?" industry revenue of domestic brewers – proxied by the aggregate revenue of NB, GUINNESS, and INTBREW – rebounded 34.9% y/y in 2021 to ₦780.0bn (highest on record), from the pandemic-indued contraction of 1.5% y/y (₦578.2bn) in 2020. Interestingly, the Food, Beverage & Tobacco sector of the GDP (within which the brewery industry is captured) also grew the fastest in over half-a-decade by 5.7% y/y in 2021, reflecting the gains from the full re-opening of economic activities and the lifting of restrictions on social gatherings in major cities.

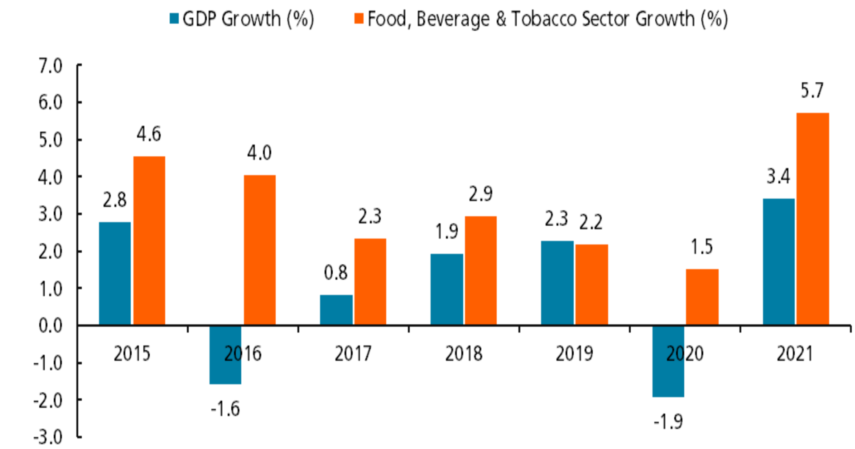
The highest revenue jump of the proxied brewers, 53.7% y/y, was reported by GUINNESS, which fully offset the 20.6% y/y contraction reported in 2020 when pandemic-related restrictive measures disrupted the general supply chain. GUINNESS also reclaimed part of the market share lost in 2020 as improved sales strategy delivered 20.3% market share compared to 17.8% in 2020. Likewise, NB and INTBREW grew revenue in 2021 by 29.7% y/y and 33.3% y/y respectively as the brewers adjusted sales and marketing strategies to suit the dynamics of the "new normal".

As projected in our 2020 brewery Industry report, "Resilience at a Snapping Point?" industry revenue of domestic brewers – proxied by the aggregate revenue of NB, GUINNESS, and INTBREW – rebounded 34.9% y/y in 2021 to ₦780.0bn .

The highest revenue jump of the proxied brewers, 53.7% y/y, was reported by GUINNESS, which fully offset the 20.6% y/y contraction reported in 2020...

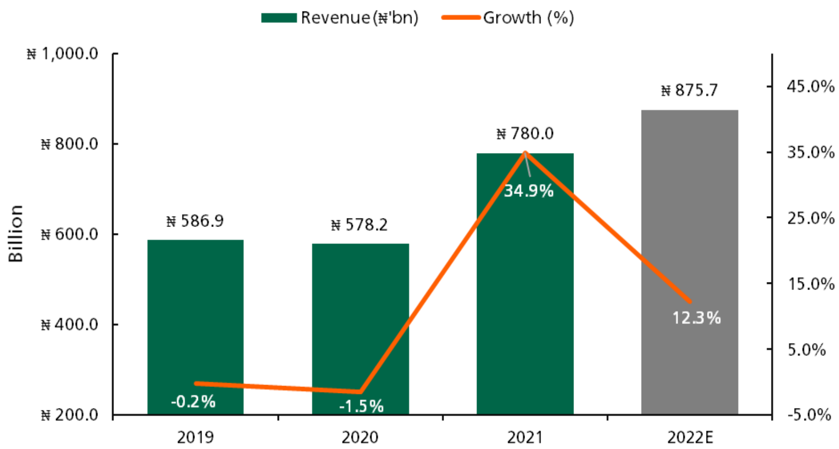
...NB and INTBREW grew revenue in 2021 by 29.7% y/y and 33.3% y/y respectively as the brewers adjusted sales and market strategies to suit the dynamics of the "new normal".

Chart 3: GDP vs. Food, Beverage & Tobacco Sector Growth Trajectory (2015 – 2021)



Source: NBS, Afrinvest Research

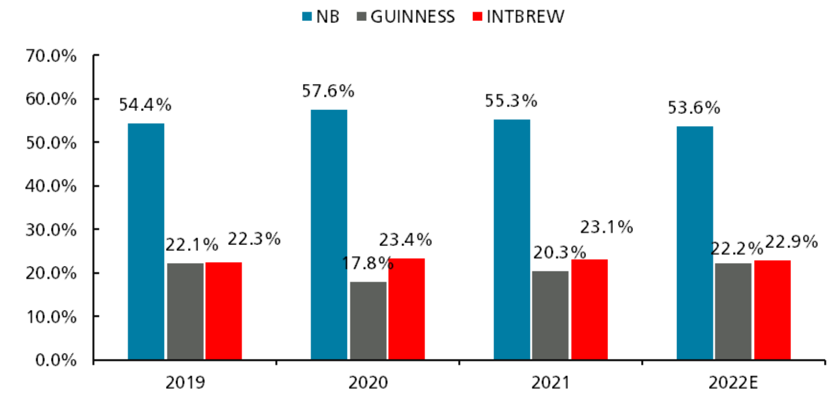
Chart 4: Brewery Industry Revenue Performance (2019 – 2022E)



Source: Company Fillings, Afrinvest Research

AFRINVEST CONSULTING

Chart 5: Market Share Dynamics (2019- 2022E)



Source: Company Fillings, Afrinvest Research

In 2021, the combined impact of exchange rate devaluation, high average inflation rate , logistic bottlenecks, and excise charge on beer , wines and spirits sustained the pressure on industry cost of sales (COGS) and margins.

.

Industry's COGS rose 33.3% y/y to ₦527.6bn, nearly matching revenue growth at 34.9%; while cost-to-sales ratio printed at 67.6% - 80bps shy of 2020 level.

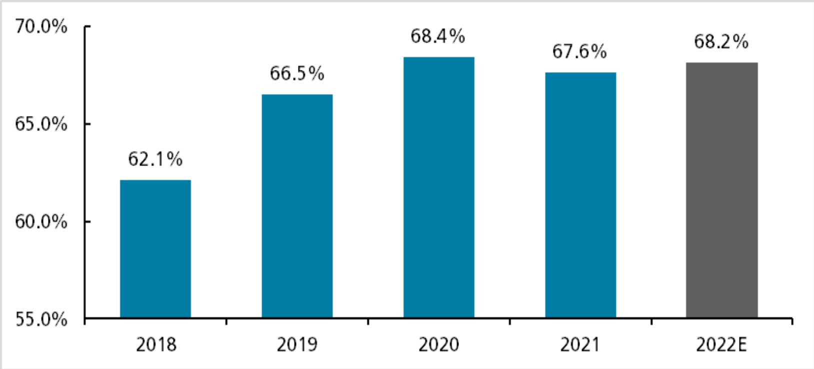
INTBREW reported the highest cost-to-sales ratio at 74.6%, while NB maintained cost leadership with a cost-to-sales ratio of 63.3%.

Inherent Risk Factors Keeps COGS Margin Pressured

In 2021, the combined impact of exchange rate devaluation (official rate: down 8.0% to ₦410.40/US$1.00), high average inflation rate (2021: 17.0% vs 2020: 13.2%), logistic bottlenecks, and excise charge on beer (₦0.40/cl), wines (₦1.50/cl) and spirits (₦2.00/cl) sustained the pressure on industry cost of sales (COGS) and margins. Industry's COGS rose 33.3% y/y to ₦527.6bn (nearly matching revenue growth at 34.9%), while cost-to-sales ratio printed at 67.6% - 80bps shy of 2020 level. GUINNESS reported the highest y/y jump in COGS (61.5%) to ₦114.7bn, driven largely by an 82.2% y/y spike in the cost of raw materials and consumables to ₦84.2bn.

