

## SSA brewers

### EABL and Guinness remain our top picks

East African Breweries (EABL) and Guinness Nigeria remain our top picks in the sector. EABL has been able to deliver strong growth in FY19, which we expect to continue as price increases offset the impact of higher beer excise in Kenya and as Kisumu's plant utilisation improves. Its regional markets in Uganda and Tanzania may see slower growth on capacity constraints in FY20, but management has said it has capacity expansion plans in the pipeline. We are also positive on Guinness as we view its forward valuation and implied EV/replacement cost too material to ignore although there are few near-term triggers for demand and overall margin expansion in Nigeria in 2H19.

#### Nigeria: Beer price increases a trigger, but not until FY20

Guinness is a top pick for us in Nigeria on materially discounted valuations, although our Nigerian Breweries (NB) TP is now 8.6% above the current price following a 40.6% decline YTD. In the near term, we still think that beer demand growth in Nigeria will be challenged due to the poor macroeconomic outlook. With International Breweries' (IB), NB's and Guinness's management indicating in their latest investor calls that the outlook for demand remains weak and the Nigerian consumer is resistant to price increases in the near term on unattractive consumer fundamentals (high inflation and lower real-wage rate levels in the past four years), near-term growth and margin triggers are few and far between. A 16.7% increase in the beer excise rate in June 2019 to NGN30.0/l further compounds already challenged gross and EBITDA margins, in our view. With limited economic growth triggers, stagnated wealth levels per capita and the protracted implementation of the new minimum wage, higher beer pricing in 2H19 is therefore the most feasible and important near-term trigger to margins, earnings and valuations, in our view. However, we do not see this increase taking place in 2H19 judging by the recent tone of the brewers and the lack of demand catalysts. It therefore implies that brewers should see EBITDA margins deteriorate marginally or flatten in 2H19. We only expect a slight margin deterioration as lower prices of key raw materials (sorghum, barley) should help brewers offset the impact of gross margin deterioration from the higher excise. From early FY20, we expect NB to attempt to raise prices to cover the excise effect and impact of domestic inflation.

#### East Africa: Both BUYs but EABL above TBL in the near term

EABL is our top pick in East Africa. The company is seeing strong to modest volume and net revenue growth across its geographies and while management has indicated that margin outlook in Uganda could be flat to lower than generated in FY19 as its focus shifts to boosting growth in mainstream (vs investing behind the premium brands (*Guinness* and *Serengeti Lite*) and affordable brands, we still expect Kenya's beer demand to be driven by strong economic growth and its spirits business to benefit from innovation brands in the mainstream segment. With management sounding confident of its ability to deliver EBITDA margin above 31.0% despite increased *Senator keg* sales, and capex normalising between KES6.0-7.0bn pa, we expect to see strong FCF generation, deleveraging and healthier dividend distribution. With the company also de-risking its balance sheet from the FX debt funding for the Kisumu plant into KES-denominated bank debt, the risk to earnings estimates from FX volatility is subdued, in our view. While Tanzania Breweries (TBL) could benefit from Serengeti Breweries Limited (SBL; EABL's Tanzanian subsidiary) running out of capacity in FY20, we remain cautious on TBL's near-term outlook as SBL will be adding capacity shortly and this could once again limit TBL's growth and margin expansion.

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Guinness Nigeria	
Bloomberg	GUINNESS NL
Target price, NGN	60.3
Current price, NGN	37.3
Upside potential, %	61.7
Rating	<b>BUY</b>

East African Breweries Ltd	
Bloomberg	EABL KN
Target price, KES	258.8
Current price, KES	197.8
Upside potential, %	30.9
Rating	<b>BUY</b>

Nigerian Breweries	
Bloomberg	NB NL
Target price, NGN	55.1
Current price, NGN	50.7
Upside potential, %	8.6
Rating	<b>SELL</b>

International Breweries	
Bloomberg	INTBREW NL
Target price, NGN	20.5
Current price, NGN	12.0
Upside potential, %	70.8
Rating	<b>HOLD</b>

Tanzania Breweries	
Bloomberg	TBL TZ
Target price, TZS	14,068.0
Current price, TZS	10,900.0
Upside potential, %	29.1
Rating	<b>BUY</b>

