

GUINNESS Nig. Plc - Current Market Price: N137.27

We rate the counter **SELL**

Guinness Nig. Plc (“Guinness” or “the company”) first quarter 2015/16 result showed a marginal growth of 3.30% y/y in sales; profit after tax for Q1, 2015/16 slumped 75.60% y/y due primarily to higher input costs.

Guinness Nigeria Plc is one of the top 3 producers of alcoholic and non-alcoholic beverages covering a wide range of consumer segments. The company has a large and growing customer base with majority concentrated around the south western region of the country. Its principal activities include brewing, packaging, marketing and selling of Guinness foreign extra stout, Guinness extra smooth, Malta Guinness, Malta Guinness low sugar, Harp lager, Smirnoff ice, Satzenbrau Pilsner Lager, Dubic Lager, Dubic Ale, SNAPP, Orijin, Orijin spirit mixed drink, Masters choice and Top Malt.

In Q1, 2015/16 the company reported a revenue growth of 3.30% y/y to N21.74billion, up from N21.04billion in the same period last year though lower by 35.57 percent when compared to the previous quarter.

The slowdown in revenue growth can be attributed to the tough operating environment facing most manufacturing companies which include declining consumer disposable income, the challenge of growing sales revenue in the north east due to insurgency and rising competition in the brewery industry.

Orijin, the key sales driver which is priced at upper mainstream segment is facing major competition from Nigeria Breweries’ Ace Roots which is priced at a discount to Orijin.

Income Statement

	FY'14/15	FY'13/14	Change
Gross Margin (%)	47.17	47.01	0.16
Net Margin (%)	6.58	8.77	(2.19)
EPS (N)	5.18	6.36	(18.55%)

Source: NSE, Planet Capital Research

Balance Sheet

	FY'14/15	FY'13/14	Change
Equity Multiplier(x)	2.53	2.94	(16.12%)
Asset Turnover(x)	0.97	0.83	14.86%
P/S (x)	1.74	2.76	(36.95%)
P/E (x)	26.52	31.45	(15.67%)
P/B (x)	4.28	6.68	(56.07%)
PEG	(1.35)	(1.63)	(20.66%)
ROAE (%)	32.25	20.50	11.75
ROAA (%)	12.75	7.52	5.23
Div Yield (%)	2.33	1.60	0.73

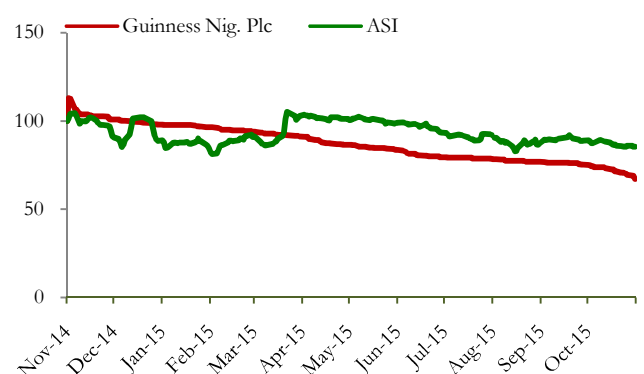
Source: NSE, Planet Capital Research

Stock Data

Ticker Symbol	GUINNESS
Full year end	JUNE
52-week range	110.01 - 185.00
Price Mov't YtD	14.80%
Average daily vol./val (Mn)	0.500/N74.27
Outstanding Share (Mn)	1.505
Market Cap.(N'm)	206,713.27
EPS (kobo)	518
DPS(kobo)	320

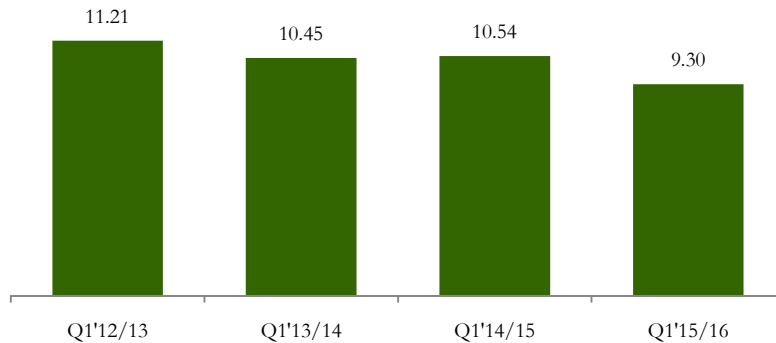
Source: Bloomberg, Planet Capital Research

Share Price 52-week Movement (ASI vs. Guinness)



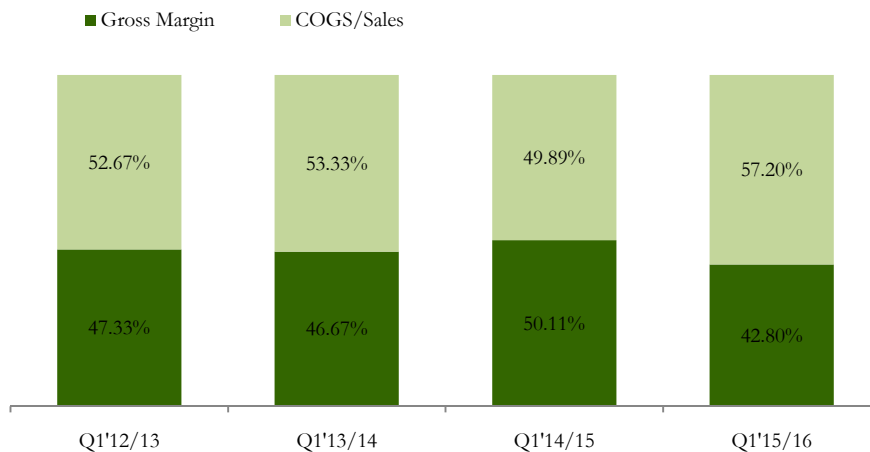
- Gross profit declined 11.79% y/y to N9.30billion following an 18.45% y/y growth in cost of sales to N12.43billion. Hence, gross margin came in at 42.80%, 7.32% lower than the prior year while COGS/Sales ratio grew to 57.20% from 49.89% in Q1, 2014/15.