Meanwhile, INTBREW reported the highest cost-to-sales ratio at 74.6%, while NB maintained cost leadership with a cost-to-sales ratio of 63.3%. It is important to highlight that NB and GUINNESS sourced 77.0% and 73.3% (respectively) of raw materials and services locally; thus, helping to reduce exposure to unintended FX shocks.

Chart 6: Industry Cost-to-Sales Ratio (2018 – 2022E)



Source: Company Fillings, Afrinvest Research

Industry's OPEX margin fell 342bps y/y to 27.5% in 2021, beating the 2018 – 2020 average of 30.5%.

OPEX Margin Compressed on Improved Efficiency

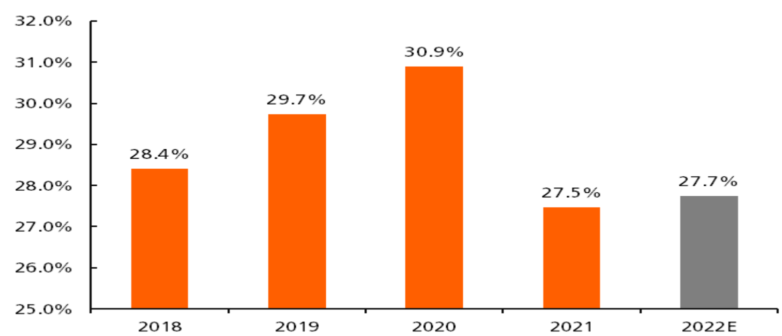
Industry's OPEX margin fell 342bps y/y to 27.5% in 2021, beating the 2018 to 2020 average of 30.5%. Notwithstanding, Industry's operating expenses (OPEX) rose further by 19.9% y/y to ₦214.2bn in 2021, aided by sustained price pressure in the broader economy and stiff competition for market dominance. By disaggregating the OPEX into components parts – Marketing & Distribution (M&D) and Administrative expenses – the highest jump, 38.5% y/y, was reported on M&D which settled at ₦141.0bn while Administrative expense rose 18.2% y/y to ₦72.6bn.

Notwithstanding, Industry's operating expenses (OPEX) rose further by 19.9% y/y to ₦214.2bn in 2021...

Interestingly, unlike NB and GUINNESS with a larger share of OPEX (78.8% and 71.3% respectively) on M&D, 67.0% of INTBREW's OPEX went into Administrative expenses; indicating the brewer's weak marketing aggression relative to industry peers. Meanwhile, industry's EBITDA margin improved 380bps y/y to 15.6% in 2021, aided by the recovery in GUINNESS's EBITDA margin to 11.4% (2020: -2.4%) and NB's industry leadership EBITDA margin of 18.9% (2020: 19.7%).

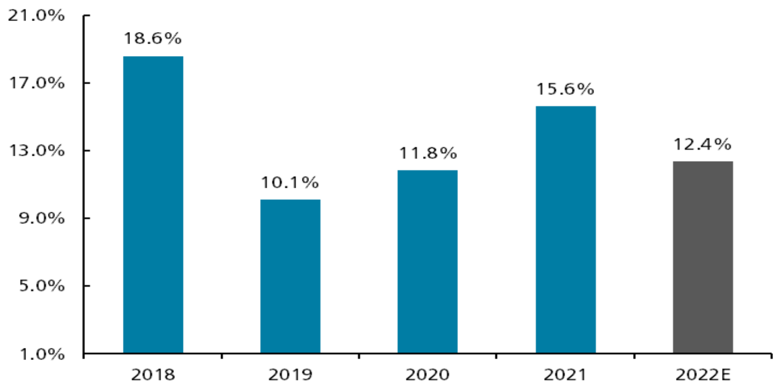
Meanwhile, industry's EBITDA margin improved 380bps y/y to 15.6% in 2021, aided by the recovery in GUINNESS's EBITDA margin to 11.4% (2020: -2.4%)...

Chart 7: Industry OPEX Ratio (2018 – 2022E)



Source: Company Fillings, Afrinvest Research

Chart 8: Industry EBITDA Margin (2018 – 2022E)



Source: Company Fillings, Afrinvest Research

In 2021, industry pre-tax profit (ex. INTBREW) rebounded to a near pre-pandemic level with a y/y growth of 636.1% to print at ₦29.5bn from a negative ₦5.5bn in 2020.

Meanwhile, INTBREW booked a pre-tax loss of ₦19.8bn in 2021, which was its lowest since 2018.

Industry's asset turnover ratio strengthened to 0.75x from 0.62x in 2020.

Improved Profitability Buoys ROE

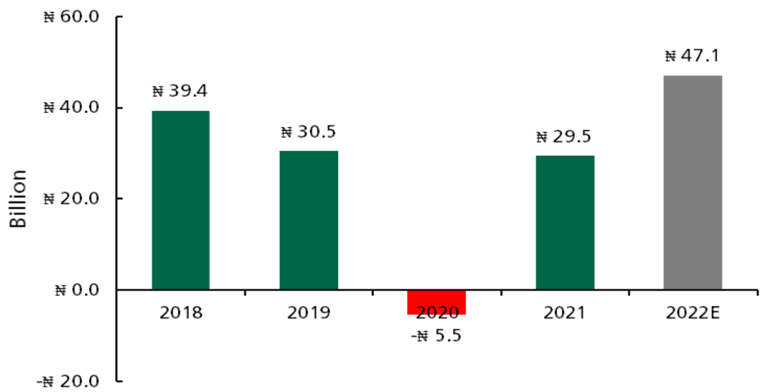
In 2021, industry pre-tax profit (ex. INTBREW) rebounded to a near pre-pandemic level with a y/y growth of 636.1% to print at ₦29.5bn from a negative ₦5.5bn in 2020. This was largely accounted for by NB with 80.4% share at ₦23.7bn (2020: ₦11.6bn), while GUINNESS recovered from a loss position of ₦17.1bn in 2020 to post a pre-tax profit of ₦5.8bn. Meanwhile, INTBREW booked a pre-tax loss of ₦19.8bn in 2021, which was its lowest since 2018. Excluding INTBREW, industry Return on Asset (ROA) improved to 1.7% in 2021 (2020: -3.5%) but trailed pre-pandemic average of 4.3% as NB (2.7%) and GUINNESS (0.7%) reported weak ROAs. Similarly, the industry's Return on Equity (ROE) rebounded to 4.5% in 2021 (from -6.3% in 2020), but fell short of our projection (7.1%) due to weak performance by GUINNESS (1.7%).

Furthermore, by employing the DuPont analysis technique to assess the performance of the constituent components of the industry's ROE – Net-margin, asset turnover, and equity multiplier (or financial leverage) – we observed a broad-base improved performance. Industry's asset turnover ratio strengthened to 0.75x from 0.62x in 2020, which indicates an improvement in the usage of assets to generate revenue. Notwithstanding, NB and GUINNESS outperformed the industry average with asset turnover ratios of 0.90x and 0.95x respectively in 2021. Also, the industry's net margin (ex. INTBREW) printed at 1.8% in 2021, representing a 677bps y/y improvement over 2020, though still short of the pre-pandemic average of 5.3%. Meanwhile, NB maintained leadership with a net margin of 2.9%, while GUINNESS reported a net margin of 0.8%.

Industry financial leverage ratio rose to 2.80x from 2.40x in 2021.

Lastly, the industry financial leverage ratio rose to 2.80x from 2.40x in 2021. This came largely on the back of a material jump in GUINNESS' equity multiplier in 2021 (2.28x vs 1.97x in 2020) as total assets rose faster (17.5% y/y) relative to equities (1.7%) due to a 580.5% y/y jump in cash and cash equivalent to ₦35.9bn.

Chart 9: Performance of Industry Pre-tax Profit ex. INTBREW (2018 – 2022E)



Source: Company Fillings, Afrinvest Research

In 2020, some of the measures implemented to curb the spread of the pandemic in Lagos and other commercial nerve centres of the country contributed to the underwhelming performance of brewers with industry revenue and pre-tax profitability contracting by 1.5% y/y and 431.7% y/y respectively.

