



Namibia Breweries Limited 1H23 Initial Impression March 2023



Research Analyst:

*Hugo van den Heever
hugo@ijg.net
+264 81 958 3542*



Namibia Breweries Ltd

1H23 Initial Impression

Current Price (c)

4602

Year End 30 June	FY18	FY19	FY20	FY21	FY22	Recommendation*	HOLD
Revenue (N\$ m)	2,687	3,098	3,392	3,406	3,929	NSX Code	NBS
Operating Profit (N\$ m)	613	652	453	613	668	Market Cap (N\$ m)	8,775
HEPS (c)	194.6	288.6	125.6	178.2	261.6	Shares in Issue (m)	206.5
HEPS growth (%)	-9.1	48.3	-56.5	41.9	46.8	Free Float (%)	50
PE	21.6	16.7	26.3	19.1	16.0	52-Week High (c)	4750
DPS (c, ordinary)	286	221	106	56	0	52-Week Low (c)	4000
DY	6.4	4.6	3.2	1.6	0		
EV/EBITDA	12.0	12.5	11.6	11.5	10.19		

Source: Namibia Breweries Limited, IJG Securities

1H23 Results

Namibia Breweries (NBS) released interim results for the period ended 31 December 2022 (1H23). Revenue for the period increased by 20.6% y/y to N\$2.39 billion (1H22: N\$1.98 billion), driven by increased sales volumes in South Africa. Basic EPS grew by 10.7% y/y to 138.6 cps (1H22: 125.2 cps) while HEPS rose by 10.9% y/y to 137.4 cps (1H22: 123.9 cps). No ordinary interim dividend was declared for the period as the Heineken transactions remain pending, although in their final implementation stages after the transactions were approved by the South African Competition Tribunal earlier this month. NBS expects the transactions to be implemented from 28 March 2023 and announced preliminary dates in relation to the payment of the special dividend as detailed in the adjacent "Dividends" box. NBS' management noted that the dividend cycle will return to normal after the conclusion of the Heineken transaction.

Operating Margin

Operating profit increased marginally by 0.3% y/y to N\$359.0 million as NBS experienced substantial cost pressures. The operating margin fell from 18.1% in 1H22 to 15.0% in 1H23 due to the increase in operating costs outpacing the growth in revenues. Operating costs rose by 27.7% y/y, an increase which management attributes to higher advertising and promotion spending and a sharp rise in raw material costs. The cost of glass rose by 25.0% while the cost of malt jumped by 34.0%, despite the measures taken by management to contain these costs. Overall, NBS' operating performance remains strong with cashflow from operations amounting to N\$199.1 million in 1H23 compared to N\$191.1 million in 1H22. The company built up a healthy cash position since the suspension of dividend payments over the last 24 months. Cash and cash equivalents grew to N\$821.0 million in 1H23 (1H22: N\$721.9 million).

Sales and Volumes

NBS' overall volumes for the period rose by 8.7% y/y on the back of strong growth from exports to South Africa, which increased by 48.9% y/y. This culminated in a 29.9% y/y increase in royalty income after NBS fetched N\$92.0 million in royalties during 1H23. Management noted that the current offtake agreement to export volumes to South Africa will remain in place until 2026 and won't be affected by the Heineken transaction. Exports to other markets contracted by 44.0% over the period. The loss in revenues from this decline was somewhat mitigated by favourable exchange rates on exports to these markets. Namibian volumes were also under pressure during 1H23 following weak domestic consumer demand. 1H23 saw Namibian beer volumes slide by 3.5% y/y, but slower when compared to the 7.3% y/y contraction over the same period a year ago. NBS continues to reap the benefits from its digital investment with 8.3% of the company's sales now being initiated through its online storefront. In terms of brand performance, Windhoek Draught was the leading beer brand, outperforming the other brands in terms of volume growth. The newly introduced 10L Hansa Draught keg performed above management's expectations supported by on-site and at-home consumption trends while Horizon, the flavoured non-alcoholic beer, was discontinued following sustained unfavourable consumption trends in this segment.

Heineken and Distell Namibia Transaction

On 8 March 2023, the South African Competition Tribunal approved the NBS/Heineken/Distell transactions with conditions. These conditions are akin to the conditions imposed by the South African and Namibian Competition Commissions when they approved the merger last year. This now paves the way for the implementation of the planned merger transactions, including NBS' disposal of its 25% shareholding in Heineken SA and NBS' acquisition of Distell Namibia Ltd, Distillers Corporation Namibia

NBS Share Price vs Target Price (c)



Dividends

No ordinary dividend was declared in accordance with the conditions of the Heineken transaction.