Fig 1: Gross Profit (N'billion)



Source: NSE, Planet Capital Research

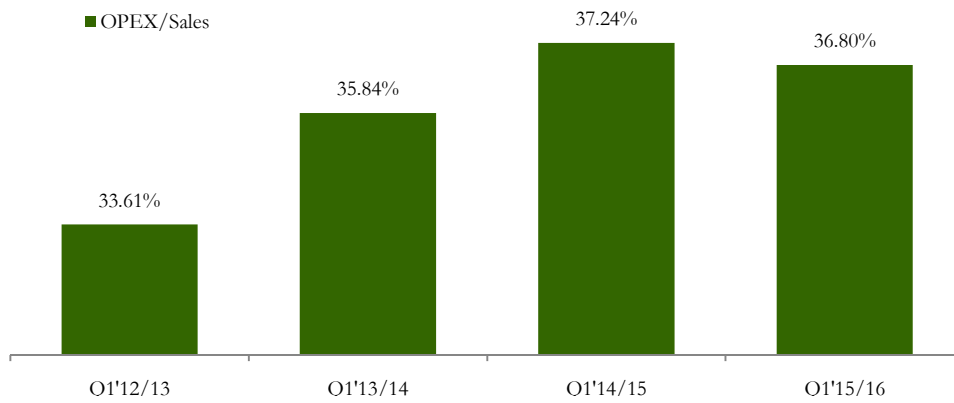
Fig 2: Gross Margin & COGS/Sales



Source: NSE, Planet Capital Research

- Operating expense continues to rise, up 2.09% y/y to N8.00billion though 28.89% down q/q from N11.25billion in Q4, 2014/15 with OPEX to Sales ratio at 36.80% from 37.24% in Q1, 2014/15. While specific details of opex were not stated, we attribute the uptick partly to higher administrative expenses due to the ongoing route-to-consumer project; more sales people, more vehicles.

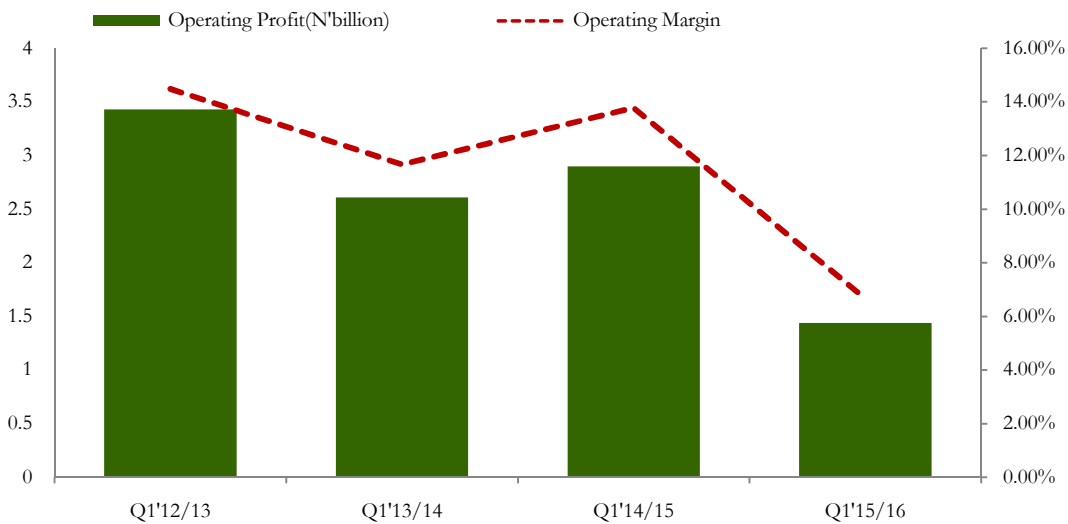
Fig 3: OPEX/Sales



Source: NSE, Planet Capital Research

- Income realised from the company’s non-core business activities (other income) decreased 25.30%/y/y to N144.24million within the review period and 11.19% q/q from N162.41million in Q1, 2014/15.
- Total operating profit for Guinness Nig. Plc came in at N1.45billion, down 50.14% from N2.90billion for the corresponding period of 2014, depressing operating margin to 6.66% from 13.79% in Q1, 2014/15.

Fig 4: Operating Profit (N’billion) & Operating Margin

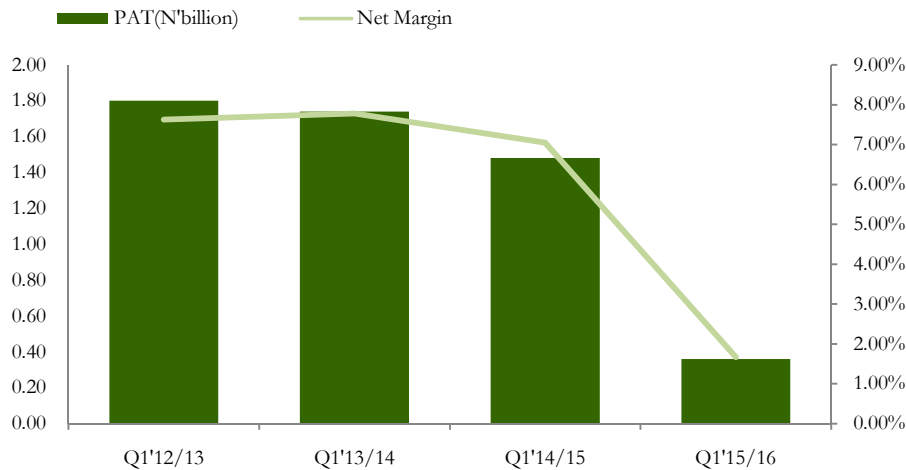


Source: NSE, Planet Capital Research

PAT on a downward spiral.....

