IJG Securities (Pty) Ltd.
Member of the NSX

NAMIBIA BREWERIES LIMITED
FY17 Initial Impression
March 2017

Namibia Breweries Ltd
1H17 Initial Impression

Target Price (c)	2790
Current Price (c)	3360

Year End 30 June	2014	2015	2016	F2017	F2018
Revenue (N$m)	2,317	2,434	2,426	2,454	2,513
Operating Profit	451	507	541	550	555
HEPS (c)	159.1	187.1	185.7	180.8	176.2
HEPU growth (%)	-10.5	17.6	-0.7	-2.6	-2.5
PE	22.2	11.8	15.3	15.8	16.2
DPS (c)	68	74	80	83	86
DY	3.1	3.3	2.8	2.9	3.0
EV/EBITDA	12.3	11.0.	10.7	9.1	8.3

Source: NBS, IJG

Recommendation	BUY
NSX Code	NBS
Market Cap (N$m)	6934.5
Shares in Issue (m)	206.5
Free float (%)	41
P/B (x)	6.7
52 week high	3360
52 week low	2271

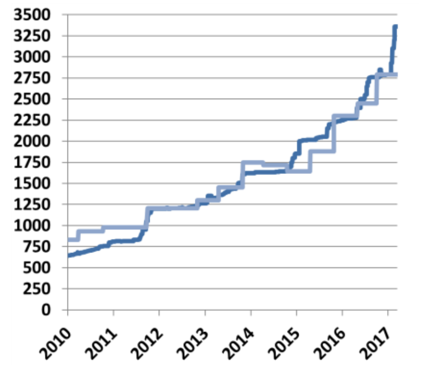
FY16 Results
Namibia Breweries (NBS) released results for the six months ended 31 December 2016. The results reflect resilient operational performance in a tough economic environment. Revenue was up 13.6% y/y and operating profit increased by 6.5% y/y. Basic EPS decreased 45.0% y/y to 46.5c, due to the losses in the associate, while HEPS increased by 3.2% from 109.9c to 113.4c. Interim dividends increased by 5.0% to 42 cps.

N$'Million	1H17	1H16	Change
Sale of goods	1,429,378	1,256,469	13.8%
Royalty income	53,806	49,686	8.3%
Revenue	1,483,184	1,306,155	13.6%
Raw materials and consumables	-494,138	-397,815	24.2%
Employment costs	-170,110	-145,693	16.8%
Administration and marketing expenses	-295,787	-278,314	6.3%
Railage and transport	-98,427	-82,317	19.6%
Repairs and maintenance	-28,159	-35,543	-20.8%
Depreciation, amortisation and impairments	-71,029	-60,852	16.7%
Operating Profit	325,534	305,621	6.5%
Finance income	7,112	8,678	-18.0%
Finance costs	-24,785	-11,202	121.3%
Equity loss from joint venture	-	-38,917	
Equity loss from associate	-138,241	-13,225	945.3%
Profit before taxation	169,620	250,955	-32.4%
Income tax expense	-73,630	-76,328	-3.5%
Profit for the period	95,990	174,627	-45.0%

Heineken South Africa
Namibia Breweries' associate, Heineken South Africa continues to deliver operating losses. Equity accounted losses from ongoing operations of N$83.4 million were recorded, higher than our expectations.

Additionally, fair value adjustments to Plant, Property, and Equipment, impairments of assets and recognition of liabilities resulted in further equity losses of N$68 million. According to management these were once off adjustments as a result of the restructuring of South African operations.

Sales and Volumes
Total revenue for the half year increased by 13.6% from the previous period. The higher revenue figure was largely a product of price increases in the Namibian market and increased volumes in the South African Market. Namibian beer volumes increased by only 0.2% y/y while South African export volumes increased by 33.1%.

NBS Share Price


Dividends
The Board of Directors has declared an interim dividend of 42 cents per ordinary share (2016: 40 cents), representing a 5% growth on the previous period.

Dividend (interim): 42c/share
Declaration date: 17 March 2017
Ex-date: 4 April 2017
Record date: 7 April 2017
Payment date: 19 March 2017

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Export Markets
Total beer volumes sold to export markets increased by 7.7% while soft drink volumes were in line with previous periods. Namibia Breweries definitely seem to be making inroads in the South African premium beer market. Management currently indicate that they have roughly half of the South African premium beer market share, which makes up about 16% of total volumes. Furthermore, Tanzania and Zambia continue to show double digit growth while volumes in Botswana and Mozambique have declined from the previous period.

Local Procurement
The Home-Grown barley project, in partnership with the Ministry of Agriculture, Water & Forestry has harvested 1,426 tons of barley while 1,250 tons were of good quality in 2016. NBL plans to continue expanding the project to around 4,000 tons over the next ten years and plans to open an onsite malting plant once financially viable.

Valuation
The interim results are quite ambiguous as revenue and operating income of the Namibian entity increased and exhibited strong export growth. However, the operations of the associate, Heineken South Africa, which continues to play a bigger and bigger role in the companies' future, lacks adequate disclosure and continues to show abnormally large losses.

Pending further analysis of the 1H17 results and management discussion, we maintain our HOLD recommendation on Namibia Breweries. Please not that our target price will be revised with our full report on the 1H17 results.

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