Prices in this report are as of 10 September 2019

Source: Bloomberg, Renaissance Capital estimates

Figure 1: Nigerian brewers: EV/replacement cost and cash return

	Guinness Nigeria	Nigerian Breweries	International Breweries
<b>Beer capacity (mn hl)</b>	<b>8.6</b>	<b>21.2</b>	<b>8.3</b>
Cost per mn hl (\$mn)	110	110	110
Exchange rate (NGN/\$)	360	360	360
Cost per mn hl, NGNm	39,600	39,600	39,600
<b>Beer replacement cost, NGNm</b>	<b>340,560</b>	<b>838,341</b>	<b>326,700</b>
	<b>Spirits</b>		
<b>Spirits capacity (million cases per annum)</b>	<b>1.2</b>		
Total cost at construction, GBPM	12		
Exchange rate (NGN/GBP)	448.7		
Spirits plant replacement cost, NGNm	5,385		
<b>Total replacement, NGNm (spirits plus beer)</b>	<b>345,945</b>	<b>838,341</b>	<b>326,700</b>
Shares in issue	2,190	7,997	8,596
Share price	37.3	50.8	12.0
<b>MktCap, NGNm</b>	<b>81,701</b>	<b>405,843</b>	<b>103,150</b>
LT debt (latest)	4,824	39,529	152,653
ST debt (latest)	8,216		44,536
Overdraft and other short-term debt (latest)	1,478	17,147	27,997
<b>Total debt, NGNm</b>	<b>14,517</b>	<b>56,676</b>	<b>225,186</b>
Cash	9,754	12,872	34,202
Net debt	4,763	43,804	190,985
<b>Enterprise value, NGNm</b>	<b>86,464</b>	<b>449,647</b>	<b>294,135</b>
<b>EV/replacement cost, x</b>	<b>0.25</b>	<b>0.54</b>	<b>0.90</b>
<b>One-year forward EBITDA, NGNm</b>	<b>22,499</b>	<b>59,422</b>	<b>24,568</b>
<b>Two-year forward EBITDA, NGNm</b>	<b>24,700</b>	<b>61,761</b>	<b>27,793</b>
<b>One-year forward EV/EBITDA (EV computed on latest net debt)</b>	<b>3.8</b>	<b>7.6</b>	<b>12.0</b>
<b>Two-year forward EV/EBITDA (EV computed on latest net debt)</b>	<b>3.5</b>	<b>7.3</b>	<b>10.6</b>
<b>One-year forward cash return (pre-tax) on replacement cost</b>	<b>6.5%</b>	<b>7.1%</b>	<b>7.5%</b>
<b>Two-year forward cash return (pre-tax) on replacement cost</b>	<b>7.1%</b>	<b>7.4%</b>	<b>8.5%</b>

Source: Company data, Renaissance Capital estimates

Figure 2: Peer comps

	MktCap, \$	Avg. 30-day daily value traded, \$	TP, lc	CP, lc	Potential up/downside	Rating	Forward P/E, x		Forward EV/EBITDA, x		Forward div yield	
							1Y	2Y	1Y	2Y	1Y	2Y
NB	1,321,488,717	169,115	55.1	50.7	8.6%	SELL	28.5	21.7	7.3	7.0	3.5%	4.6%
Guinness Nigeria	267,084,927	74,724	60.3	37.3	61.7%	BUY	11.5	8.8	3.8	3.5	4.6%	6.7%
EABL	1,508,417,267	362,012	258.8	197.8	30.9%	BUY	15.8	13.2	6.6	6.0	4.4%	5.4%
TBL	1,401,971,324	93,562	14,068	10,900	29.1%	BUY	16.3	15.8	9.3	8.2	5.0%	7.3%
Intbrew	337,202,822	34,036	20.5	12.0	70.8%	HOLD	n/a	n/a	12.3	10.9	n/a	n/a
Average							18.0	14.9	7.9	7.1	4.4%	6.0%
ABI	159,241,184,966	129,559,713					17.4	17.2	11.9	11.4	2.3%	2.4%
Heineken	61,207,157,074	54,311,088					21.7	20.1	12.2	11.6	1.8%	1.9%
Diageo	97,159,192,451	138,417,083					23.5	21.7	19.9	18.7	2.2%	2.3%
Average							20.9	19.7	14.7	14.4	2.1%	2.2%

lc = local currency

Source: Thomson Reuters for ABI; Heineken; Diageo, Renaissance Capital estimates for all others