- Finance cost was marginally down 1.16% y/y to N929.81million from N940.72million, while interest coverage ratio dropped to 1.56x from 3.09x in Q1, 2014/15.
- The group's after tax profit slumped 75.60% y/y to N362.29million from N1.48billion pressured by a spike in production & material costs. As a result, net margin dipped to 1.67% from 7.05% in Q1, 2014/15. QoQ, PAT was down 85.95% from N2.57billion in the previous quarter.

Fig 5: PAT (N'billion) & Net Margin



Source: NSE, Planet Capital Research

ANALYSIS OF FY 2014/15 RESULTS

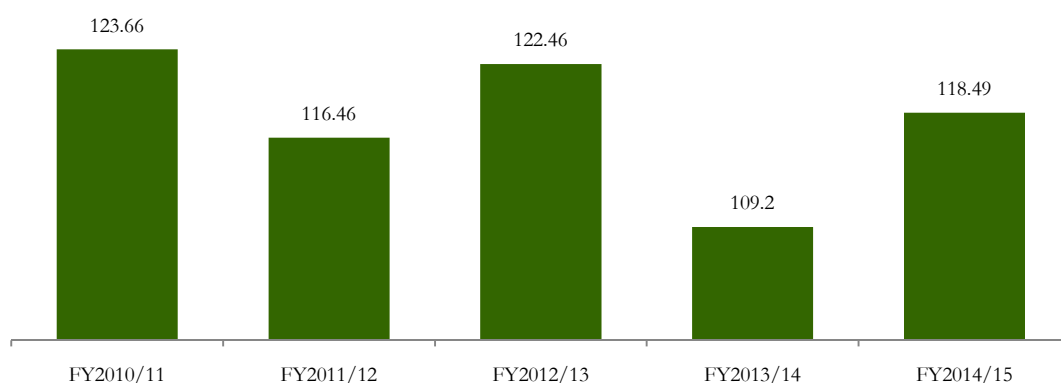
- Guinness Nig Plc's full year 2014/15 result reported an 8.51% y/y increase in revenue to N118.49billion with 4-year revenue CAGR of 0.58% (2012-2015). Full year after tax profit came in at N7.79billion, an 18.58% y/y decline. The drop in the company's bottom line can be attributed to a rise in operating expense and finance cost. Earnings per share therefore declined to N5.18 from N6.36 in FY2013/14.
- The beer and malt market experienced a slight growth during the financial year; beer market grew 3.7% largely driven by the ready-to-drink category and the continued growth of value lager brands. Growth in the value segment is an indication of the shift in consumer spending patterns in light of the current economic condition of the country and corresponding squeeze on disposable income.

- Sales volume growth was driven by Orijin and Satzenbrau, supported by consistent marketing investments in other brands; Guinness made of Black campaign, Malta Guinness Game on Campaign and up weighted media investment for orijin. A new brand Smirnoff Ice Double Black with Guarana was launched during the financial year.
- The marketing strategy impacted positively on the company's top line and comes as a relief given the tough operating environment during the period and having seen a marked decline in revenue by 10.83% to N 109.20billion in FY2013/14 from N122.46billion in the prior year.

	FY2013/14	FY2014/15	(%)
Revenue(N'mn)	109,202.12	118,495.88	8.51
Operating Profit(N'mn)	16,123.37	15,666.37	(2.83)
PAT(N'mn)	9,573.48	7,794.89	(19.30)

- Management's strategy going forward is to focus on strengthening and accelerating premium core brands, innovate at scale to meet new consumer needs, and constantly extend their advantage in the route to consumers strategy. Nigeria is the company's primary geographical segment accounting for 98.07% of total revenue while export sales account for a minimal 1.92%.

Fig 6: Revenue (N'billion)

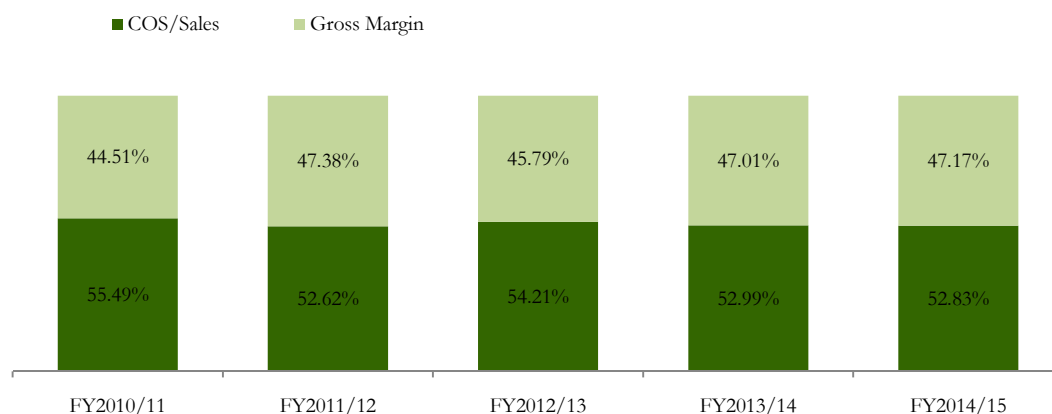


Source: NSE, Planet Capital Research

- Cost of Goods increased 8.18% y/y to N62.60billion from N57.86billion for FY2014/15, while COGS to Sales ratio moderated to 52.83% from 52.99% in the prior year. Hence, gross profit margin improved slightly to 47.17% from 47.01%, and gross profit grew by 8.88% y/y to N55.89billion from N51.33billion in FY2013/14.