Competitive Dynamics

Lessons from the Pandemic Drive Alliance with Online Stores

In 2020, some of the measures implemented to curb the spread of the pandemic in Lagos and other commercial nerve centres of the country – closure of pubs, the cap on the number of people in a social gathering, dusk-to-dawn curfew, and restriction of non-essential inter-state travels – contributed to the underwhelming performance of brewers with industry revenue and pre-tax profitability contracting by 1.5% y/y (to ₦578.2bn) and 431.7% y/y (to loss of ₦30.4bn) respectively. However, in 2021, we saw NB and GUINNESS respond to this challenge by strengthening alliance with leading online shopping platforms such as Jumia and Konga to meet consumers' demand at the comfort of their homes.

However, in 2021, we saw NB and GUINNESS respond to this challenge by strengthening alliance with leading online shopping platforms such as Jumia and Konga to meet consumers' demand at the comfort of their homes.

In addition, we also saw GUINNESS leveraged its major distributors across Lagos state to facilitate home delivery services, with flexible payment options. Although there are no data on revenue composition by channels to assess the contribution of these online media to brewers' revenue in 2021, we believe this strategy would be sustained in the coming years, given the take away lessons from the pandemic and the increasing penetration of home delivery services in Nigeria.

Product Innovation & Rebranding Still a Driving Force

In 2021, Nigerian brewers intensified efforts to increase their market share through new product innovation and repackaging of existing products without compromising quality. On new product innovation, we saw GUINNESS lead with the launch of a can variant of its Guinness Smooth stout, consolidating on the success of the bottled variant earlier launched in Q3:2019. The brewer also launched two new variants of its Orijin brand – Orijin Tigernut and Orijin Ginger – bringing its Orijin brand variants to six. Relatedly, we saw NB rebrand both its Maltina PET bottle and Star Radler cans (citrus & red fruits) to wear a sleeker and refreshing look. As consumers' preferences and purchasing power evolve, we expect to see more product innovation and brand repackaging in the years ahead, across premium, mainstream, and economy product segments.

On new product innovation, we saw GUINNESS lead with the launch of a can variant of its Guinness Smooth stout, consolidating on the success of the bottled variant earlier launched in Q3:2019.

As consumers' preferences and purchasing power evolve, we expect to see more product innovation and brand repackaging in the years ahead, across premium, mainstream, and economy product segments.

Outlook on Industry Operating Environment

New “Sugar tax” to Inflate Pressure Point on Cost Lines

The new Finance Act 2021 (which became operational in January 2022) introduced a new excise charge of ₦10.00/litre on non-alcoholic, carbonated, and sweetened beverages which we think would further pressure the industry’s gross margin and demand dynamics in the years ahead. Recall that since 2018 when the FG introduced a 3-year phased increase in excise duty charge on beer, stout, and wine, the industry’s gross margin has declined consistently from 37.9% to 32.4% in 2021, as brewers remained constrained to fully pass the effect to the consumer.

...our estimate suggests that the new “sugar tax” would only add 1.4% to the average cost of non-alcoholic beverages relative to an average of 20.0% imposed by the excise charged on alcohol...

Although our estimate suggests that the new “sugar tax” would only add 1.4% to the average cost of non-alcoholic beverages relative to an average of 20.0% imposed by the excise charged on alcohol (2021 estimate), we think the combined impact of these cost pressure points would further hurt industry margin in the years ahead. In addition, though the strong awareness of the new sugar tax provides a leverage point for brewers to implement modest price adjustments across product portfolios, we think sales volume could take a beating, given existing pressure on consumers' wallets (static income & high inflation).

...we think the combined impact of these cost pressure points would further hurt industry margin in the years ahead.

Low-end Market Share to thin-out Amid Ban on Sachet & Small Volume PET Bottles

The gains made in recent years by major brewers in penetrating the low-end beer market (estimated 42.0m adult) could come under pressure, following the suspension of new registration for alcoholic drinks in sachet and small volume PET & glass bottles below 200ml by the National Agency for Food & Drug Administration & Control (NAFDAC) in January 2022. The move by NAFDAC followed a December 2018 recommendation of an FG’s committee set up to proffer recommendations on ways to end drug & alcohol abuse in Nigeria.

The gains made in recent years by major brewers in penetrating the low-end beer market (estimated 42.0m adult) could come under pressure, following the suspension of new registration for alcoholic drinks in sachet and small volume PET & glass bottles below 200ml ...

Before 2013 when GUINNESS began operating in the low-end market segment with the introduction of Orijin Bitters, the dominant players were the unregulated local producers and imported brands. The quick wins made by GUINNESS in this market segment also attracted competition from NB, with the launch of Ace Root Bitters in 2015. Thereafter, a few other spirit brands were repackaged in small volume PET & glass bottles (e.g., McDowell’s by GUINNESS) to increase available product variants

Before 2013 when GUINNESS began operating in the low-end market segment with the introduction of Orijin Bitters, the dominant players were the unregulated local producers and imported brands.

in this market segment. While there are no open records to show the share of contribution of this product category to major brewers' top line, a rough estimate taken during a recent analyst call organised by GUINNESS suggests an average contribution of between 5.0% to 10.0% to revenue per annum.

...a rough estimate taken during a recent analyst call organised by GUINNESS suggests an average contribution of between 5.0% to 10.0% to revenue per annum.

Although the eradication of sachet and small volume PET & glass-bottled alcohol (to an extent) could help reduce the proliferation of alcohol on Nigerian streets, we think this policy alone may not eliminate the abuse of alcohol, as unregulated local producers (a.k.a. Paraga) may begin to enjoy a field day. Also, a major attraction of many low-end consumers to this product category is affordability. Hence, given the high number of estimated low-end consumers and persistent inflationary pressure on their wallets, there are chances that unregulated producers might once again fully capture this market in the near term, which could have a grave consequence on the mental and health status of consumers. For major brewers operating in this market segment, though we do not expect the phasing out of this product package to have a material impact on earnings performance, we think a combination of promotional and equipment conversion/usage diversification strategies would be key to retaining some of the low-end customers and reduce wastage on CAPEX investment.

Although the eradication of sachet and small volume PET & glass-bottled alcohol (to an extent) could help reduce the proliferation of alcohol on Nigerian streets, we think this policy alone may not eliminate the abuse of alcohol, as unregulated local producers (a.k.a. Paraga) may begin to enjoy a field day.

Capacity Utilisation to Remain Weak on Structural-Induced Challenges

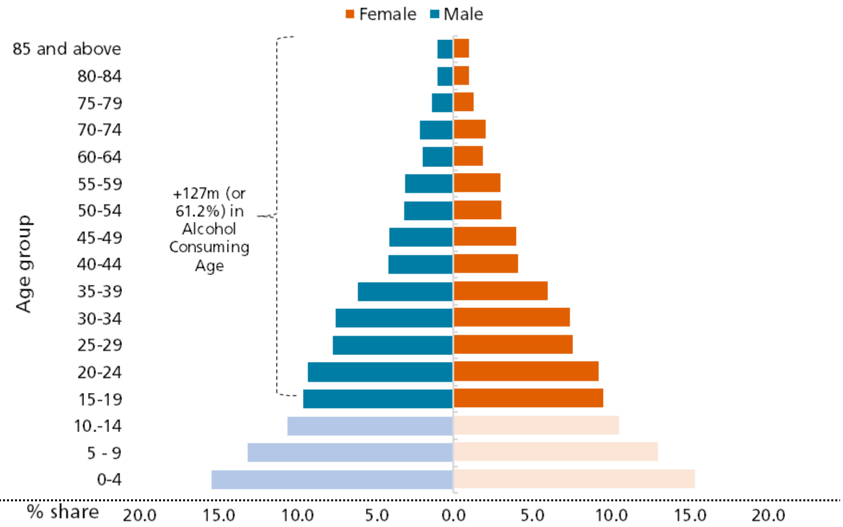
While Nigeria's demography (+206.0m population with +100.0m within the beer consuming age) and status as Africa's biggest economy by GDP size (US$514.1bn in 2021 - IMF) presents a compelling case for brewing business than any other African country, its numerous structural challenges have continued to deter brewers from fully optimising this potential. As of 2021, our estimate revealed that the industry's capacity utilisation was 43.1% (pre-pandemic highest - 38.7% in 2018) relative to +60.0% for brewers in South Africa. Interestingly, Nigeria also ranked outside of the top 10 in alcohol consumption per capita in Africa according to a 2021 study by Displore – an education channel specialised in the top 10 ranking of things in Africa. This is not surprising given the continued pressure on consumers' wallets (due to high inflation and sticky wages) – many of whom have shifted preference to cheaper unregulated brands.

