



# NAMIBIA BREWERIES LIMITED

## 1H21 Initial Impression

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## Namibia Breweries Ltd

### 1H21 Initial Impression

**Target Price (c)** **3407**  
**Current Price (c)** 3101

Year End 30 June	2017	2018	2019	2020	F2021	Recommendation	HOLD
Revenue (N\$ m)	2,708	2,687	3,098	2,646	2,550	NSX Code	NBS
Operating Profit	611	613	652	453	538	Market Cap (N\$ m)	6,404
HEPS (c)	230	194.6	288.6	125.6	128	Shares in Issue (m)	206.5
HEPS growth (%)	24	-9.1	48.3	-56.5	1.8	Free float (%)	50
PE	16.4	21.6	16.7	26.3	24.3	P/B (x)	3.5
DPS (c, ordinary)	84	286	221	106	110	52 week high (c)	4699
DY	2.2	6.4	4.6	3.2	3.5	52 week low (c)	2590
EV/EBITDA	13.8	12.0	12.5	11.6	10.9	Expected Total Return (%)	9.9

Source: NBS, IJG

#### 1H21 Results

Namibia Breweries (NBS) released results for the period ended 31 December 2020. Revenue contracted by 18.6% y/y to N\$1.33 billion. Basic EPS fell by 46.3% y/y to 82.7 cps, as a result of decreased volumes and equity losses from the associate. HEPS fell by 46.9% y/y. Overall volumes declined by 23.1% y/y, as a result of the alcohol bans and related factors impacting consumption in South Africa. Namibian beer volumes posted growth of 1.5% y/y, indicating resilience in the domestic market despite the restricted trading hours in the hospitality sector and reduced tourist numbers. Operating profit posted growth of 1.3% y/y reported on the back of cost efficiencies. Net profit for the period declined by 46% y/y, due for the most part to the associate contributing an equity loss of N\$89.6 million versus a profit of N\$77 million in the comparable period. An interim dividend of 56cps was declared for 1H21, up 5.7% y/y.

#### Sales and Volumes

NBS' overall volumes declined by 23.1% y/y, with Namibian beer volumes up 1.5% y/y and export volumes (ex-SA) contracting by 15% y/y. Volumes shipped to SA declined by 66.1% y/y due to trade restrictions imposed in that market. NBS management assured that the contractual volumes would continue to be shipped, although this may not necessarily coincide with NBS financial year with some difference in the contractual dates. Management said that they would support Heineken SA with volumes once trade normalises in SA.

#### Equity Profit from Associate

NBS recorded an equity loss from associate of N\$89.6 million for 1H21, once again well below our expectations. This marks a sharp turnaround from the equity profit of N\$76.98 million recorded in 1H20. The management team indicated that much uncertainty remains around the trading environment in SA and when the HSA operations will turn the corner. We thus maintain our relatively conservative assumptions when valuing this part of the business, with operating margins expected to reach 16% in FY24.

#### Operating Margin

The operating margin improved to 24.8% in 1H21. Operating profit grew by 1.3% y/y to N\$344.0 million, beating our expectations. Raw materials costs decreased by 36.6% y/y, versus the revenue drop of 18.6% y/y. Some once off benefits of lower commodity prices are captured in this cost decrease. Admin and marketing expenses were down 14.5% y/y, not quite keeping up with the decrease in revenue. Employment costs decreased by 6.0% y/y, a notable achievement and also better than expected. The decrease in volumes shipped to SA resulted in a 7.5% y/y reduction in railage and transport costs which could be expected. Further savings were achieved with a 51.8% decrease in maintenance costs as NBS did most of their maintenance in house. Overall cost efficiency gains were impressive during the period in review. It is unlikely however that the 1H21 operating margin will be sustained going forward. Our expectations are for a compression to between 22% to 23% (also built into our forecasts and TP).

#### Conclusion

NBS Namibia operations performed admirably during 1H21 and the growth in operating profit was well above our expectations. Uncertainty remains with regards to HSA and SA volumes which means we approach this target price update with a conservative bias to our forecasts. Our forecasts combined with a discount rate of 15% yield a target price of N\$34.07. Pending further analysis of the 1H21 results and management discussion, we maintain our **HOLD** recommendation on NBS. Our full review will see further changes to our target price.

#### NBS Share Price vs Target Price



#### Dividends

An interim dividend of 56 cents per ordinary share was declared for the period ended 31 December 2020.

- Last day to trade: 9 April 2021
- Record Date: 16 April 2021
- Payment Date: 14 May 2021



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