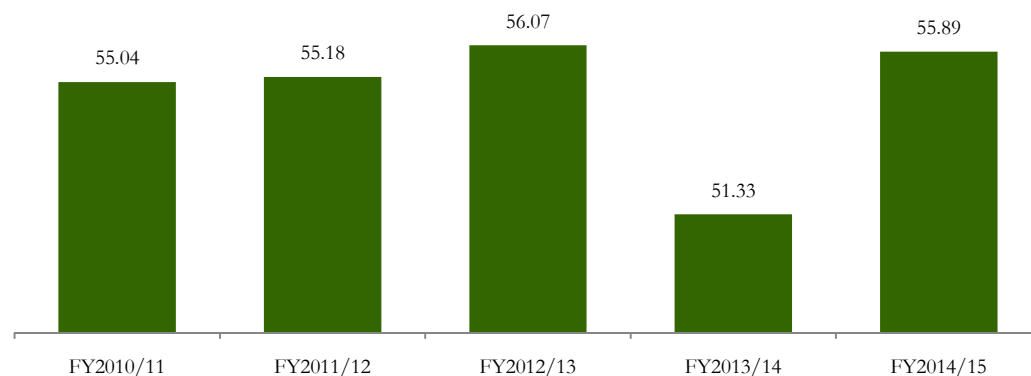
- Guinness Nig. Plc reported higher input costs during the period due to naira depreciation as the company relies on imported raw materials for business. The company benefited in the second half-year from its levels of stock which were bought before the devaluation of Naira and increased locally sourced inputs which grew from 27% in FY13/14 to 43% in FY2014/15.

Fig 7: COS/Sales, Gross Margin



Source: NSE, Planet Capital Research

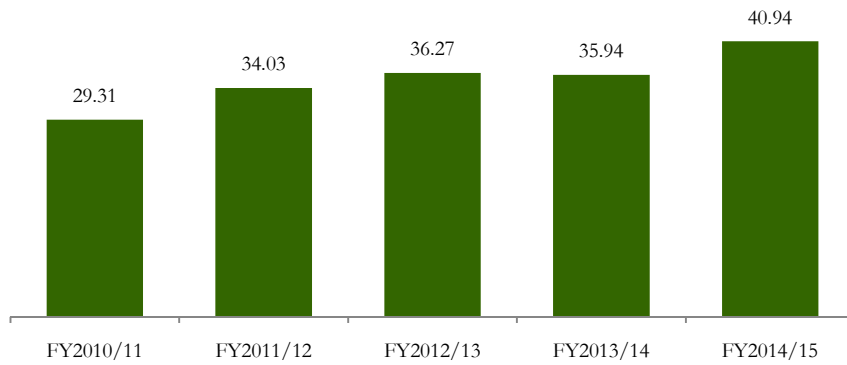
Fig 8: Gross Profit (N'billion)



Source: NSE, Planet Capital Research

- In FY 2014/15, the company posted total operating expense of N40.94billion, up 13.92% y/y compared with N35.94billion in the previous financial year. Marketing & Distribution expenses increased 4.56% y/y to N27.11billion while administrative expense surged 38.16% y/y to N13.83billion due to investment in the route-to-consumer project (more sales people, more vehicles) and increased investment in senior management.

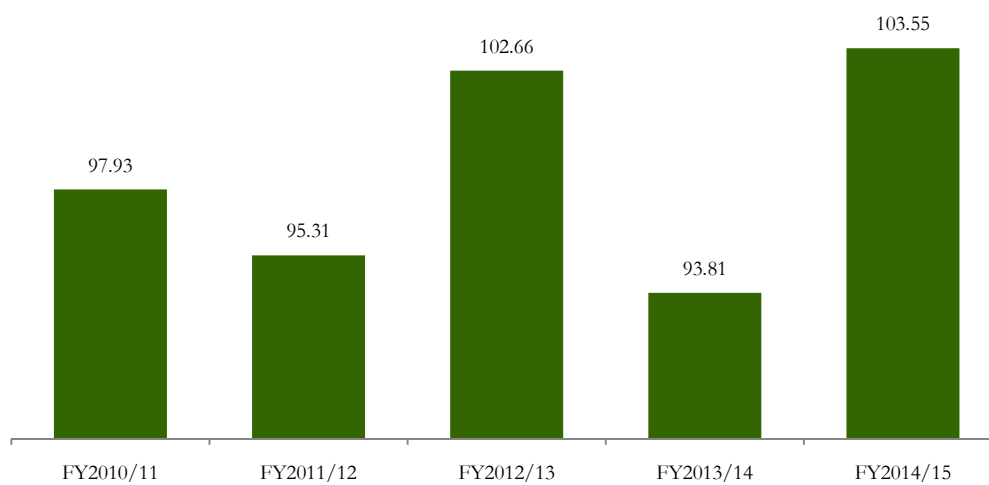
Fig 9: Operating Expense (N'billion)