As of 2021, our estimate revealed that the industry's capacity utilisation was 43.1% (pre-pandemic highest - 38.7% in 2018) relative to +60.0% for brewers in South

...Nigeria also ranked outside of the top 10 in alcohol consumption per capita in Africa according to a 2021 study by Displore.

Given our weak optimism on the broader economy over the medium term, we think industry players would continue to operate sub-optimally due jointly to both supply and demand-side pressures. From the supply side, we see pressure points such as exchange rate volatility, power supply shortage, crises in major agrarian raw material bases, and logistic constraints (due to poor road networks and bureaucratic process at major seaports), stoking further pressure on cost lines. From the demand side, we expect inflationary pressure to persist due to the absence of any major reform to bridge demand and supply mismatch across major sectors of the economy. Hence, we see weak volume growth, with a direct negative impact on capacity utilisation.

Chart 10: Nigeria's Demographic Structure (2019)



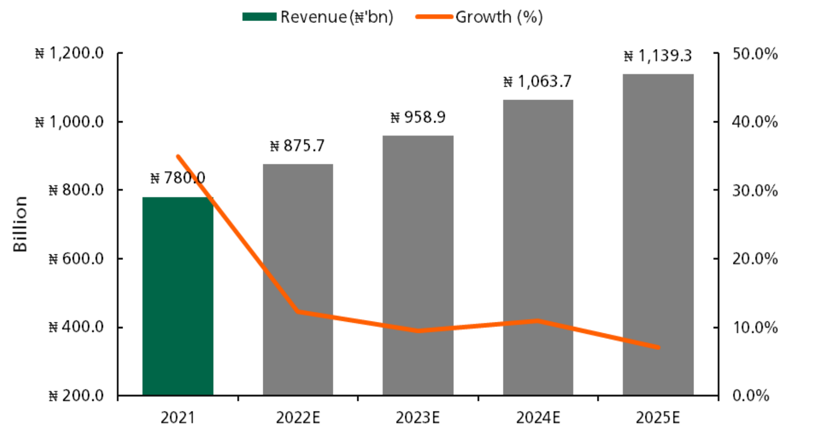
Source: NBS, Afrinvest Research

Outlook on Operational & Financial Performance

Industry Revenue to Sustain Uptrend

In our base case projection for 2022, we estimate a 12.3% y/y and 8.4% y/y growth in industry revenue and sales volume to ₦875.7bn and 19.1mlh respectively. We expect this to be driven by the modest economic growth outlook of 2.9%, increased social functions, modest upward price adjustment (especially on non-alcoholic brands), and low COVID-19 risk. Resulting from this, we estimate that the industry capacity utilisation rate would increase to 48.3% from 43.1% in 2021. However, potential downside risks to this projection include high inflationary pressure on consumers' wallet, potential reduction in sales due to pass-through effect of the new sugar tax, and resurgence in COVID-19 disruption.

Chart 11: Industry Revenue Projection (2021 – 2025F)



Source: Company Fillings, Afrinvest Research

Cost-to-Sales & OPEX to Remain Pressured

Amid the risk of further depreciation of the Naira, high inflation, and persistent supply chain disruption due to structural challenges, we estimate a modest 60bps y/y increase in the industry cost-to-sales ratio to 68.2% in 2022 (base case scenario). Notwithstanding, we estimate industry cost of sales to increase by at least 13.1% y/y in 2022 (to ₦596.7bn). This we believe would be driven partly by the negative spillover effect of the Russia and Ukraine tension on the price of wheat and substitute grains, given that both countries ranked 3rd and 8th respectively on global wheat production in 2020. Likewise, in a base case scenario, we project a 13.4% y/y increase in operating expenses to ₦242.9bn as brewers intensify efforts to capture more market share through new product innovation and advertisement.

In our base case projection for 2022, we estimate a 12.3% y/y and 8.4% y/y growth in industry revenue and sales volume to ₦875.7bn and 19.1mlh respectively.

Potential downside risks to this projection include high inflationary pressure on consumers' wallet, potential reduction in sales due to pass-through effect of the new sugar tax, and resurgence in COVID-19 disruption.

...we estimate industry cost of sales to increase by at least 13.1% y/y in 2022 (to ₦596.7bn). This we believe would be driven partly by the negative spillover effect of the Russia and Ukraine tension on the price of wheat and substitute grains, given that both countries ranked 3rd and 8th respectively on global wheat production in 2020.

Improve Profitability to Boost ROE

Despite the earlier highlighted pressure points, we project the industry's pre-tax profit (ex. INTBREW) to grow 59.7% y/y to ₦47.1bn in 2022. This estimate would be aided by a material jump in GUINNESS's pre-tax profit to about ₦20.4bn compared to ₦5.8bn in 2021. Our projection for GUINNESS captured the impressive 902.8% y/y jump in the brewer's pre-tax profit for 6M:2022 (Jul – Dec 2021) which printed at ₦13.0bn, riding on improved sales performance and the low base from 2020 (340.5% contraction). Further, we estimate the industry's net margin and ROE (ex. INTBREW) to improve to 4.7% and 12.1% respectively compared to 1.8% and 4.5% on better profitability.

Despite the earlier highlighted pressure points, we project the industry's pre-tax profit (ex. INTBREW) to grow 59.7% y/y to ₦47.1bn in 2022.

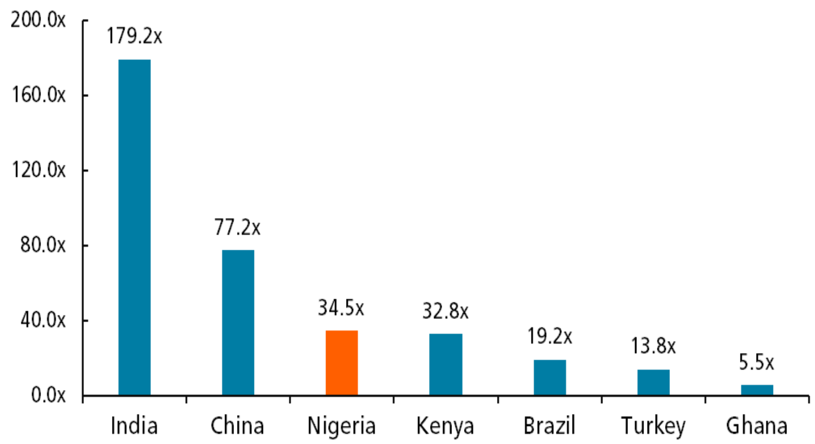
Industry Pricing and Valuation

Potential in a Constrained Market

Despite the tough business environment, Nigerian brewers have continued to display resilience in growing their top and bottom-line numbers. With an improved industry average Price-to-Earnings (P/E) ratio of 34.5x (2020: 57.5x), the industry compares favourably with selected emerging and frontier market peers of India (179.2x), China (77.2x), Kenya (32.8x), Brazil (19.2x), Turkey (13.8x), and Ghana (5.5x). The industry EBITDA multiple of 3.4x also underscore undervaluation of the Nigerian brewers compared to emerging market peers of Kenya, Brazil, China, and India with EBITDA multiples of 9.6x, 10.2x, 24.3x, and 93.2x respectively.

Moreso, in line with our projection of 12.3% y/y and 59.7% y/y jump in industry revenue and pre-tax profit for 2022, we expect the industry average P/E ratio to improve further to a pre-pandemic range of between 15.0x and 23.0x. Consequently, we rate NB shares a "BUY" and GUINNESS an "HOLD" as their market prices (NB: ₦40.45; GUINNESS: ₦71.00) as of 31st March 2022 represents a discount of 43.7% and 8.0% respectively to our target prices. On the other hand, INTBREW shares remain "UNRATED".

