

ANALYSIS: NATIONAL BREWERIES PLC

MARCH 2018

i. Overview of Performance

The nine month period to 31 December 2017 was a turbulent year for National Breweries as the Company underwent a change of control. The transaction to purchase 70% of shares in the Company by Delta Corporation of Zimbabwe settled on the Lusaka Stock Exchange on 28th December 2017. It was one more significant milestone in a long history for the Company, which has seen a number of changes in ownership in both the public and private sectors. The business benefited from the economic stability resulting from the strengthening of fundamentals, however, it ended the year with a 25% volume decline against prior year mainly due to competitive pressure from illegal bulk operators and the continued proliferation of the cheap spirits (Junta and Tujilijili). Chibuku super continued to grow exponentially whilst Chibuku shake-shake volumes were reduced in order to optimize margins.

Despite all the challenges faced during the period, the business recorded an operating profit for the period which was 173% up on the prior 9 month's period. While the volume decline had a negative impact on operating profit an outstanding performance on the cost management front resulted in a net profit for the period.

The company also implemented new working capital policies for management and governance of debtors and creditors and through improved practices that have seen a great improvement in the management of working capital and cash flows leading to positive cash balances. Further, the business has been right-sized through cost cutting and implementing a leaner structure. Through its subsidiary Heinrich's Syndicate Limited, Anheuser-Busch InBev agreed to sell its 70% shareholding in National Breweries Plc to Chibuku Breweries Limited, a wholly owned subsidiary of Delta Corporation Limited. With effect from 28th December 2017 Delta Corporation Limited became the Company's ultimate parent.

Due to the challenges faced by the business over the past two years, the company has been unable to declare any dividends and this may be the case as they try to consolidate various segments including the dismantling of the debt financing used to upgrade the company infrastructure.

ii. Financial Highlights

Statement of Comprehensive Income

	2017 - 9 Months	2017	2016	2015	2014	2013	2012
Revenue	214,927	355,273	456,983	397,799	393,618	337,470	249,373
Cost of sales	(144,170)	(250,161)	(317,040)	(262,727)	(257,043)	(230,620)	(152,331)
Gross Profit	70,757	105,112	139,943	135,072	136,575	106,850	97,042
Other operating (expense)/income	(184)	2,860	(6,205)	(3,523)	3,216	(529)	771
Distribution costs	(38,384)	(64,312)	(67,845)	(53,587)	(34,162)	(23,579)	(13,836)
Administrative expenses	(11,376)	(72,332)	(39,510)	(34,898)	(32,579)	(30,144)	(28,783)
Operating profit	20,813	(28,672)	26,383	43,064	73,050	52,598	55,194
Finance income	1,720	5,059	27,872	825	734	262	
Finance Costs	(9,764)	(40,964)	(458)	(181)	(196)	(479)	(486)
Profit before income tax	12,769	(64,577)	53,797	43,708	73,588	52,381	54,708
Income tax expense	(3,703)	18,726	(15,601)	(16,024)	(27,165)	(19,924)	(19,451)
Profit for the year	9,066	(45,851)	38,196	27,684	46,423	32,457	35,257
Other comprehensive income:							
<i>Items that may be subsequently reclassified to profit or loss</i>							
Cash flow hedge		5,474	(5,766)	292	395		
Other comprehensive income for the year, net of tax	-	5,474	(5,766)	292	395	-	-
Total comprehensive income for the year	9,066	40,377		27,976	46,818	32,457	35,257
basic and diluted (Kwacha per share)	0.14	(0.73)	0.61	0.44	0.74	0.52	0.56