Source: NSE, Planet Capital Research

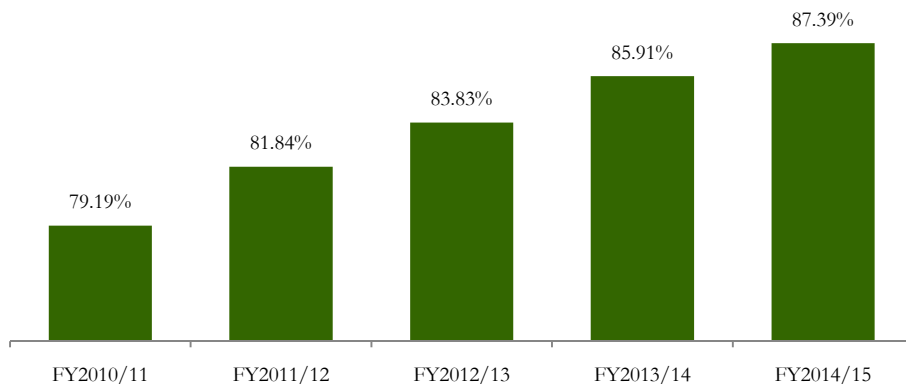
- Total costs increased by 10.38% y/y to N103.55billion from N93.81billion in FY2013/14. Consequently, total cost /sales ratio stood at 87.39% in FY 2014/15 up from 85.91% in FY2013/14. This implies that 87.39% and 12.61% of sales revenue translates to cost and profitability respectively.

Fig 10: Total Cost (N'billion)



Source: NSE, Planet Capital Research

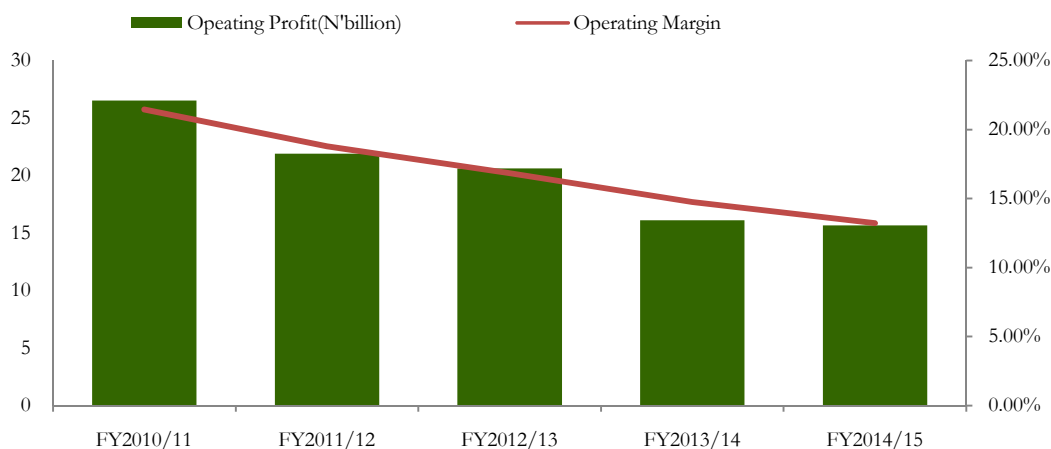
Fig 11: Total Cost/Sales



Source: NSE, Planet Capital Research

- Operating profit declined 2.83% y/y to N15.66billion in FY2014/15 from N16.12billion in FY2013/14, decreasing operating margin to 13.22% from 14.76% in FY2013/14. Other Income decreased by 1.60% y/y to N722.58 million from N734.34 million in the prior year.

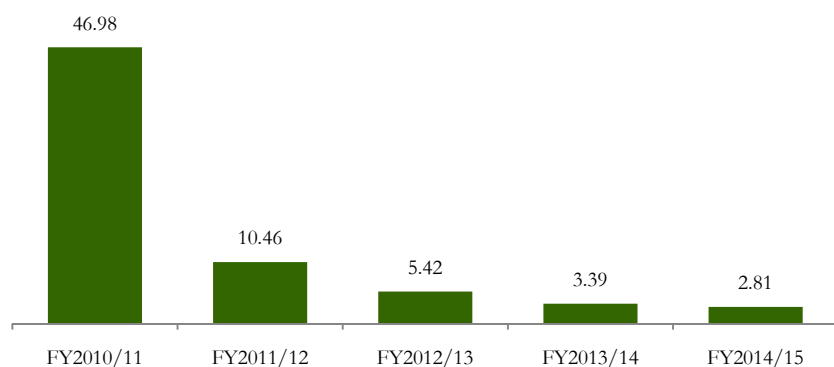
Fig 12: Operating Profit & Operating Margin



Source: NSE, Planet Capital Research

- Net finance costs grew 9.69% y/y to N4.87billion largely underpinned by a 17.14% y/y increase in finance charge to N5.57billion from N4.76billion in FY2013/14 with a decline in interest coverage ratio to 2.81x from 3.39x in FY2013/14.
- Management attributed the uptick in finance cost to borrowing cost of N500million that was capitalised as part of fixed asset for the brewery expansion in 2013/14, which was expensed in the income statement this year (2014/15).

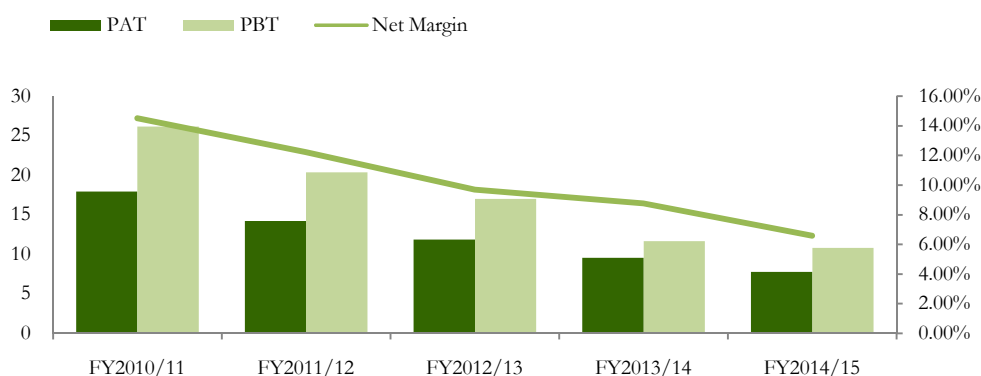
Fig 13: Interest Coverage



Source: NSE, Planet Capital Research

- Profit before tax declined 7.59% y/y to N10.79billion from N11.68billion reported in FY2013/14 while profit after tax decreased 18.58% to N7.79billion from N9.57billion in the prior year. Hence, net margins reported a decline of 2.19% y/y to 6.58% from 8.77% in FY2013/14.