Chart 12: P/E Ration of Emerging & Frontier Market Peers



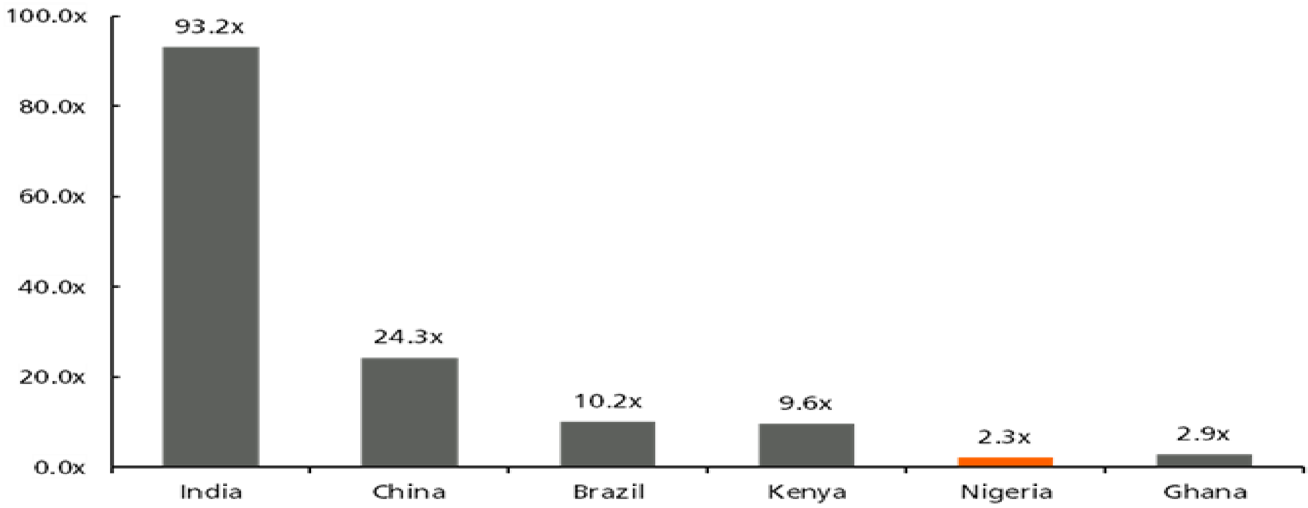
Source: Bloomberg, Afrinvest Research Estimation

Despite the earlier highlighted pressure points, we project the industry's pre-tax profit (ex. INTBREW) to grow 59.7% y/y to ₦47.1bn in 2022.

The industry EBITDA multiple of 3.4x also underscore undervaluation of the Nigerian brewers compared to emerging market peers of Kenya, Brazil, China, and India with EBITDA multiples of 9.6x, 10.2x, 24.3x, and 93.2x respectively.

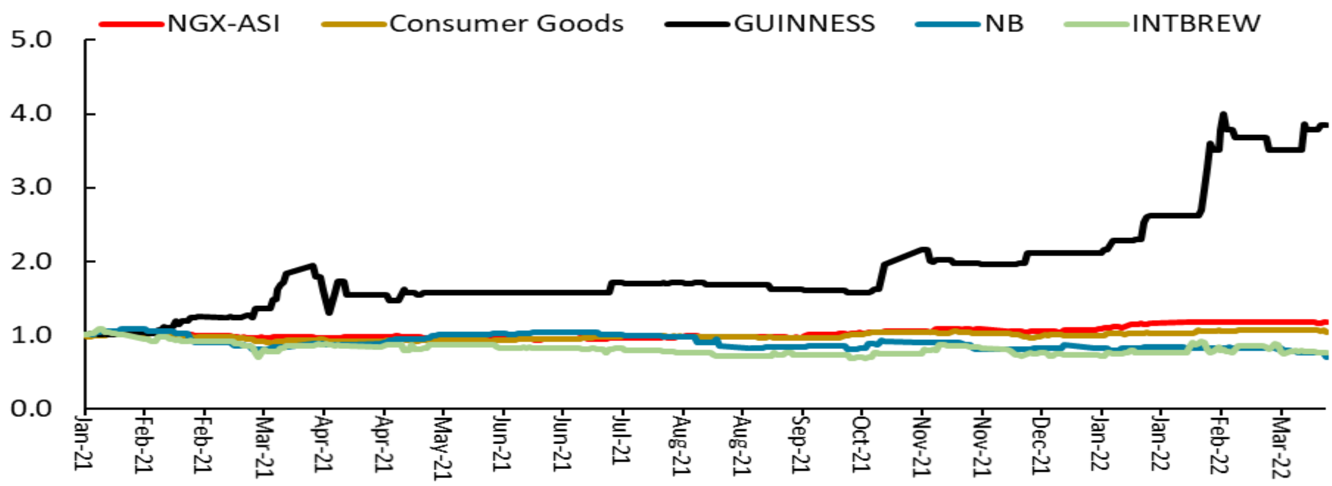
In line with our projection of an 12.3% y/y and 59.7% y/y jump in industry revenue and pre-tax profit in 2022, we expect the industry average P/E ratio to improve further to a pre-pandemic range of between 15.0x and 23.0x.

Chart 13: Average EBITDA Multiple of Nigerian Brewers vs Selected Peers



Source: Company fillings, Bloomberg, Afrinvest Research

Chart 14: Movement of Coverage Universe Share Price vs. Broad Sector & NGX-ASI (Jan 2021 – Mar 2022)



Source: NGX, Afrinvest Research

Chart 15: Summary of Coverage Universe Trading & Valuation Statistics (2021)

2021 Estimates & Actual	NB	GUINNESS	INTBREW
Financial Highlights			
Revenue (₦'bn)	437.3	160.4	182.3
OPEX (₦'bn)	123.5	36.9	53.8
EBITDA (₦'bn)	83.0	18.4	20.8
PAT (₦'bn)	12.7	1.3	(17.7)
Operating & Profitability Margins			
OPEX Margin	28.3%	23.0%	29.5%
EBITDA Margin	18.9%	11.4%	11.4%
PBT Margin	5.4%	3.6%	-10.9%
Dupont Analysis			
ROE	7.4%	1.7%	-13.0%
Net Margin	2.9%	0.8%	-9.7%
Financial Leverage	2.82	2.28	3.47
Asset Turnover	0.90	0.95	0.39
Valuation metrics			
Current TP (₦)	58.14	76.66	n/m
Previous TP (₦)	53.06	28.61	n/m
Rating	BUY	HOLD	n/m
Price @ 31/03/2022 (₦)	40.45	71.00	4.20
Upside/(Downside) Potential	43.7%	8.0%	n/m
Valuation Assumptions			
Risk-Free Rate	7.9%	7.9%	n/m
Beta	1.02x	0.99x	n/m
Cost of Equity	13.5%	13.3%	n/m
Sustainable Growth Rate	2.0%	2.0%	n/m
Market pricing Metrics			
P/E	35.69x	33.33x	n/m
P/BV	2.63x	0.56x	n/m
EV/EBITDA	5.56x	0.12x	n/m

Source: NGX, Company Fillings, Afrinvest Research Estimation

Note: n/m means not mentioned

AFRINVEST

CONSULTING

Brewery Sector Update
April 2022

Company profiling

Nigerian Breweries Plc

Improved Sales & Strategic Price Increases Delivers Highest Revenue Jump in a Decade

Company Overview & Strategy

Nigerian Breweries Plc ("NB", "the Company", "the Brewer") is the oldest (76 years) and largest brewer in Nigeria, both in terms of market share by revenue (2021: 55.3%) and installed production capacity (c.20.5mhl). From its first plant which became operational in 1946 at Abebe village, Iganmu, in Lagos State, the brewer has spread its tentacles across Nigeria's six geo-political zones and currently boasts of nine (9) breweries and two (2) malting plants. NB operates a diversified product portfolio of alcoholic and non-alcoholic beverages totalling nineteen (19) brands across the Lager (9), Stout (3), Spirit (1), Malts (3), and Ready to Drink (RTDs - 3) segments and has about 100 major distributors in Nigeria. As part of its strategy for driving customer satisfaction, NB in 2021 rebranded both its Maltina PET bottle and Star Radler cans (citrus & red fruits) to wear a sleeker and refreshing look.