A special dividend of N\$26.35 per ordinary share was approved subject to the disposal of Heineken SA becoming unconditional by 28 March 2023. Important dates in relation to the payment of the dividend are as follows:

- Last day to trade cum dividend: 30 March 2023
- First day to trade ex-dividend: 31 March 2023
- Record date: 6 April 2023
- Payment date: 14 April 2023





0.0003	13.04%
0.0001	50.00%
0.0003	14.29%
0.0005	12.50%

(Pty) Ltd and Namibia Wines and Spirits Ltd (the Distell Namibia Companies). The disposal of Heineken SA will commence once all the Distell Material Scheme conditions are fulfilled. The final step remaining is for Distell shareholders to vote on the Capevin and Newco Offers, as well as the Newco Capital Raise. We expect this process to be completed by 28 March, as previously mentioned. We anticipate that the acquisition of the Distell Namibia Companies will take place shortly after the Heineken SA disposal. NBS will acquire the Distell Namibia Companies for a purchase consideration of N\$1.64 billion payable in cash. Management noted at the results presentation that NBS will finance the purchase consideration through debt which it has already secured. An announcement on the fulfilment of the Distell Material Scheme conditions is expected before 30 March.

Conclusion

Despite facing significant cost pressures and declines in both Namibian and export beer volumes to some markets, Namibia Breweries delivered respectable results on the back of strong export volumes to South Africa. Pending further analysis of the 1H23 results and a discussion with management, we maintain our **HOLD** recommendation on Namibia Breweries. Our target price will be updated with the full review of the interim results.

IJG Holdings

Mathews Hamutenya	Group Chairman		Tel: +264 (61) 256 699
Mark Späth	Group Managing Director	mark@ijg.net	Tel: +264 (81) 958 3510
Helena Shikongo	Group Financial Manager	helena@ijg.net	Tel: +264 (81) 958 3528
Zanna Beukes	Group Compliance Officer	zanna@ijg.net	Tel: +264 (81) 958 3516
Tashiya Josua	Group Financial Officer	tashiya@ijg.net	Tel: +264 (81) 958 3511
Matheus Namwandi	Financial Accountant	matheus@ijg.net	Tel: +264 (81) 958 3536
Madeline Olivier	Group PA	madeline@ijg.net	Tel: +264 (81) 958 3500

IJG Securities

Eric van Zyl	Managing Director Designate	eric@ijg.net	Tel: +264 (81) 958 3530
Leon Maloney	Equity & Fixed Income Dealing	leon@ijg.net	Tel: +264 (81) 958 3512
Maria Amutenya	Settlements & Administration	maria@ijg.net	Tel: +264 (81) 958 3515
Danie van Wyk	Head: Research	danie@ijg.net	Tel: +264 (81) 958 3534
Hugo van den Heever	Sales and Research	hugo@ijg.net	Tel: +264 (81) 958 3542

IJG Wealth Management

Andri Ntema	Managing Director	andri@ijg.net	Tel: +264 (81) 958 3518
Wim Boshoff	Head Wealth Manager	wim@ijg.net	Tel: +264 (81) 958 3537
Aretha Burger	Wealth Manager	aretha@ijg.net	Tel: +264 (81) 958 3540
Katja Greeff	Wealth Manager	katja@ijg.net	Tel: +264 (81) 958 3538
Ross Rudd	Portfolio Manager	ross@ijg.net	Tel: +264 (81) 958 3523
Leonie de Klerk	Wealth Operations Manager	leonie@ijg.net	Tel: +264 (81) 958 3533
Lorein Kazombaruru	Wealth Administration	lorein@ijg.net	Tel: +264 (81) 958 3521
Francoise van Wyk	Wealth Administration	francoise@ijg.net	Tel: +264 (81) 958 3513

IJG Capital

Jakob de Klerk	Managing Director	jakob@ijg.net	Tel: +264 (81) 958 3517
Mirko Maier	Business Analyst	mirko@ijg.net	Tel: +264 (81) 958 3531
Letta Nell	Business Analyst	letta@ijg.net	Tel: +264 (81) 958 3532
Lucas Martin	Business Analyst	lucas@ijg.net	Tel: +264 (81) 958 3541
Fares Amunkete	Value Add Analyst	fares@ijg.net	Tel: +264 (81) 958 3527

IJG Investment Managers

Dylan Van Wyk	Portfolio Manager	dylan@ijg.net	Tel: +264 (81) 958 3529
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IJG Unit Trust

Keshia !Hoa-Khaos	Portfolio Administrator	keshia@ijg.net	Tel: +264 (81) 958 3514
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IJG Advisory

Herbert Maier	Managing Director	herbert@ijg.net	Tel: +264 (81) 958 3522
Jolyon Irwin	Director	jolyon@ijg.net	Tel: +264 (81) 958 3500

Aldes Namibia Business Brokers

Ursula Gollwitzer	Broker	ursula@aldesnamibia.com	Tel: +264 (81) 958 3535
Richard Hoff	Broker	richard@aldesnamibia.com	Tel: +264 (81) 958 3500

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4th Floor, 1@Steps, C/O Grove and Chasie Street, Kleine Kuppe, Windhoek
P O Box 186, Windhoek, Namibia
Tel: +264 (61) 383 500 www.ijg.net

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