



# **NAMIBIA BREWERIES LIMITED**

## **1H20 Initial Impression**

### **March 2020**

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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

### 1H20 Initial Impression

**Target Price (c)** 4705

**Current Price (c)** 4599

Year End 30 June	2017	2018	2019	F2020	F2021	Recommendation	HOLD
Revenue (N\$ m)	2,708	2,687	3,098	3,066	3,140	NSX Code	NBS
Operating Profit	611	613	652	635	624	Market Cap (N\$ m)	9,498
HEPS (c)	230	194.6	288.6	286	304	Shares in Issue (m)	206.5
HEPS growth (%)	24	-9.1	48.3	-1.1	6.3	Free float (%)	50
PE	16.4	21.6	16.7	16.1	15.2	P/B (x)	4.9
DPS (c, ordinary)	84	286	221	104	110	52 week high	4900
DY	2.2	6.4	4.6	2.3	2.4	52 week low	4550
EV/EBITDA	13.8	12.0	10.7	9.7	9.2	Expected Total Return (%)	2.3

Source: NBS, IJG

### 1H20 Results

Namibia Breweries (NBS) released results for the half-year ended 31 December 2019. Revenue increased by 3.9% y/y to N\$1.634 billion. Basic EPS fell by 13.3% y/y to 153.9 cps, due to margin compression as OpEx rose faster than revenue growth as price increases (specifically on returnable bottles) were not pushed through during the period. HEPS fell by 13.8% y/y. Volume growth drove the top-line growth exclusively due to NBS decision not to put through a general price increase on returnables during the period. A dividend of 53cps was declared for 1H20, up 6% y/y.

### Sales and Volumes

The increase in revenue stems from volume growth of 3%. Namibian volumes increased by 1.9% while volumes exported to South Africa increased by 6.3%. The growth in domestic volumes is more or less in line with our expectations, while the increased volumes shipped to SA are encouraging as we expected these to contract. Export volumes to international markets grew by 28.3%, a rebound after the 31% slide in FY19. The growth was largely attributable to the Tanzanian and Zambian markets. Royalty income rose by 3.2% y/y in 1H20.

### Equity Profit from Associate

NBS recorded an equity profit of N\$76.98 million from associate for 1H20, below our expectations. Market conditions are tightening and management pointed to an increase in competition compounding the effects of the weak South African economy. It seems as though ABI has awakened to the Heineken threat and is increasing price competition in that market. This was to be expected and a risk we have previously highlighted. Nevertheless, Heineken South Africa delivered a profit after tax of N\$77 million, in line with the last year.

### Operating Margin

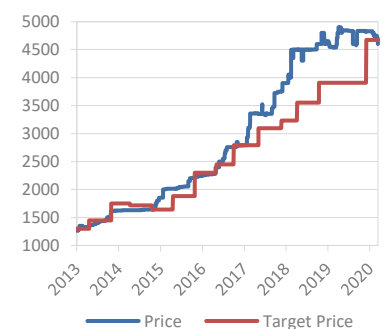
Operating profit fell by 8.4% y/y, below our expectations and 1H18 operating profit levels. This is largely ascribable to slow top-line growth due to the company focus rather on maintaining volumes rather than pushing price increases. Operating expenses did, however, increase at above inflationary levels at 7.5% y/y. Raw materials and consumables cost increased by 6.9% y/y, above the increase in volumes. Employment costs were relatively well contained at 4.7% y/y while admin and marketing expenses increased by 7.8% y/y. Only repairs and maintenance grew at an elevated rate but this is a small component of overall OpEx. The operating margin for 1H20 came under some pressure but remained above 20% at 20.8%. This is a marked compression from the 23.6% seen in 1H19.

The first half of the financial year is generally the most efficient from an operating perspective for NBS as the holiday season boosts volumes at the plant. This does lead us to believe that the full-year numbers will also show a decline in HEPS. Management, however, did point to a concerted effort to at least maintain HEPS which suggests some improvement in the operating margin thus far in 2H20. We would expect HEPS for the FY20 to come in around 5% down from FY19. At this point management have not had any COVID-19 related difficulties in importing raw materials or consumables but in our view, it would be difficult to rule out any future impact.

### Conclusion

Pending further analysis of the 1H20 results and management discussion, we maintain our **HOLD** recommendation on Namibia Breweries. We have not adjusted our target price from the FY19 results and thus this report does not constitute a revision of our recommendation.

### NBS Share Price vs Target Price



### Dividends

An interim dividend of 53 cents per ordinary share was declared for the half-year ended 31 December 2019.

- Last day to trade: 3 April 2020
- Payment date: 8 May 2020



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