Statement of Financial Position

	2017 - 9 Months	2017	2016	2015	2014	2013	2012
Capital and reserves attributable to the Company's equity holders							
Share capital	630	630	630	630	630	63	63
Hedge reserve	-	-	(5,474)	292	395	-	-
Retained earnings	118,113	109,047	154,898	133,271	105,587	59,731	29,451
Total equity	118,743	109,677	150,054	134,193	106,612	59,794	29,514
Non-current liabilities							
Deffered income tax	17,443	13,948	29,796	17,495	16,886	11,111	6,654
Borrowings	90,000	-	-	-	-	-	-
Total equity and non-current liabilities	226,186	123,625	179,850	151,688	123,498	70,905	36,168
Non-current assets							
Property, plant and equipment	265,100	281,296	311,019	220,511	122,281	72,562	45,863
Intangible assets	-	84	666	1,278	1,891	1,448	-
	265,100	281,380	311,685	221,789	124,172	74,010	45,863
Current assets							
Inventories	8,702	38,573	56,857	39,166	43,960	31,336	15,117
Trade and other receivables	15,146	34,141	28,898	33,361	32,970	11,405	9,852
Derivative financial asset	-	-	-	449	608	-	-
Current income tax	4,905	5,113	5,183	-	-	4,798	-
Cash and cash equivalents	43,606	15,335	54,725	30,945	25,666	12,959	9,137
	72,359	93,162	145,663	103,921	103,204	60,498	34,106
Current liabilities							
Trade and other payables	63,083	46,005	94,051	53,225	60,931	60,035	36,642
Current income tax	-	-	8,422	6,135	6,761	-	2,135
Borrowings	48,190	204,912	175,025	114,662	36,186	3,568	4,704
Derivative financial liabilities	-	-	-	-	-	-	320
	111,273	250,917	277,498	174,022	103,878	63,603	43,801
Net current liabilities	(38,914)	(157,755)	(131,835)	(70,101)	(674)	(3,105)	(9,695)
	226,186	123,625	179,850	151,688	123,498	70,905	36,168

Statement of Cashflows

	2017 -						
	9 Months	2017	2016	2015	2014	2013	2012
Cash flows from operating activities							
Cash generated from operations	(61,611)	(13,562)	150,410	129,902	80,733	65,328	79,126
Interest received	583	16	557	809	3,100	429	372
Interest paid (arising on operating financing)	(9,764)	(18,243)	(458)	(181)	(196)	(479)	(230)
Income tax paid			(11,513)	(15,985)	(10,044)	(22,400)	(22,716)
Net cash generated from operating activities:	(70,792)	(31,789)	138,996	114,545	73,593	42,878	56,552
Cash flows from investing activities							
Purchase of property, plant and equipment	(3,195)	(9,484)	(107,970)	(112,340)	(62,786)	(38,739)	(17,818)
Proceeds from sale of property, plant and equipment	1,657	5,541	1,593	2,249	2,137	1,798	702
Purchase of intangible assets	-	-	-	-	(971)	(1,479)	-
Net cash used in investing activities	(1,538)	(3,943)	(106,377)	(110,091)	(61,620)	(38,420)	(17,116)
Cash flows from financing activities							
Proceeds from borrowings	100,000	-	-	-	-	-	-
Dividends paid to shareholders	-	-	(16,569)	-	-	(898)	(23,420)
Net cash generated from financing activities	100,000	-	(16,569)	-	-	(898)	(23,420)
Net increase in cash and cash equivalents							
	27,670	(35,732)	16,050	4,454	11,973	3,560	16,016
Movement in cash and cash equivalents							
At start of the year	15,335	54,725	30,945	25,666	12,959	9,137	(6,953)
increase in cash and cash equivalents	27,670	(35,732)	16,050	4,454	11,973	3,560	16,015
Exchange differences in cash and cash equivalents	601	(3,658)	7,730	825	734	262	75
At end of the year	43,606	15,335	54,725	30,945	25,666	12,959	9,137

Key Financial Highlights

Measure	2017 - 9 Months	2017	2016	2015	2014	2013	2012
Gross Profit Margin	33%	30%	31%	34%	35%	32%	39%
Net Profit Margin	4%	-13%	8%	7%	12%	10%	14%
Return on Assets	3%	-12%	8%	8%	20%	24%	44%
Return on Equity	8%	-42%	25%	21%	44%	54%	119%
EBIT Margin	10%	-8%	6%	11%	19%	16%	22%
Gearing (Debt/Capi)	61%	166%	97%	76%	29%	5%	13%

iii. Financial Analysis

National Breweries has shown a decrease in opaque beer sales due to increased competition in the market, exacerbated by the limited market as the opaque beer is only brewed at the main brewery in Lusaka. This has posed a challenge in distribution as opaque beer as the shelf life for Chibuku Shake Shake is 4 days while the shelf life for Chibuku Super is six weeks. This has limited the distribution of the product. However the company intends to reopen the breweries in other locations to increase the distribution of the product.

