

## Guinness Nigeria Plc: Interim Results – Q3, March, 2011



June 23, 2011

REDUCE

Fair Value: N186.14

Current Price: N245.00

### Valuation/Analyst Recommendation

In arriving at a fair value, we used two valuation methods which are Discounted Future Earnings (DFE) and Discounted Free Cash Flow (DCF). Our forecast period is between 2011 and 2015. We estimate Turnover of N124.36bn, N139.55bn, N155.19bn, N170.71bn and N187.78bn respectively. We estimate EBIT of N27.36bn, N30.70bn, N33.37bn, N35.85bn and N37.56bn, and EBITDA of N32.15bn, N35.69bn, N38.51bn, N41.16bn and N43.02bn for the same period. Looking at our estimate of the capital expenditure of the company within the forecast period and the notional tax on EBIT and adjusting for the net working capital, we arrived at Free Cash Flow (FCF) of N17.00bn, N22.14bn, N24.32bn, N26.18bn and N27.25bn. We forecast PAT of N17.85bn, N20.02bn, N21.73bn, N23.47bn and N24.97bn. Using a dividend payout of 80% for the period, we arrived at Dividend Payment of N14.28bn, N16.02bn, N17.38bn, N18.78bn and N19.98bn which translates to Dividend Per Share (DPS) of N9.68, N10.86, N11.78, N12.73 and N13.55 respectively. We applied a terminal growth rate of 7.86%. We used a beta value of 0.46; risk free rate of 11.30% and a risk premium of 8%. Applying the foregoing parameters, we arrive at a Cost of Equity (Ke) of 14.96%, which is our discount rate. Using 1.47bn shares in issue, the DCF Model generates N192.96 per share and the DFE Model generates N177.81 per share. Applying a weight of 55% to the DCF and 45% to the DFE, we arrive at a value of N186.14 per share, which is our fair value. The 2011 forward earnings yield based on our fair value generate 6.19%, while the 2011 forward Dividend Yield based on N9.68 Dividend Per Share at our fair value generates 5.20%. The 2011 forward earnings yield at the current market price is 4.94%, while the dividend yield at the current price is 3.95%. These yield levels are considered low in view of the current market situation. We therefore place a REDUCE rating on the shares of Guinness Nigeria Plc at the current market price.

### Business Description

Guinness is involved in brewing, packaging and marketing of Alcoholic and Non-Alcoholic Drinks

Ticker	Guinness
Sector	Breweries
Date of Incorporation	April 29, 1950
Date of Listing	November 1965
Year End	June
No of Ordinary Shares	1,474,925,519
Capitalisation (N)	361,356,752,155
% of Market Capitalisation	4.54
52-Week High (N)	255.00
52-Week Low(N)	158.51
YTD Return (%)	28.57
52-Week Avg. Trade	100,843,795
Beta Value	0.46
Current EPS (N)	9.42
Current PE(x)	26.01

### Sustaining Brand:

The unaudited Q3, 2011 result of Guinness Nigeria Plc (Guinness) for the period ended March 31, 2011 shows that its Turnover (TO) increased by 11.45% to N89.80bn, compared with N80.57bn in the corresponding period of 2010. The increase in TO was as a result of the company's investment in its brands and production capacity. This led to its increased marketing drive both nationally and regionally through increased distribution of all its brands to meet increasing demand. The cost cutting strategies of Guinness are working well resulting in good profitability. Profit before Tax (PBT) increased by 27.69% between Q3 2010 and Q3 2011 to N17.56bn from N13.75bn. The tax provision increased by 19.47% between 2010 and 2011 to N5.62bn from N4.70bn and resulted in the Profit after Tax (PAT) of N11.94bn, up from N9.05bn in 2010, representing an increase of 31.97%.

The PBT Margin in Q3, 2011 increased over the Q3, 2010, and over the Financial Year (FY) 2010 figure. The PBT margin increased to 19.56% in Q3, 2011 from 17.07% in Q3, 2010, and from 18.28% in June, 2010. This shows that the company's total costs as a percentage of TO stands at 80.44%, down from 82.93% recorded in the corresponding period of 2010. PAT margin currently stands at 13.30%, up from 11.23% and 12.56% in corresponding period of 2010 and FY June 2010 respectively. The result also indicated that the percentage of TO, PBT, and PAT in the Q3, 2011 to the Audited TO, PBT and PAT for the period ended June, 2010 are: 82.11%, 87.86% and 86.94%, respectively. This indicates that the current year's performance should be better than the previous year's.

A cursory look at the balance sheet position as at Q3, 2011 compared with the position as at FY, 2010 shows that the company's fixed assets recorded an increase. This is due to investment in capital asset to boost both its brewing and packaging capacity across its various plants. Fixed assets increased by 11.26% to N44.578bn from N40.06bn in FY, 2010. Cash and bank balances decreased from N12.70bn in FY, 2010, to record N3.62bn in Q3, 2011. The drop in the cash & bank balances was as a result of project finance and payment of dividend of N12.2bn. Working capital reduced by 12.83% from N28.97bn in FY, 2010 to N25.26bn in Q3 2011. Stocks increased by 16.23% to N18.77bn from N16.15bn during the review period. The trade debtors increased by 105.04% to N13.71bn from N6.69bn, while trade creditors increased by 93.88% to N13.47bn in Q3, 2010 from N6.95bn as at FY, 2010.

