IJG Securities (Pty) Ltd.
Member of the NSX

NAMIBIA BREWERIES LIMITED

1H16 Initial Impression

March 2016

Namibia Breweries Ltd

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Target Price (c)	2300
Current Price (c)	2270

Year End 30 June	2013	2014	2015	F2016	F2017
Revenue (N$m)	2,383	2,316	2,434	2,536	2,609
Operating Profit	500	451	506	552	569
HEPS (c)	178	159	187	197	202
HEPU growth (%)	18.9	-10.5	17.6	5.3	2.7
PE	12.8	22.8	12.1	11.5	11.2
DPS (c)	62	68	74	80	85
DY	2.7	3.0	3.3	3.5	3.8
EV/EBITDA	11.1	12.3	11.0	10.1	10.0

Recommendation	HOLD
NSX Code	NBS
Market Cap (N$m)	4,688
Shares in Issue (m)	207
Free float (%)	50
P/B (x)	2.8
52 week high	2270
52 week low	2012

Source: BVN, IJG

1H16 Results

Namibia Breweries (NBS) released results for the first half of the 2016 financial year ended 31 December 2015. Sales of goods for the period decreased 3.5% or N$45.1 million, to N$1.306 billion compared to 1H15. This decline was primarily due to production volumes migrated to South Africa. Despite this, however, royalty income received by NBS only increased by N$7.9 million. What is promising though, is the fact that the loss from the JV has more than halved from N$87.7 million in 1H15 to N$40.8 million. Operating profit rose 5.4% y/y as raw materials & consumables and railage & transport costs were reduced by 18.9% and 17.3%, respectively, on the back of lower volumes being produced locally. Basic EPS increased 37.9% y/y to 84.4c. HEPS rose 6.3%, from 104.2c to 110.8c. The board of directors declared an interim dividend of 40cps, up 8.1% on the 37cps of last year, increasing the pay-out ratio from 35.5% to 36.1%.

Local Sales and Volumes

NBS managed to increase local sales volumes with new products being launched, and the acquisition of Aquasplash from Namibia Dairies during the period. However, export sales declined with the migration of production to Sedibeng Brewery. Locally, sales volumes continued to increase on the back of beer sales, which was led by Tafel Lager and Windhoek Draught. Ready to drink (RTD) sales decreased 17.0% on the comparable period, and given that RTDs are generally a lower margin business than the core, beer, business, the migration of RTD volumes to South Africa lead to an increase in the operating margin and cushioned the blow on the bottom line.

Revenue per Category	1H15	1H16	y/y % Δ
Beer	1,243,561	1,200,194	-3.5%
Softs	78,872	77,232	-2.1%
RTDs	17,242	14,304	-17.0%
Water	-	8,845	-
Other	3,755	5,580	48.6%
Total	**1,343,430**	**1,306,155**	**-2.8%**

Export Markets

Total volumes produced by NBS and sold to Heineken SA decreased by 91.4%, while sales to DHN Drinks, its largest single customer, decreased by 43.6%. No further sales were made to Diageo since the restructuring. This resulted in the value of export sales to South Africa decreasing by 45.3%.

Export Sales	1H15	1H16	y/y % Δ
DHN Drinks	538,661,000	303,731,000	-43.6%
Heineken SA	19,813,000	1,695,000	-91.4%
Diageo SA	-	-	-
Total	**558,474,000**	**305,426,000**	**-45.3%**

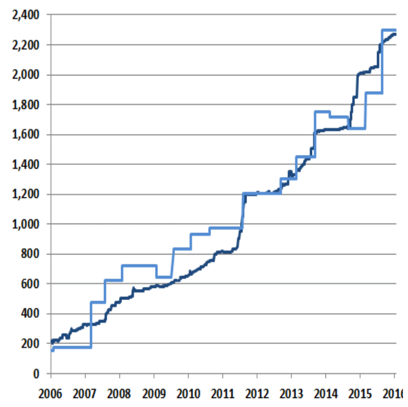
Export sales to South Africa declined as a percentage of total sales of goods, falling to 23.4%, from 41.6% a year ago. This was due to the continuous migration of volumes from Namibia to Sedibeng in South Africa. This means that the local market once again gains greater importance to the company from a revenue and profit perspective.

Total export volumes sold, excluding South Africa, contributes about 5% of total volumes sold. According to management China and Mozambique remain a challenge, however Zimbabwe and Swaziland's volume contributions continued to grow. Slow economic growth and devaluation of currencies continue to put pressure on volumes in Zambia, while Tanzania's volume growth remained stable compared to 1H15. Total beer and soft drinks volumes sold to export markets decreased by 21.0% and 46.0% respectively compared to 1H15.

Sedibeng Brewery

On 1 December 2015 NBS acquired 25% of the issued share capital of Sedibeng Brewing (Pty) Ltd and an additional 9.5% of the issued share capital of DHN Drinks (Pty) Ltd from Diageo Highlands Holdings. The total investment amounted to N$592.3 million, which was financed out of operations and by way of medium term loans from Standard Bank and RMB. This will need to be repaid over the next 5 years, with NBS enjoying a payment holiday of one year. The loan will be partially amortised over the period, with a balloon payment at the end of the loan period. Interest bearing loans and borrowings increased from N$13.8 million at the end of FY15 to N$613.3 million at the end of 1H16, increasing the gearing ratio from 12% to 54%.

NBS Share Price



Dividends

Notice is hereby given that an interim dividend of 40 cents per ordinary share was declared for the period ended 31 December 2015.

- Last day to trade cum dividend: 22 April 2016
- First day to trade ex-dividend: 25 April 2016
- Payment date: 13 May 2016

Analyst

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With effect from 31 December 2015, Sedibeng Brewery (Pty) Ltd sold and transferred its operations as a going concern to DHN Drinks (Pty) Ltd in exchange for the assumption by DHN Drinks (Pty) Ltd of the Sedibeng Brewery (Pty) Ltd liabilities. Sedibeng Brewery (Pty) Ltd distributed the issued shares to Namibia Breweries Limited in proportion to their existing 25% shareholding. The transaction is a non-adjusting post year end event, having been confirmed after the financial year end, but before the financial statements were authorized to be issued. The resulting effects have not been adjusted in the statement of comprehensive income and statement of financial position presented.

Water Restrictions
With the impending water crisis in the central areas of the country, and the possibility of water restrictions, management have implemented a number of measures to become water self-sufficient, and to save water. As such, the company has drilled two on-site boreholes and one off-site borehole. Management indicated that the company has ongoing projects, such as a water reclamation plant and a pre-treatment plant that are aimed at creating water-saving opportunities, which forms part of the total budgeted expansion plan for property, plant and equipment in FY16. NBS aims to be 70%-80% self-sufficient by the end of FY16.

Together with the water savings plans, NBS has a volume migration plan in place, to move more production volumes to the Sedibeng Brewery in South Africa if faced with a water crisis.

Valuation
We currently have a **HOLD** recommendation on NBS and looking forward we remain concerned about the increased competition in the local market to drive margin compression and sales-volume reductions for the business. Expected water shortages in Windhoek remains a risk, while increased leverage from the Sedibeng transaction another risk. Nevertheless, we believe the transaction to be beneficial to the company as a whole, pending further information. However, we will update our forecasts and target price following discussions with management and further analysis.

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