Furthermore, prior the demerger from the SAB Miller Group, borrowings was centralised and done by Zambian Breweries. The borrowings would then be offered to companies within the group. As such the face of the financials in the year end 2017 show a new borrowing of K100 million. Prior to the demerger, borrowings were classified as amounts due to related parties under trade and other payables. For the purposes of the analysis, the related party payables have been reclassified as long term borrowings. The company has therefore shown an improvement in gearing and hence we expect to see lower interest cost and increased bottom line performance

iv. Recommendation

Sales volumes has continued to decline with a 25% decrease in the 9 month to December for the year 2017 as compared to the full year to March 2017. However we expect to see increase sales volumes with reopening of other brewery plants. Moreover, the company has shown improvement in cost control with the decision to close breweries and stop unprofitable delivery routes. We therefore foresee continued cost control to boost the bottom line despite challenges in growth on the top line.

We therefore recommend a buy for the stock. Further analysis is presented in appendix I via a comparator analysis.

Appendix I-Comparable Sheet – National Breweries

COMPARABLE COMPANY ANALYSIS													S&P Capital IQ	
(In USD millions, except per share data)														
Ticker	Trading Data and Size	Stock Price 3/23/18	Current as % of 52-Week (%)		Shares Out.	Market Cap	Enterprise Value	Revenue		EBITDA		EPS		
			High	Low				LTM	CY+1	LTM	CY+1	LTM	CY+1	
TSX:BRB	Brick Brewing Co. Limited	3.45	93.7	161.8	35.3	121.7	128.6	0.0	40.8	6.8	6.9	0.06	0.07	
TSX:BR	Big Rock Brewery Inc.	3.87	60.8	104.2	7.0	27.0	32.0	0.0	0.0	1.4	0.0	(0.12)	0.00	
ASE:GENI	General Investment Co. Ltd.	3.91	89.4	100.0	10.0	39.1	34.3	0.0	0.0	3.2	0.0	0.25	0.00	
CSE:KEO	KEO plc	1.60	81.8	173.3	37.2	59.6	90.5	0.0	0.0	8.1	0.0	0.15	0.00	
GHSE:GGBL	Guinness Ghana Breweries Limited	0.58	100.0	182.1	307.6	177.8	195.8	0.0	144.0	22.0	0.0	0.01	0.01	
BSE:507514	Som Distilleries & Breweries Limited	3.58	77.9	201.8	27.5	98.5	105.9	0.0	72.7	5.7	9.8	0.08	0.16	
NMSE:NBS	Namibia Breweries Limited	3.80	99.9	135.0	206.5	784.0	794.7	0.0	0.0	57.4	0.0	0.12	0.00	
HNX:THB	Thanh Hoa Beer Joint Stock Company	0.81	92.0	119.4	11.4	9.3	6.4	0.0	0.0	1.4	0.0	0.03	0.00	
Max		3.91	100.0	201.8	307.6	784.0	794.7	0.0	144.0	57.4	9.8	0.25	0.16	
Median		3.51	90.7	148.4	31.4	79.0	98.2	0.0	0.0	6.3	0.0	0.07	0.00	
Min		0.58	60.8	100.0	7.0	9.3	6.4	0.0	0.0	1.4	0.0	(0.12)	0.00	
Mean		2.70	86.9	147.2	80.3	164.6	173.5	0.0	32.2	13.3	2.1	0.07	0.03	
LUSE:NATBR	National Breweries Plc	1.30	96.2	100.0	63.0	82.0	80.4	0.0	0.0	-0.6	0.0	(0.08)	0.00	