Also, in line with its culture of preserving liquid capital and deepening shareholders' value, NB in 2021 issued and listed additional 78,756,791 units of ordinary shares from scrip dividend. This resulted in the preservation of ₦54.3m in cash for the brewer (representing about 1.0% of a final dividend of ₦5.5bn for 2020). It is important to also highlight that NB's parent company, Heineken Brouwerijen B.V., through a Nigerian private subsidiary – Raysun Nigeria Limited – secured Mandatory Takeover Offer (MTO) on Champion Breweries (CHAMPION) in 2021. This follows from the increase in Raysun's holding of CHAMPION's shares to 84.7% from 60.4% in 2020. With CHAMPION's outstanding free float (15.3%, and less than ₦5.0bn of capitalisation) below the NGX minimum requirements (20.0% free-float or free-float capitalisation of ₦20.0bn), we expect a complete buyout of the company in the coming months, and the possibility of a business merger with NB in the future.

Operational & Financial Performance

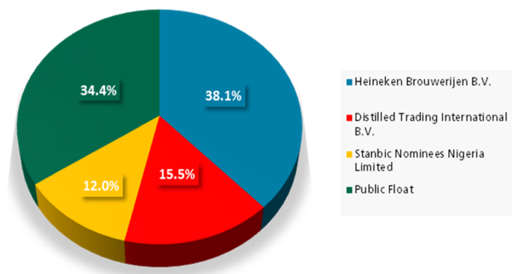
In 2021, NB grew revenue by 29.7% y/y to ₦437.3bn – the highest annual jump in over a decade. We attribute this performance to the combined impact of improved sales volume (est. 12.5% y/y) and price increases on strategic brands post-2020 lockdown. Consequently, gross margin gained 147bps y/y to 36.7% - the highest among industry peers in FY:2021. Howev-

Table 16: Trading Data - March, 2022

Company Data			
Ticker (NGX)			NB
Ticker (Bloomberg)			NB NL Equity
Market Price ₦ (31/3/2022)			40.45
2022 Target Price (₦)			58.14
Rating			BUY
Upside Potential			43.74%
12-Months High (₦)			63
12-Months Low (₦)			40.45
Outstanding Share (bn)			8.1
Market Cap (₦'bn)			326.67
6-Month Avg. Volume (th)			202.9
6-Month Avg. Value (₦'mn)			9.8
Trailing EPS (₦)			1.6
Trailing P/E (x)			31.86
Forward P/E (x)			19.75
Financial Highlights & Valuation Metrics			
	FY:2021A	FY:2022E	Average: 2022/5F
Revenue (₦'bn)	437.3	475.4	500.9
EBITDA (₦'bn)	82.8	83.8	86.2
PBT (₦'bn)	23.7	26.7	31.3
Net income (₦'bn)	12.7	16.5	18.8
Total Assets (₦'bn)	485.5	486.8	517.5
Shareholders' Funds (₦'l	171.9	174.1	174.7
OPEX Ratio (%)	28.3%	28.3%	28.1%
Cost of Sales Ratio (%)	63.3%	64.1%	64.7%
EBITDA Margin (%)	18.9%	17.6%	17.2%
PAT Margin (%)	2.9%	3.5%	3.7%
ROAE (%)	7.6%	9.6%	10.8%
ROAA (%)	2.7%	3.4%	3.7%
EPS (₦)	1.57	2.05	2.32
DPS (₦)	1.60	2.05	2.32

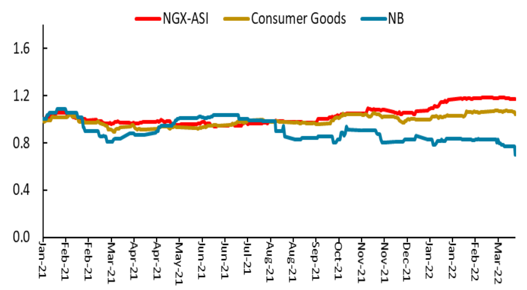
Source: NGX, Bloomberg, Afrinvest Research

Chart 17: Shareholding Structure of NB (2021)



Source: Company Fillings, Afrinvest Research

Chart 18: NB's Share Price Movement vs ASI



Source: Bloomberg, Afrinvest Research

er, the EBITDA margin retreated 120bps y/y to 18.9%, dragged by the 37.4% y/y jump in OPEX to ₦123.5bn and the combined 7.1% y/y increase in Depreciation and Amortisation deductions to ₦41.5bn. Nonetheless, NB's pre and post-tax profits climbed 104.7% and 72.0% y/y respectively to ₦23.7bn and ₦12.7bn in 2021.

DuPont Analysis: Inventory Surge Highlights Weak Cash Policy

Following its improved profitability in 2021 as earlier highlighted, NB's net-income margin improved to 2.9% (2020: 2.2%) but continued to trail the pre-2018 average of 13.7%. Meanwhile, ROE gained 280bps y/y to print at 7.4% relative to the industry average of 4.5% (ex. INTBREW). Asset turnover strengthened to 0.90x from 0.76x in 2020, aided by the 29.7% y/y jump in revenue relative to total assets (8.9% y/y). Furthermore, NB's financial leverage position improved from 2.77x in 2020 to 2.82x in 2021, as the combined impact of a 20.5% upswing in PPE, 72.3% increase in inventories, and 607.5% jump in trade receivable lifted total assets by 8.9% y/y. Notwithstanding, while the surge in inventories could bode well for the brewer (due to exchange rate volatility and high domestic inflation), we flagged that the 607.5% y/y surge in trade receivables to ₦26.5bn (highest since 2018) could portend the brewer's weak cash policy, given that its closest industry peer, GUINNESS, achieved a 25.1% y/y reduction in receivables (to ₦14.0bn) in the reviewed period.

Outlook & Valuation

Despite the numerous challenges in the business operating environment, we estimate a base case revenue growth of 8.7% y/y for NB in 2022 to ₦475.4bn. This we expect to be supported by improved social activities due to the complete lifting of pandemic restriction measures. Also, though we expect pressure points on cost lines to deepen due to the introduction of the sugar tax and deteriorating FX conditions, we think the gains from economies of scale (as sales volume improve) would propel NB's profitability in 2022 to a pre-pandemic level of ₦16.5bn.

In valuing NB, we employed a blend of absolute and relative valuation methodologies including the Dividend Discount Model (DDM), Free Cash Flow to Equity (FCFE), EV/EBITDA, and Price-to-Earnings (P/E) valuation. The assumptions that guided our valuation were a cost of equity of 15.5% (a beta of 1.04, risk-free rate of 9.9%, and risk premium of 5.4%) and a sustainable growth rate of 2.0% to derive a blended 12-month target price (TP) of ₦58.14. This represents an upside of 43.7% from the closing share price of ₦40.45 on 31st March 2022. Hence, we recommend a "BUY" for NB's share.

Chart 19 NB Valuation Snapshot

Valuation Methodologies		Weighting
Relative Valuation Methodology		
EV/EBITDA Valuation Methodology		80.00%
Average EV/EBITDA	6.15x	
Forecast EBITDA	82,793,931	
Enterprise Value	515,587,114.41	
Target Price (adjusted for cash & Debt)	**62.20**	
P/E Valuation Methodology		
Valuation P/E	31.86x	
Forecast EPS	2.05x	
Target Price	**65.28**	
Absolute Valuation Methodology		
Valuation Metrics		20.0%
Risk Free Rate (%)	*7.9%*	
Beta	*1.02*	
Cost of Equity (%)	*13.5%*	
Sustainable Growth Rate (%)	*2.0%*	
Dividend Discount Model (DDM)	**17.15**	
Free Cash Flow to Equity (FCFE)	**36.84**	
Blended Target Price		**NGN 58.14**
Upside/(Downside) Potentials		**43.74%**

Source: Afrinvest Research Estimation

AFRINVEST

CONSULTING

Brewery Sector Update

April 2022

Guinness Nigeria Plc

Rebound in Sales & Improved Cost Management Drives Performance

Company Overview & Strategy

Guinness Nigeria Plc, ("Guinness," "the Company," "the Brewer") a member of Diageo Group, UK, prides itself as one of Nigeria's biggest brewers. As of FY:2021, GUINNESS controls 20.3% market share with revenue of ₦160.4bn to rank third behind INTBREW (23.1%). The brewer has three plants strategically located in Nigeria with an estimated combined production capacity of 10.0mhl. As part of its strategy to scale production capacity (especially, the Spirit brands) and to increase its penetration of other West African markets in the coming years, the brewer acquired a sizeable land (25 hectares) in 2021, closed to its Ogba branch in Lagos.

