NAMIBIA BREWERIES LIMITED
1H18 Initial Impression
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Research Analyst:

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Namibia Breweries Ltd

1H18 Initial Impression

Target Price (c)*	***3230***
Current Price (c)	4500

Year End 30 June	2016	2017	F2018*	F2019*	F2020*
Revenue (N$m)	2,426	2,708	2,468	2,656	2,927
Operating Profit	541	611	535	565	622
HEPS (c)	1.86	2.30	1.84	1.83	2.04
HEPU growth (%)	(0.7)	24	-20	0	11
PE	13.7	24.3	27.9	20.7	17.7
DPS (c)	80	84	92	100	110
DY	3.1	2.2	2.4	2.7	2.9
EV/EBITDA	10.8	13.8	9.7	8.4	7.1

Recommendation*	SELL
NSX Code	NBS
Market Cap (N$m)	9,294
Shares in Issue (m)	206.5
Free float (%)	51
P/B (x)*	6.6
52 week high	4500
52 week low	3099
Expected Total Return (%)*	-11.6

Source: NBS, IJG

**unchanged from FY17 review*

1H18 Results

Namibia Breweries (NBS) released interim results for the period ended 31 December 2017. The financial results have surprised to the upside with the JV operations (Sedibeng Brewery) posting a smaller loss than expected. Revenue for the period was down 3.0% y/y while operating profit increased by 5.8% y/y. Basic EPS **increased** by 150.2% y/y to 116.3cps (1H17: 46.5cps), due to the reduced losses in the associate, while HEPS **increased** by 8.5% from 113.4cps to 123.0cps. A dividend of 46cps was declared.

Sales and Volumes

The drop in revenue stems from a decrease in volumes in all markets. Namibian volumes dropped by 1.8%, South African volumes decreased by 22.9%, and export volumes decreased by 1.8%. Overall beer volumes dropped by 7.7%. The royalties component of revenue increased by 7.8% which should indicate that the amount of NBS products sold in South Africa increased despite volumes exported to SA decreasing. At this time (before management discussions) we conclude that NBS beer volumes produced in the Sedibeng plant increased substantially. The results presentation pointed out that the Sedibeng brewery produced 4.4m hectolitres and management indicated that this is up by approximately 1m hectolitres.

Equity Loss from Associate

The JV with Heineken South Africa (HSA) seems to be reaching a turning point with the loss from associate decreasing from N$138.2m in 1H17 to N$13.8m in 1H18. The increased volumes out of Sedibeng have resulted in scale efficiency gains and NBS management indicated at the results presentation that HSA is ahead of their earlier estimates for breakeven. The breakeven point is still expected to be in FY19.

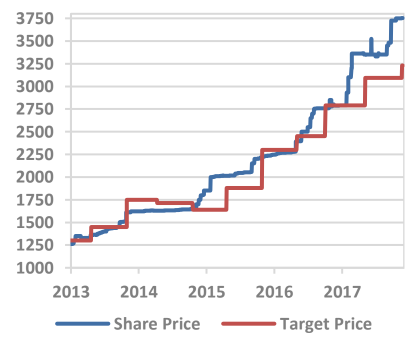
Operating Margin

Operating profits improved by 5.8% in 1H18 despite the decrease in revenues. Operating expenses decreased by 5.4% largely due to a 21.3% decrease in administration and marketing expenses. Railage and transport expenses decreased by 8.6% and raw materials and consumables costs were down 4.1%, both as a result of volume decreases. Employment costs increased by 7.1% y/y. The operating margin thus expanded further to 23.9%.

Conclusion

Pending further analysis of the 1H18 results and management discussion, we maintain our SELL recommendation on Namibia Breweries. The results have come in above our expectations. Our full year report noted that we remained sceptical of the Sedibeng brewery performance and that we would reassess this part of the business only after new information pointed to an improvement in operating efficiencies. HSA now seem well on their way to achieve operational breakeven in FY19 and this will impact our valuation. Please note that our target price and recommendation will be revised with our full report on the 1H18 results, as will the table at the top of the page.

NBS Share Price vs Target Price



Dividends

Notice is hereby given that an interim dividend of 46 cents per ordinary share was declared for the period ended 31 December 2017.

- Last day to trade: 6 April 2018
- Payment date: 11 May 2018

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