Ticker	Leverage and Trading Multiples	Total Debt/ LTM EBITDA	Net Debt/ LTM EBITDA	EBITDA/ Interest	(EBITDA-CE) /Interest	Total Debt/ Tot. Equity (%)	Total Debt/ Total Cap (%)	TEV/Revenue		TEV/EBITDA		P/E	
								LTM	CY+1	LTM	CY+1	LTM	CY+1
TSX:BRB	Brick Brewing Co. Limited	1.3x	1.0x	19.4x	NM	30.3	23.2	3.3x	3.3x	19.0x	19.5x	55.6x	52.4x
TSX:BR	Big Rock Brewery Inc.	3.6	3.5	5.3	0.2	17.4	14.8	0.9	0.0	23.3	0.0	NM	0.0
ASE:GENI	General Investment Co. Ltd.	0.0	NM	0.0	0.0	0.3	0.3	2.7	0.0	10.5	0.0	15.4	0.0
CSE:KEO	KEO plc	4.0	3.8	7.4	6.5	44.3	30.7	1.5	0.0	10.7	0.0	10.1	0.0
GHSE:GGBL	Guinness Ghana Breweries Limited	1.4	0.8	4.4	2.9	48.8	32.8	1.4	1.3	9.3	0.0	0.0	65.1
BSE:507514	Som Distilleries & Breweries Limited	1.1	0.6	5.2	5.2	37.5	27.2	2.1	0.0	13.6	0.0	30.2	0.0
NMSE:NBS	Namibia Breweries Limited	0.7	0.2	15.3	12.3	35.0	26.0	3.5	0.0	15.8	0.0	29.2	0.0
HNX:THB	Thanh Hoa Beer Joint Stock Company	0.0	NM	268.1	118.4	0.0	0.0	0.3	0.0	4.2	0.0	24.4	0.0
Max		4.0x	3.8x	268.1x	118.4x	48.8	32.8	3.5x	3.3x	23.3x	19.5x	55.6x	65.1x
Median		1.2	0.9	6.3	5.2	32.7	24.6	1.8	0.0	12.2	0.0	24.4	0.0
Min		0.0	0.2	0.0	0.0	0.0	0.0	0.3	0.0	4.2	0.0	0.0	0.0
Mean		1.5	1.7	40.7	20.8	26.7	19.4	2.0	0.6	13.3	2.4	23.5	14.7
LUSE:NATBR	National Breweries Plc	0.0x	NM	NM	NM	0.0	0.0	2.2x	0.0x	NM	0.0x	NM	0.0x

Ticker	Operating Statistics	3-Year Historical CAGR (%)			LTM Margins (%)		Liquidity Ratios		LTM Activity			LTM Profitability (%)	
		Revenue	EBITDA	EPS	EBITDA	Net Income	Quick	Current	DSO	DPO	DIO	ROE	ROIC
TSX:BRB	Brick Brewing Co. Limited	12.1	22.0	39.2	17.6	6.1	1.2x	1.8x	58.3	72.9	51.1	7.9	Formula Name)
TSX:BR	Big Rock Brewery Inc.	8.2	(12.8)	NM	3.8	(2.2)	0.4	1.5	9.3	36.4	66.8	(2.8)	Formula Name)
ASE:GENI	General Investment Co. Ltd.	(0.7)	(0.9)	(2.8)	25.7	20.2	1.7	2.9	48.4	74.8	190.6	7.1	Formula Name)
CSE:KEO	KEO plc	4.1	18.5	NM	14.3	9.0	0.5	0.9	119.6	103.7	177.7	5.8	Formula Name)
GHSE:GGBL	Guinness Ghana Breweries Limited	17.4	69.0	0.0	14.9	1.3	0.8	1.4	31.2	86.4	66.7	2.9	Formula Name)
BSE:507514	Som Distilleries & Breweries Limited	17.9	17.3	4.7	15.5	6.7	0.0	0.0	0.0	0.0	0.0	0.0	Formula Name)
NMSE:NBS	Namibia Breweries Limited	5.3	10.5	15.7	27.8	11.8	1.5	2.1	37.1	63.3	97.8	23.9	Formula Name)
HNX:THB	Thanh Hoa Beer Joint Stock Company	7.5	(18.5)	(38.3)	6.1	1.7	1.1	1.7	10.2	14.7	35.3	4.5	Formula Name)
Max		17.9	69.0	39.2	27.8	20.2	1.7x	2.9x	119.6	103.7	190.6	23.9	0.0
Median		7.8	13.9	2.4	15.2	6.4	1.0	1.6	34.2	68.1	66.8	5.2	#NUM!
Min		(0.7)	(18.5)	(38.3)	3.8	(2.2)	0.0	0.0	0.0	0.0	0.0	(2.8)	0.0
Mean		9.0	13.1	3.1	15.7	6.8	0.9	1.5	39.3	56.5	85.8	6.2	#DIV/0!
LUSE:NATBR	National Breweries Plc	(3.4)	NM	NM	(1.6)	(12.9)	0.2x	0.4x	27.2	350.4	69.6	(35.3)	(15.1)

Source: S&P Capital IQ

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Madison Asset Management Company Ltd
 Plot 316, Independence Avenue
 P.O Box 37013, Lusaka, Zambia
 Tel: +260 211 255 121/258 309 Fax: +260 211 253 417
 Website: www.madisonassets.co.zm

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Madison Asset Management Company Ltd
 Plot 316, Independence Avenue
 P.O Box 37013, Lusaka, Zambia
 Tel: +260 211 255 121/258 309 Fax: +260 211 253 417
 Website: www.madisonassets.co.zm