24 March 2014

Namibia Breweries Ltd

1H14 Results – Initial impression

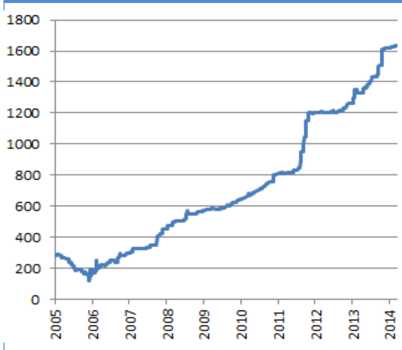
Target Price (c)	1750
Current Price (c)	1631

Year End 30 June	2011	2012	2013	F2014
Revenue (N$m)	1,797	2,160	2,383	2,631
Operating Profit	453	494	500	507
HEPS (c)	1.386	1.495	1.778	2.027
HEPU growth (%)	32.2	7.9	19.8	14.0
PE	15.9	15.2	9.2	10.9
DPS (c)	49	54	62	68
DY	3.0	3.3	3.8	4.2
EV/EBITDA	7.6	6.6	5.6	5.3

Source: ORY, IJG-

Recommendation	HOLD
NSX Code	NBS
Market Cap (N$m)	3,368
Shares in Issue (m)	207
Free float (%)	50
P/B (x)	2.9
52 week high	1632
52 week low	1328
Expected Total Return (%)	11.1

Share Price (c)



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1H14 Results

Namibia Breweries (NBS) released results for the interim period ended 31 December 2013. The half year results reflect a strong operational performance with operating profit up 17.3% y/y. Basic EPS rose 40.5% y/y to 82.5c, whileHEPS were up 18.9% from 83.0c to 98.7c. The board declared an interim dividend of 34cps increasing its dividend for 1H13 by 9.7%, with last day to trade cum 11 April 2014.

Sales

NBS managed to grow revenue by 10.9% y/y to N$1.35bn, with growth stemming from sales of goods, which is up 11.6% y/y while royalty income fell 8.6%.Locally,double digits sales growth was seen,with beer sales volumes up 11% (lead by Tafel Lager, followed by Windhoek Draught), while Ready to drink (RTD) sales declined significantly, following a relocation of production of RTDs from Namibia to SA.

Soft drink sales surprised positively, with revenue from the segment increasing 23.4% to N$72.6m, confirming the market's positive uptake of the Vego soft drink.

In South Africa,total volumes produced by NBS and sold to theDHN Drinks joint venture (JV)increased 7% compared to 1H13, however the value of sales actually decreased 3.7%, implying severe decline in SA export prices. Volumes exported to the Tanzania and Mozambique increased compared to the previous year, thus showing good growth in volumes albeit from a low base.

Export Sales declined as a percentage of total sales of goods,falling to 59.3% from 67.5% a year ago.

	1H14	1H13	y/y % Δ
DHN Drinks	573,615	595,817	-3.7%
Heineken SA	54,285	49,109	10.5%
Diageo SA	30,069	40,843	-26.4%
Diageo GBP	0	6,078	-100.0%

Operating Margin

NBS operating profit increased 17.3% as a 10.9% growth in revenue was coupled with improved operating margins. The operating margin increased 1.1pps to 20.3% and is in our view a function of the increased share of sales in the Namibian market (as is mentioned above) in total portfolio. This increase in Namibian sales, for which the unit profit margin is relatively large, more than offset the switch in preference from premium products to the more mainstream Tafel brand.

Equity Loss from the JV

The equity loss from the JV decreased by 31.4% or N$15.9m, to N$34.6m, contributing positively to the bottom line. We look forward to future developments on this front and management guidance on what contributed to the relative improvement.

Valuation

We currently have a HOLD recommendation on NBS in light of the uncertainty that entails the DHN Drinks acquisition of Sedibeng Brewery. Although this transaction could potentially unlock a great deal of value for NBS, we feel that the company has limited bargaining power in the deal and could potentially be exposed to unwanted risks.

That said, the valuation remains attractive with the company trading at FY14 dividend yield of 4.2%, FY14 EV/EBITDA of 5.3x and EV/hectolitre of US$120. Should the Sedibeng deal be concluded at favourable terms (NBS equity participation of less than N$500m) which imply limited dilution of free cash flow to shareholders, it could justify a significant rerating in the share.

We find comfort in our FY14 earnings forecasts given the operational performance embedded in the interim results. We are however concerned of the high earnings base being created on the back of increased (and perhaps unsustainable) market share in Namibia driving sales and operating margins higher and exposing the company to the double whammy impact of decreasing revenues and declining margins should SAB become aggressive once the Okahandja brewery commences brewing. We factor inthe probability that earnings could be topping out in FY14.

We will update our forecasts and target price followingdiscussions with management.

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