



# NAMIBIA BREWERIES LIMITED

## 1H19 Results Review

### March 2019

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0,0005	4,85%
0,0003	13,04%
0,201	50,00%
0,0003	14,29%
0,0005	12,50%

## Namibia Breweries Ltd

### 1H19 Results Review

**Target Price (c)** 3905

**Current Price (c)** 4550

Year End 30 June	2016	2017	2018	F2019	F2020	Recommendation	SELL
Revenue (N\$m)	2,426	2,708	2,687	2,850	3,075	NSX Code	NBS
Operating Profit	541	611	613	618	663	Market Cap (N\$m)	9,397
HEPS (c)	186	230	209	201	218	Shares in Issue (m)	206.5
HEPU growth (%)*	(0.7)	24	-9.1	-3.6	8.6	Free float (%)	50
PE	13.7	16.4	21.6	22.4	20.6	P/B (x)	6.3
DPS (c)	80	84	92	100	116	52 week high	4800
DY	3.1	2.2	2.0	2.2	2.6	52 week low	4300
EV/EBITDA	10.8	13.8	12.4	10.4	9.1	Expected Total Return (%)	-14.2

Source: NBS, IJG

\*HEPS and HEPS growth based on prior calculation methodology

#### 1H19 Results

Namibia Breweries (NBS) released results for the half year ended 31 December 2018. The financial results have surprised to the upside once again as the associate, Heineken South Africa (HSA), posted a net profit for the year ended 2018 (HSA year-end). This was ahead of guidance which stated that an operating profit was expected but the bottom line was expected to continue reflecting losses. Heineken South Africa is self-funded, and this earnings surprise thus shows the extent to which HSA has been able to grow volumes in the South African market. Management also mentioned that HSA now operates the world's largest cider plant (by volume) at Sedibeng, and that the performance of the Strongbow brand is exceeding expectations.

Revenue for the period rose 13.8% y/y while operating profit increased by 7.6% y/y. Basic EPS **increased** by 52.7% y/y to 177.6cps (1H18: 116.3cps), due to the profit from the associate and lower effective tax rate. HEPS **increased** by 52.9% to 177.8cps. A dividend of 50cps was declared for 1H19. Management mentioned that the large cash position in prior years was intended to finance Sedibeng if need be but as the business approached profitability it was decided to distribute this to NBS shareholders in the form of the special dividend paid in FY18. The plant capacity at Sedibeng is still expanding and is expected to reach 7.5 million hectolitres within FY20.

#### Sales and Volumes

The increase in revenue stems from a 51.2% increase in production volumes exported to South Africa. Namibian volumes were in line with 1H18, possibly indicating an end to declining volumes sold domestically. The launch of Tafel Radler was well received by the market and demand just about exceeded supply. Export volumes (which generally make up around 5% of volumes) dropped by 35.1%, but management indicated that timing issues were largely to blame for this and that a corresponding rebound will be seen in 2H19. Royalty income rose by 10.5% indicating double digit growth in NBS products sold in SA. Overall volumes increased by 11.7%.

#### Equity Profit from Associate

NBS recorded an equity profit from associate, well ahead of expectations. HSA recorded a net profit for the period ended 31 December 2019, ahead of expectations for a small operating profit (first operating profit was recorded for the 6 months ended 30 June 2018). The results have thus exceeded management's guidance, as well as IJG's expectations.

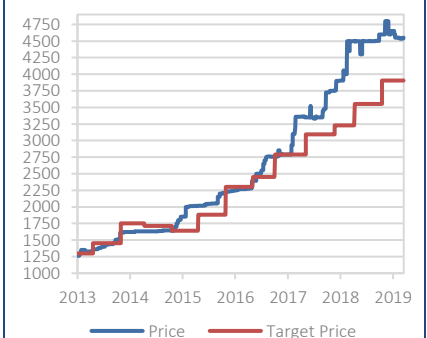
#### Operating Margin

Operating profit grew by 7.6%, well ahead of our expectations once again. Operating expenses increased by 15.7%, driven by a 42.4% increase in administration and marketing expenses. Management attributed much of this to the launch of Tafel Radler. In previous years admin and marketing costs normalised in the half year period following a brand building exercise such as this. All other costs increased at a slower pace than revenue growth.

#### Conclusion

Pending further analysis of the 1H19 results and management discussion, we maintain our **SELL** recommendation on Namibia Breweries. We have not adjusted our target price from the FY18 results and thus this report does not constitute a revision of our recommendation. The results have come in above our expectations for a third period. Recent guidance on the performance of HSA seems to have been conservative as HSA achieved a net profit for the period ended December 2018.

#### NBS Share Price vs Target Price



#### Dividends

A dividend of 50 cents per ordinary share was declared for the period ended 31 December 2018.

- Last day to trade: 12 April 2019
- Ex-Dividend Date: 15 April 2019
- Payment date: 17 May 2019



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