GUINNESS runs a "Total Beverage Alcohol" (TBA) strategy, which makes it command a portfolio of well-known products across various categories: Beer, Gin, Scotch whisky, Liqueur, Vodka, Local spirits, Non-alcoholic and Ready-to-Drink (RTDs), with famous brands including Guinness Foreign Stout, McDowell's, Smirnoff, Orijin, Satzenbrau, and Harp to mention a few. As of 2021, the company has 202 key distributors spread across strategic locations in Nigeria.

Operational & Financial Performance

From a pandemic-induced loss position in 2020, Guinness top and bottom-line numbers rebounded strongly by 53.7% and 109.9% respectively to ₦160.4bn and ₦1.3bn in 2021. This was jointly supported by the three rounds of price increases on strategic brands in H1:2021 and improved sales across product portfolios (averaging about 11.3% y/y) as the economy fully reopened for social activities. Also, OPEX margin fell to 23.0% from 44.7% the prior year, making it the lowest in more than three years amid an improved cost management strategy. Consequently, EBITDA margin improved to 11.4% (2020: -2.4%) – highest since FY:2018.

Consolidating on this impressive performance, the company in its 6M:2022 financial report (July – Dec. 2021) grew revenue and pre-tax profit by 50.8% y/y and 902.8% y/y respectively, while EBITDA margin strengthened to 16.4% relative to 10.7% in 6M:2021. It is pertinent to highlight that GUINNESS in 6M:2022 delivered strong revenue growth across its product portfolios led by Malts (+149.0 y/y), RTDs (80.1% y/y), Premium spirits (59.3% y/y), Mainstream spirits (37.9% y/y), and Stouts (33.2% y/y). Further, we observed that the share of the brewer's revenue from spirit brands in-

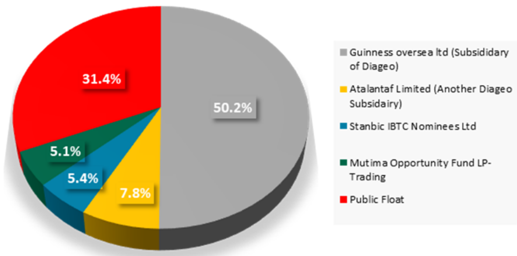
Table 20: Trading Data - March, 2022

Company Data	
Ticker (NGX)	GUINNESS
Ticker (Bloomberg)	GUINNESS NL Equity
Market Price ₦ (31/3/2022)	71.00
2022 Target Price (₦)	76.66
Rating	HOLD
Upside Potential	7.97%
12-Months High (₦)	74.00
12-Months Low (₦)	18.50
Outstanding Share (bn)	2.2
Market Cap (₦'bn)	155.52
6-Month Avg. Volume (th)	348.40
6-Month Avg. Value (₦'mn)	15.21
Trailing EPS (₦)	0.57
Trailing P/E (x)	68.42
Forward P/E (x)	13.25

Financial Highlights & Valuation Metrics	FY:2021A	FY:2022E	Average: 2022/5F
Revenue (₦'bn)	160.4	197.1	245.8
EBITDA (₦'bn)	18.4	26.0	26.8
PBT (₦'bn)	5.8	20.4	20.9
Net income (₦'bn)	1.3	11.7	10.6
Total Assets (₦'bn)	169.4	215.8	235.2
Shareholders' Funds (₦'	74.3	80.0	87.0
OPEX Ratio (%)	23.0%	23.7%	24.7%
Cost of Sales Ratio (%)	71.5%	68.2%	69.0%
EBITDA Margin (%)	11.4%	13.2%	11.0%
PAT Margin (%)	0.8%	6.0%	4.4%
ROAE (%)	1.7%	15.2%	12.5%
ROAA (%)	0.8%	6.1%	4.8%
EPS (₦)	0.57	5.36	4.83
DPS (₦)	0.46	3.75	3.38

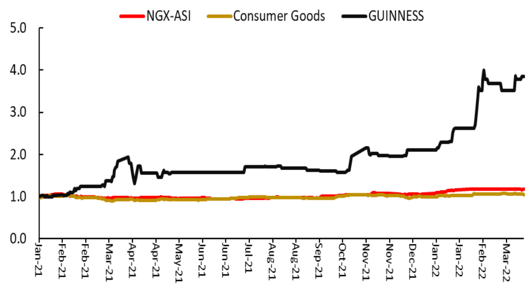
Source: NGX, Bloomberg, Afrinvest Research

Chart 21: Shareholding Structure of GUINNESS (2021)



Source: Company Fillings, Afrinvest Research

Chart 22: GUINNESS Share Price Movement vs ASI



Source: Bloomberg, Afrinvest Research

creased to 24.0% in 6M:2022 (6M:2020: 18.0% and 6M:2021: 21.8%) in line with the management's strategic target of 25.0% to 30.0% share by 2023. We expect the increase in the brewer's share of the revenue from spirits to be maintained, given its plethora of spirit brands (six) relative to the industry's closest rival, NB, with just one spirit brand.

DuPont Analysis: Improved Credit Policy Drives Financial Leverage

Though a meagre 0.8%, GUINNESS net margin rebounded from a negative 12.1% in 2020 as the company returned to profitability. ROE also improved to 1.7% in 2021 (2020: -17.2%) but lower than the pre-pandemic average of 6.0%. Meanwhile, we observed a significant jump in GUINNESS asset turnover from 0.72x in 2020 to 0.95x (industry average: 0.75x), placing GUINNESS above industry peers in terms of efficient usage of assets. The financial leverage ratio rose from 1.97x in 2020 to 2.28x as the brewer's improved cash policy drove a 580.5% y/y jump in cash & cash equivalents and a 38.5% y/y increase in current assets as a whole.

Chart 23 GUINNESS Valuation Snapshot

Valuation Methodologies		Weighting
Relative Valuation Methodology		
EV/EBITDA Valuation Methodology		65.00%
Average EV/EBITDA	0.22x	
Forecast EBITDA	18,353,595	
Enterprise Value	5,792,629.96	
Target Price (adjusted for cash & Debt)	20.19	
P/E Valuation Methodology		
Valuation P/E	68.42x	
Forecast EPS	5.36x	
Target Price	366.72	
Absolute Valuation Methodology		
Valuation Metrics		35.0%
Risk Free Rate (%)	7.9%	
Beta	0.99	
Cost of Equity (%)	13.3%	
Sustainable Growth Rate (%)	2.0%	
Dividend Discount Model (DDM)	33.03	
Free Cash Flow to Equity (FCFE)	26.82	
Blended Target Price		NGN 76.66
Upside/(Downside) Potentials		7.97%

Source: Afrinvest Research Estimation

Outlook & Valuation

Our assessment of GUINNESS 6M:2022 earnings result suggests that the company is on course to double its 2021 revenue (₦104.4bn) to record net profit north of ₦10.0bn. Adjusting for potential slack in sales in March and April due to Lent and Ramadan fasting, we estimate that the brewer's revenue and net income would reach ₦197.1bn and ₦11.7bn in a base case scenario, with EPS touching ₦5.36 from ₦0.57 in 2021.

To arrive at a fair price for GUINNESS, we employed a blend of absolute and relative valuation methodologies including the Dividend Discount Model (DDM), Free Cash Flow to Equity (FCFE), EV/EBITDA, and Price-to-Earnings (P/E) valuation. The assumptions that guided our valuation were; a cost of equity of 15.3% (a beta of 0.99, risk-free rate of 9.9%, and risk premium of 5.4%) and a sustainable growth rate of 2.0% to realize a blended 12-month target price (TP) of ₦76.66. This represents an upside potential of 8.0% from the closing share price of ₦71.00 as of 31st March 2022. Hence, we rate GUINNESS's share a "HOLD".

AFRINVEST

CONSULTING

Brewery Sector Update
April 2022

About Afrinvest

Afrinvest (West Africa) Limited (Afrinvest or the Company) is a leading independent investment banking firm with a focus on West Africa and active in four principal areas: investment banking, securities trading, asset management, and investment research. The Company was originally founded in 1995 as Securities Transaction and Trust Company Limited (SecTrust) which grew to become a respected research, brokerage and asset management firm. Afrinvest (West Africa) Limited is licensed by the Nigerian Securities and Exchange Commission (SEC) as an issuing house and underwriter. We provide financial advisory services as well as innovative capital raising solutions to High Net-worth Individuals (HNIs), corporations, and governments. Afrinvest is a leading provider of research content on the Nigerian market as well as a leading adviser to blue chip companies across West Africa on M&A and international capital market transactions. The company maintains four offices in Lagos, Abuja, Onitsha, and Port-Harcourt.