Fig 14: PAT, PBT & Margin



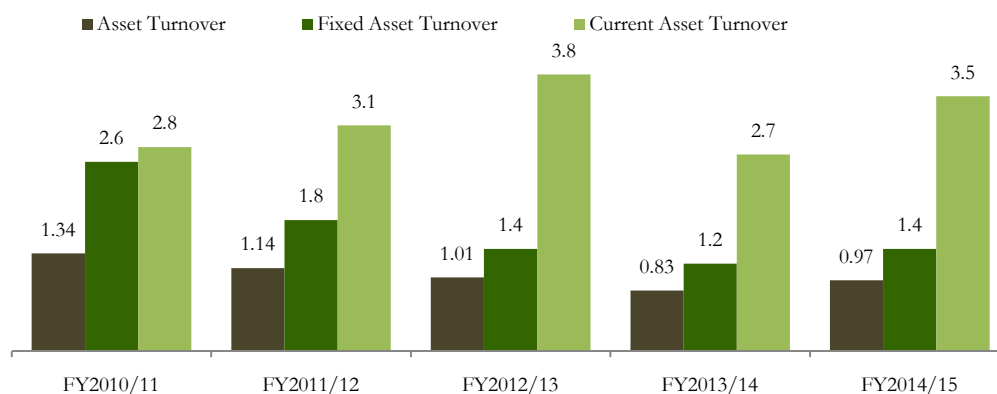
Source: NSE, Planet Capital Research

Balance Sheet Analysis

- Guinness Nig. Plc’s statement of full year financial position as at June, 2015 showed a decline of 3.01% y/y in non-current assets to N88.73billion from N91.48billion in FY2013/14. Current asset also dipped 17.94% to N33.51billion from N40.84billion in the previous financial year. As a result, total assets decreased 7.62% y/y to N122.24billion from N132.32billion in FY2013/14.

- Fixed asset turnover grew to 1.35x from 1.20x in FY 2013/14; current asset turnover increased to 3.54x from 2.67x in FY2013/14. Overall total asset turnover rose to 0.97x from 0.83x in the prior period. Improving asset turnover implies that asset utilization is more efficient compared to the previous year.

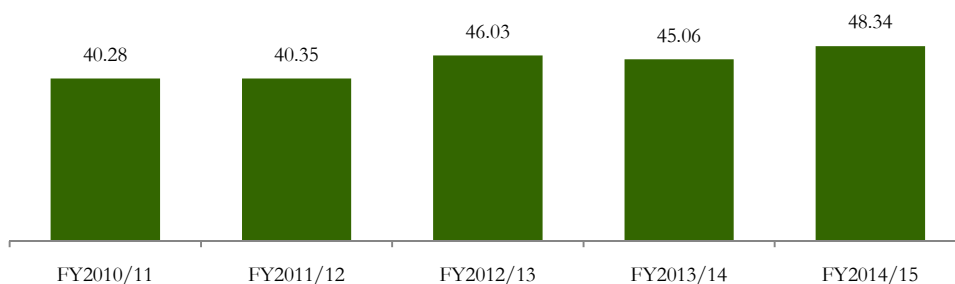
Fig 15: Asset Turnover, Fixed Asset Turnover, Current Asset Turnover



Source: NSE, Planet Capital Research

- Cash and cash equivalents declined 7.73% y/y to N5.80billion in FY 2014/15 from N6.29billion in FY2013/14. Trade receivables also came in lower by 19.56% y/y, while inventories declined 20.18% y/y to N10.75billion.
- Total liabilities reduced by 15.31% y/y to N73.90billion from N87.26billion in FY2013/14 of which non-current liabilities fell by 35.36% y/y to N27.80billion from N43.01billion in FY2013/14. Current liabilities on the other hand increased 4.19% y/y to N46.10billion from N44.24billion in the previous year resulting in a net asset growth of 7.28% y/y to N48.34billion from N45.06billion in FY2014/15.

Fig 16: Net Asset (N'billion)



Source: NSE, Planet Capital Research

- The company's total debt declined 41.32% y/y to N20.69billion from N35.25billion in FY2013/14 which was caused by a decline of 37.15% in loans and borrowings to N19.21 from N30.57billion in the previous year. Hence, debt to equity ratio decreased to 0.43x in FY2014/15 from 0.78x.
- During the year, Guinness opened a 180-day commercial paper financing line with a total financing value of N10 billion for working capital purpose at a nominal rate of 13.31% per annum. By the end of the year, the company had sold CP notes amounting to N1.27billion. Its recent entry into the commercial paper, led to a change in debt-mix, suggesting that Guinness is trying to reduce finance costs.

