



NAMIBIA BREWERIES LIMITED

1H22 Initial Impression

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Namibia Breweries Ltd

1H22 Initial Impression

Target Price (c) 3407
Current Price (c) 4501

Year End 30 June	2018	2019	2020	2021	Recommendation	HOLD
Revenue (N\$ m)	2,687	3,098	3,392	3,406	NSX Code	NBS
Operating Profit	613	652	453	613	Market Cap (N\$ m)	9,295.9
HEPS (c)	194.6	288.6	125.6	178.2	Shares in Issue (m)	206.5
HEPS growth (%)	-9.1	48.3	-56.5	41.9	Free float (%)	50
PE	21.6	16.7	26.3	19.1	52 week high	5100
DPS (c, ordinary)	286	221	106	56	52 week low	3000
DY	6.4	4.6	3.2	1.6	Expected Total Return (%)	-24.3
EV/EBITDA	12.0	12.5	11.6	11.5		

Source: NBS, IJG

1H22 Results

Namibia Breweries (NBS) released interim results for the period ended 31 December 2022. NBS posted strong revenue growth of 11.9% y/y to N\$1.98 billion, driven by SA volume growth. This resulted in basic EPS rising by 70.9% y/y to 141.3 cps while HEPS increased by 72.0% y/y to 140.0 cps. No interim dividend has been declared for the period, as the potential Heineken transaction is conditional to NBS not declaring dividends. The results release notes that the Board would revisit this decision should the transaction not be concluded.

Sales and Volumes

NBS' total production volumes rose by 9.2% y/y. Namibian volumes fell by 7.3% y/y as the economic climate remained challenging. The negative impact on revenue from lower Namibian volumes was minimised through price increases which were implemented in October. South African volumes however rebounded strongly to pre-pandemic levels, increasing by 99.9% y/y, driven by better trading conditions with more relaxed Covid-19 restrictions. Management notes that growth in the premium market (Heineken and Windhoek beers) has been particularly strong in SA and that NBS is well-positioned to meet the volatile demand curve in production volumes. The rebound in this market has resulted in royalty income increasing by 27.3% y/y to N\$71 million and equity profit from associate coming in at N\$31.1 million (1H21: loss of N\$73.5 million). Inventory levels at the end of the period were marginally higher than normal due to a build-up in stock in the run up to the festive season followed by lower than anticipated sales.

Operating Margin

The operating margin fell from 19.4% in 1H21 to 18.1% in 1H22 as a result of the significant increase in South African volumes which affected the mix of products sold. Operating costs rose by 12.8% y/y, well ahead of inflation of 4.5% over the same period, which management attributes to the anticipated increase in global raw material costs. NBS further experienced challenges with packaging material supply. Management noted that they have increased their safety stock for commodities that have a long lead time and have secured the supply of malted barley until the end of December 2022 (including vessel space).

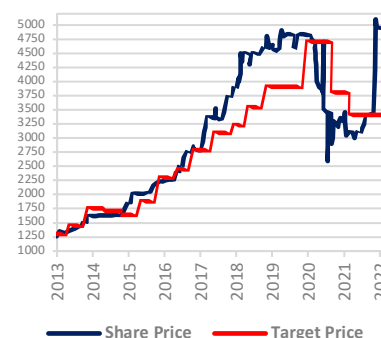
Heineken and Distell Namibia Transactions

Following the shareholder approval of all the resolutions tabled at the general meeting in December regarding the Heineken transactions, NBS is waiting for regulatory approval, which management expects to receive feedback on in the last quarter of 2022 or early 2023. A further transaction was announced in March which will see NBS acquiring the entire issued share capital of the Distell Namibia companies for a consideration of N\$1.64 billion. Shareholders are due to vote on the transaction at the General Meeting on 28 April 2022.

Conclusion

Despite the logistical challenges, supply constraints and difficult economic environment, Namibia Breweries again delivered satisfactory results. Pending further analysis of the 1H22 results and a discussion with management, we maintain our **HOLD** recommendation on Namibia Breweries. Our full review will see changes to our target price.

NBS Share Price vs Target Price



Dividends

No interim dividend was declared in accordance with the conditions of the potential Heineken SA disposal transaction. In the event of this not being finally concluded, the Board would revisit this decision.

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