Afrinvest Securities Limited (ASL) is licensed by the Nigerian SEC as a broker dealer and is authorized by the Nigerian Exchange (NGX) Limited as a dealing member. ASL acts as a distribution channel for often exclusive investment products originated by Afrinvest and AAML as well as unique value secondary market trading opportunities in equity, debt, money market and currency instruments.

Afrinvest Asset Management Limited (AAML) is licensed by the Nigerian SEC as a portfolio manager. AAML delivers world class asset management services to a range of mass affluent and high net worth individual clients. AAML offers investors direct professionally managed access to the Nigerian capital markets through equity focused, debt focused and hybrid unit trust investment schemes amongst which are the Nigeria International Debt Fund (NIDF), Afrinvest Equity Fund (AEF), Target Project Plan (TPP), Private Investment Club (PIC) and Afrinvest Guaranteed Income Portfolio (Afrinvest-GIP).

Contacts

Investment Research & Consulting		
Abiodun Keripe	akeripe@afrinvest.com	+234 1 270 1680 ext. 1034
Damilare Asimiyu	dasimiyu@afrinvest.com	+234 1 270 1680 ext. 1054
Aminat Ibidun	aibidun@afrinvest.com	+234 1 270 1680 ext. 1027
Benedict Egwuchukwu	begwuchukwu@afrinvest.com	+234 1 270 1680 ext. 1023
Mariam Olabode	molabode@afrinvest.com	+234 1 270 1680 ext. 1053
Mobifoluwa Adesina	madesina@afrinvest.com	+234 1 270 1680 ext. 1051
Daniel Onasanya	donasanya@afrinvest.com	+234 1 270 1680 ext. 1060
Segun Adams	sadams@afrinvest.com	+234 1 270 1680 ext. 1073
Omobola Adu	oadu@afrinvest.com	+234 1 270 1680 ext. 1081
Securities Trading & Brokerage		
Adedoyin Allen	aallen@afrinvest.com	+234 1 270 1680 ext. 1016
Taiwo Ogundipe	togundipe@afrinvest.com	+234 1 270 1680 ext. 1601
Capital & Investment Banking		
Suru Daniels	sdaniels@afrinvest.com	+234 1 270 1680 ext. 1098
Kate Isabote	kisabote@afrinvest.com	+234 1 270 1680 ext. 1017
Asset Management		
Christopher Omoh	comoh@afrinvest.com	+234 1 270 1680 ext. 1505
Robert Omotunde	romotunde@afrinvest.com	+234 1 270 1680 ext. 1039
Trustees		
Rita Abengowe	rabengowe@afrinvest.com	+234 1 270 1680 ext. 1005
Chisom Nwogbo	cnwogbo@afrinvest.com	+234 1 270 1680 ext. 1048

For further information, please contact:

Afrinvest West Africa Limited (AWA)

27,Gerrard Road
Ikoyi, Lagos
Nigeria
Tel: +234 1270 1680 | +234 1 270 1689
www.afrinvest.com

ANALYST'S CERTIFICATION AND DISCLAIMER

ANALYSTS' CERTIFICATION

The research analysts responsible for this report hereby certify that: 1) all of the views expressed in this report reflect our personal views about the subject industry, the subject company or companies and its or their securities referred to in this report, 2) we also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendations, views or opinions expressed in this report, and 3)no part of our compensation is or will be tied to any specific investment banking transaction between the companies covered in this report and Afrinvest (West Africa) Limited.

Fair Value Estimate

Our approach to establishing fair value takes into account a weighted average of price estimates derived from a blend of valuation methodologies including the Net Asset Valuation ("NAV"), Discounted Cash Flow ("DCF") and its variants as well as other relative/comparable trading multiples valuation models. However, we attach the most weight to EV/EBITDA valuation methodology, P/E Valuation Model, Free Cash Flow (FCF) model and Residual Income Valuation/Model ("RIV/RIM"). The utilization of comparable trading multiples is guided by the analysts' understanding of the company's fundamentals, as well as key price drivers from the firm, industry and macroeconomic perspectives.

Company-Specific Disclosures

The following disclosures relate to relationships between Afrinvest (West Africa) Limited or its analyst(s) with companies covered in this report.

COMPANY	SECURITY	DISCLOSURES
Nigerian Breweries Plc	NB	-
Guinness Nigeria Plc	GUINNESS	-
International Breweries Plc	INTBREW	-

KEYS TO DISCLOSURES	
a.	One of the analysts on the coverage team (or an immediate relative) has personal material interest in the security or issuer (at least 1% of outstanding shares)
b.	One of the analysts on the coverage team (or an immediate relative) is a board member or officer of the issuer
c.	Afrinvest has a significant interest in the security or issuer
d.	Afrinvest has received compensation for investment banking or financial advisory services from the issuer within the last 12 months
e.	Afrinvest Investment Banking was a major or co-lead in the primary listing of the company's shares
f.	Afrinvest has co-managed or managed a public or private offering for this security, for which it received fee
g.	Afrinvest Investment Banking has a pending remuneration with the company or anticipates future remuneration from the company
h.	The content of this report was disclosed to parties in the company which thereafter caused a change in information about the company
i.	The issuer is, or during the past 12 months has been, a client of Afrinvest (West Africa) Limited or its subsidiaries
j.	Remuneration will be given to the analyst (s) responsible for the production of this report by the company analysed
k.	The issuer owns a stake in Afrinvest

Investment Ratings

BUY: The expected total return over the next 12 months is 25.0% or more. Investors are advised to take positions at the prevailing market price as at the report date.

ACCUMULATE: The expected total return over the next 12 months ranges between 10.0% and 25.0% or the upside potential is above industry average. However, cautious portfolio positioning is advised.

HOLD: Over the next 12 months, investors are advised to remain neutral as the expected total returns may not exceed 10.0% based on the prevailing market price as at the report date.

REDUCE: The expected total return of the stock ranges from nil to negative. Aggressive exit or entry may not be appropriate as the stock might fluctuate into a 10.0% decline over a 12-month horizon. Thus, the slim upside potential does not adequately compensate for the inherent risk.

SELL: The stock trades at a premium to its intrinsic value and is thus expected to lose up to 10.0% or more of its market value. Immediate exit is therefore advised at the prevailing market price as at the report date.

Target Prices: Target prices disclosed in this report are partly based on analysts' estimate of the company earnings. However, prices of securities could fluctuate if earnings miss estimate or due to general market, industry or macroeconomic risk factors.

For more details on company specific valuation methodologies, upside/downside risks to current valuation, contact the primary analyst or email research@afrinvest.com

Ratings Summary

	BUY	ACCUMULATE	HOLD	REDUCE	SELL	Total
Universe	1	0	1	0	0	2
% distribution	50.0%	0.0%	50.0%	0.0%	0.0%	100.0%

Disclaimer

This report has been issued and approved by Afrinvest Securities Limited ("Afrinvest"). This report is based on information from various sources that we believe are reliable; however, no, representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction. Any investment discussed may not be suitable for all investors. This report is provided solely for the information of clients of Afrinvest who are expected to make their own investment decisions. Afrinvest conducts designated investment business with market counter parties and intermediate customers and this document is directed only at such persons. Other persons should not rely on this document. Afrinvest accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only. This report may not be reproduced distributed or published by any recipient for any purpose without prior express consent of Afrinvest. Investments can fluctuate in price and value and the investor might get back less than was originally invested. Past performance is not necessarily a guide to future performance. It may be difficult for the investor to realize an investment. Afrinvest and/or a connected company may have a position in any of the instruments mentioned in this document. Afrinvest and/or a connected company may or may not have in the future a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Afrinvest is a member of The Nigerian Stock Exchange and is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.

For further information, please contact:

Afrinvest Securities Limited (ASL)

27 Gerrard Road

Ikoyi, Lagos

Nigeria

Tel: +234 1270 1680

Fax: +234 1 270 1689