Our analysis of the operating environment shows that the demand for brewery products remain strong in spite of economic downturn and decline in consumer purchasing power. The beverage industry operators launched and re-launched both old and new brands in the market, leading to increased competition in the industry, even as consumption volume, especially in the beer segment increased significantly. However, the industry is bewildered with high production cost, because of rising energy, power and packaging costs, thus putting pressure on profit margin. In addition, the industry is highly vulnerable to consumer income and spending, infrastructure deficits and exchange rate volatility. A strong contender to consumer's disposable income in Nigeria is telecommunication products and services. This has reduced the income allocated to brewing products. In order to capture a good proportion of the remaining income, brewing firms embarked on all forms adverts, designed at young people with strong purchasing power. In addition, producers are incapacitated to increase product prices thereby reducing profit margin. Opportunities in the operating environment include: large market; commitments of the federal government to improve the state of infrastructure in the country; Central Bank of Nigeria's (CBN) lending supports for manufacturing firms and availability of raw materials locally. The leading threats are: poor infrastructure (relevant transportation and electricity); current financial crisis leading to unwillingness of banks to lend credit to the real sector, while the available credit commands high interest rates; availability of sub-standard imported products and weak purchasing powers of customers. These factors have limited the growth of the manufacturing sector in the country, despite the huge market potentials within and in the neighboring countries.

The capital employed by Guinness as at June 30, 2010 was such that equity and long term liabilities accounted for 71.62% and 28.38% of the capital employed respectively. Its total Assets stood at N78.40bn, while total liabilities stood at N44.20bn. The short term liabilities stood at N30.65bn, accounting for 69.34% of the total liabilities while the long-term liabilities stood at N13.55bn accounting for 30.66% of the total liabilities. It had no long term debt as at June 30, 2010. The company's product line include: Guinness Foreign Extra Stout, Guinness Extra Smooth, Harp Lager, Satzenbrau, Gordon's Spark, Smirnoff Ice, Top Malt, Armstrong Dark Ale and Malta Guinness. Guinness Stout, Harp Lager and Malta Guinness command strong demand in the market. Looking at the shareholding structure as at June 30, 2010, Guinness Overseas Limited held 46.03%, Atalantaf Limited held 7.77%, the balance of 46.20% of the shares were held by other shareholders.

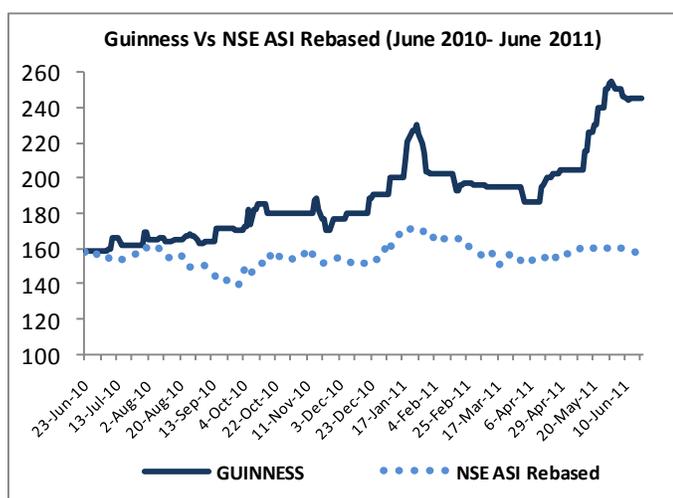
## Comparable Analysis (Nmn)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Guinness**	109,367	19,989	13,736	12.56	40.17	9.42	26.01
Nig. Breweries***	185,863	44,880	30,332	16.32	60.46	4.44	20.26

Source: Company Annual Reports. \*Current. \*\*June 2010, \*\*\*Dec.2010

## Financial Performance (Nmn)

	Q3 2011	Q3 2010	%Δ	FY 2010	FY 2009	% Δ	FY 2011F
Turnover	89,801	80,576	11.45	109,367	89,148	22.68	124,361
PBT	17,562	13,754	27.69	19,989	18,240	9.59	26,244
PAT	11,942	9,049	31.97	13,736	11,790	7.40	17,845
PBT Margin (%)	19.56	17.07	2.49	18.28	20.46	(2.18)	21.10
PAT Margin (%)	13.30	11.23	2.07	12.56	14.35	(1.79)	14.35



## Directors as at August 02, 2010

Name	Position	Holding
Babatunde A. Savage	Chairman	601,263
Nick Blazquez	Vice Chairman	Nil
Delvin Hainsworth	Managing Director/CEO	Nil
Francis Agbonlahor	Executive Director	7,665
J.O. Irukwu	Non-Executive Director	607,866
Bitrus E. Gwadah	Non-Executive Director	2,082
Bismarck Rewane	Non-Executive Director	16,944
Timothy A. Olagunju	Non-Executive Director	Nil
Kenneth Allan	Non-Executive Director	Nil
Ifeoma Mafeni	Non-Executive Director	601,263
R.C Plumridge	Non-Executive Director	Nil
J.C A. Anderson	Non-Executive Director	3,765

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