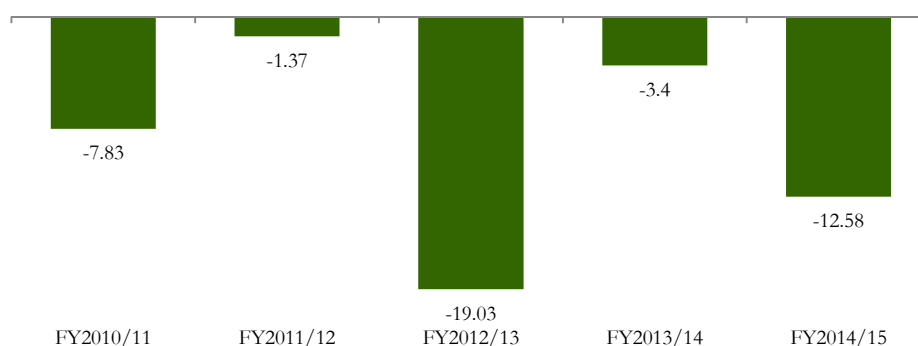
Fig 17: Debt to Equity Ratio



Source: NSE, Planet Capital Research

- Guinness Nig Plc has reported negative working capital for 5 consecutive financial years (2011-2015). Working capital declined further to a (N12.58billion) from (N3.40billion) in FY2013/14 putting its current ratio at 0.73x for FY2014/15 (vs. 0.92x in FY2013/14). While its quick ratio stood at 0.49x in FY2014/15 (vs. 0.62x in FY 2014/15). A negative working capital implies that operating activities are carried out via short term borrowed funds.

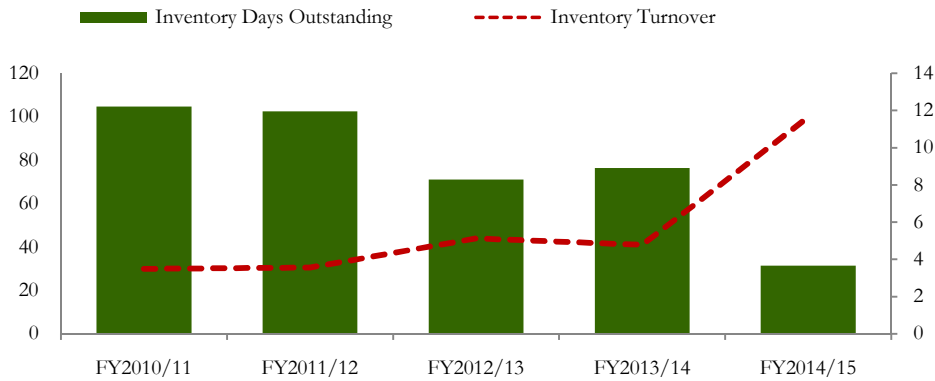
Fig 18: Working Capital (N'billion)



Source: NSE, Planet Capital Research

- Inventory turnover increased to 11.65x from 4.78x, indicating improved sales in FY 2014/15 compared to the prior year while days inventory outstanding declined to 31.34 days from 76.38days in FY 2013/14.

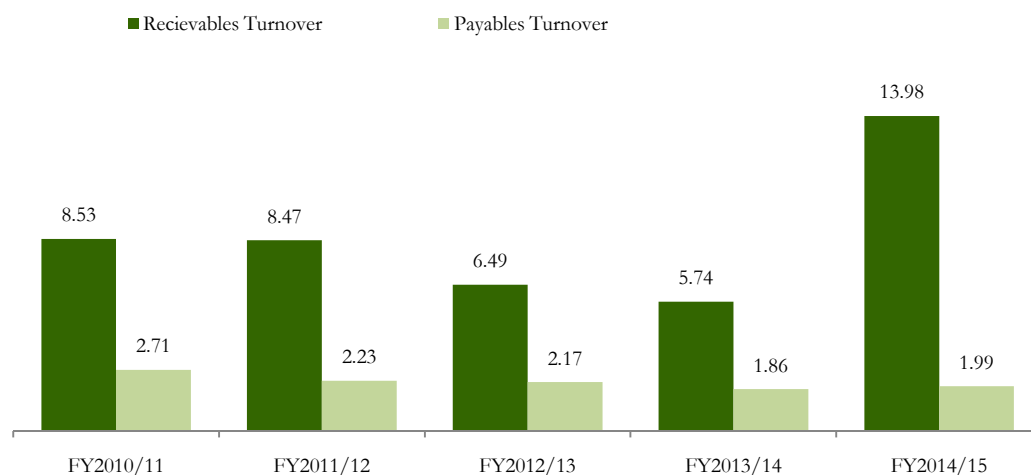
Fig 19: Inventory Turnover & Inventory Days Outstanding



Source: NSE, Planet Capital Research

- Receivables turnover ratio increased to 13.98x from 5.74x in FY 2013/14, implying that the company’s extension of credit and collection of account receivable improved in FY2014/15. Trade payables turnover grew to 1.99x from 1.86x in FY2013/14. Days receivables outstanding (DRO) declined to 26.12days from 63.57days in FY2013/14 and Days payable outstanding declined to 183.55days from 196.18days in previous financial year.

Fig 20: Receivables & Payables Turnover



Source: NSE, Planet Capital Research

VALUATION

- We employed a combination of absolute and relative valuation methodologies; for absolute valuation, we used the DDM and Free Cash Flow to Equity (FCFE) model and Price multiples for relative valuation. Gordon's sustainable growth rate was calculated to be 6.16% using ROE of 16.12% and earnings retention rate of 38% while adopting the Capital Asset Pricing Model (CAPM) to estimate cost of equity.

Cost of Equity	
$K_e = R_f + \beta (R_m - R_f)$	
R_f = Risk free rate	15.54%
R_m = Return on market	18.00%
$R_m - R_f$ = market risk premium	2.46%
β = Beta coefficient	1.12

- Our valuation puts the target price of Guinness Nig. Plc at N119.05. At the current market price of N137.27, the stock is trading at a 15.30% premium. We therefore place a **SELL** recommendation on Guinness Nig. Plc as cost pressures continue to erode earnings.
- We considered the following factors; Declining disposable income, market competition, the challenging operating environment in Nigeria and insecurity in the Northern part of the country.

OUTLOOK

- In the 52-week period to November 2015, the company's share price recorded a total return of (14.30%) relative to a (14.58%) return posted by the All Share Index. Year-to-date (YTD) returns however stand at (18.36%) against a return of (16.28%) posted by the broader market in the same period.
- The company is exposed to currency risk as major sales are made in naira and high proportion of input materials are purchased in foreign currency. Management aims to reduce the impact of short term fluctuations on earnings over the longer term, however, permanent changes in exchange rates would have an impact on profits.
- The parent company 'Diageo Plc' recently announced intention to increase its equity stake in Guinness Nig. Plc from 54.3% up to a maximum of 70% by way of a partial tender offer at a price not higher than N175 per share in cash, giving shareholders the opportunity to sell some or all of their shares in the company.

Profit & Loss (N³Mn)

	2012/13	2013/14	2014/15(A)	2015/16(E)	2016/17(F)
Revenue	122,463.53	109,202.12	118,495.88	123,472.70	135,597.47
Changes (%)	5.15	(10.83)	8.51	4.20	8.20
Cost of Sales	66,385.10	57,868.90	62,604.36	66,675.26	69,470.68
Changes (%)	8.33	(12.83)	8.18	6.50	4.19
Gross Profit	56,078.43	51,333.21	55,891.52	56,797.44	64,126.78
Changes (%)	1.62	(8.46)	8.88	1.62	12.90
Operating Expense	36,279.60	35,944.18	40,946.72	43,956.28	44,087.16
Changes (%)	6.59	(0.92)	13.92	7.35	0.30
EBIT	20,614.33	16,123.37	15,667.37	12,841.16	20,039.62
Changes (%)	(5.85)	(21.79)	(2.83)	(18.04)	56.06
Finance Cost	3,806.64	4,761.55	5,577.72	5,185.56	5,477.49
Changes (%)	(45.01)	(20.05)	17.14	4.26	(5.81)
PBT	17,008.87	11,681.56	10,795.10	7,836.85	15,495.07
Changes (%)	19.84	(31.32)	(7.59)	(27.40)	97.72
Tax	5,145.14	2,108.08	3,000.20	2,592.92	2,805.54
Changes (%)	(16.59)	(59.03)	42.32	(13.57)	8.20
PAT	11,863.72	9,573.48	7,794.89	5,243.92	12,689.52
Changes (%)	(16.54)	(19.30)	(18.58)	(32.73)	141.99
EPS (N)	7.88	6.36	5.18	3.48	8.43

Statement of Financial Position

	2012/13	2013/14	2014/15(A)	2015/16(E)	2016/17(F)
Assets (N³million)					
Cash and Cash equivalent	3,189.23	6,290.58	5,804.62	5,800.87	6,735.38
Inventories	12,400.10	13,469.24	10,750.59	11,449.66	11,929.70
Account Receivables	16,649.27	21,080.21	16,956.29	17,668.45	19,117.26
Total CA	32,238.61	40,840.04	33,511.51	34,918.99	37,782.35
Total NCA	51,275.09	44,248.47	46,100.34	92,461.99	100,043.87
Total Assets	121,060.62	132,328.37	122,246.63	127,380.99	137,826.23

Liabilities & Equity

	2012/13	2013/14	2014/15(A)	2015/16(E)	2016/17(F)
Account Payable	30,433.35	30,723.57	31,482.31	33,529.47	34,935.23
Borrowings	17,353.24	30,578.86	19,218.31	19,663.70	20,223.24
Total Current Liabilities	51,275.09	44,248.47	46,100.34	47,947.84	51,225.04
Total NCL	23,746.41	43,018.07	27,804.91	28,388.81	29,212,090
Total Equity	46,039.11	45,061.81	48,341.37	51,044.33	57,389.09
Total Lia. & Equity	121,060.62	132,328.37	122,246.63	127,380.99	137,826.23

Activity Ratios

	2012/13	2013/14	2014/15(A)	2015/16(E)	2016/17(F)
Inventory turnover (x)	3.86	4.47	5.17	6.01	5.94
Receivables turnover(x)	8.91	5.79	6.23	13.98	7.26
Payables turnover(x)	2.42	1.89	2.01	2.05	2.03
Days inventory outstanding	94.57	81.58	70.60	60.77	61.42
Days Sales Outstanding	40.98	63.05	58.58	26.12	50.25
Days Payables Outstanding	150.81	192.87	181.34	177.95	179.86

Leverage and Solvency Ratios

	2012/13	2013/14	2014/15(A)	2015/16(E)	2016/17(F)
Equity Multiplier(x)	2.63	2.94	2.53	2.50	2.40
Debt -to-equity	0.46	0.78	0.43	0.41	0.38
Total debt-to-assets(x)	0.17	0.27	0.17	0.166	0.157
Interest coverage (x)	5.42	3.39	2.81	2.21	3.66

Profitability Ratios

	2012/13	2013/14	2014/15(A)	2015/16(E)	2016/17(F)
Net Margin (%)	9.69	8.77	6.58	4.25	9.50
Gross Margin (%)	45.79	47.01	47.17	46.00	48.00
Operating Margin (%)	16.83	14.76	13.22	10.40	15.00

Analyst:**Fehintola Adesoyin**fadesoyin@planetcapitaltd.com

+2348096523907

Planet Capital Research

Office:

Planet Capital Limited
3rd floor, St. Peter's house
3, Ajele street, P.O. Box 360, Marina, Lagos-Nigeria.
Tel: 01 2702296; 2120643
Email: info@planetcapitaltd.com
Research: informationalservices@planetcapitaltd.com

Website: www.planetcapitaltd.com**Analyst Disclosure**

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