11 September2014

Namibia Breweries Ltd

FY14 Results – Initial Impression

Target Price (c)	1715
Current Price (c)	1643

Year End 30 June	2011	2012	2013	2014	F2015
Revenue (N$m)	1,797	2,160	2,383	2,316	2,730
Operating Profit	453	494	500	451	541
HEPS (c)	139	149	178	159	202
HEPU growth (%)	32.2	7.9	18.9	-10.5	-2.6
PE	16.1	15.3	9.2	16.5	10.7
DPS (c)	49	54	62	68	72
DY	3.0	3.3	3.8	4.1	4.4
EV/EBITDA	7.6	6.6	5.6	5.9	5.3

Source: ORY, IJG-

Recommendation	HOLD
NSX Code	NBS
Market Cap (N$m)	3,393
Shares in Issue (m)	207
Free float (%)	50
P/B (x)	3.4
52 week high	1643
52 week low	1437
Expected Total Return (%)	9.7

FY14 Results

Namibia Breweries (NBS) released results for the year ended 30 June 2014. The full year results reflect disappointing operational performance with operating profit down 9.7% y/y. Basic EPS rose 181.9% y/y to 99.5c, coming of a low base after the N$188m impairment to its investment in DHN Drinks (Pty) Ltd last year that resulted in a decrease in earnings per share in FY13. HEPS, however, is down 10.5% from 177.8c to 159.1c. The board declared a final dividend of 34cps, taking the total dividend for the year to 68cps,up 9.7% on last year, with last day to trade cum 21 November 2014.

Sales

Although NBSmanaged to increase local sales volumes, revenue fell by 2.8% y/y to N$2,316.9bn,with the contraction stemming from the migration of production volumes to South Africa.Total sales of goods, however, is down 3.0% y/y while royalty income rose 2.9%.Locally,sales volumes growth was seen across the board, led by Tafel Lager. Ready to drink (RTD)and soft drink sales recorded double digit growth compared to last year, confirming the market's positive uptake of the Vigo soft drink.

In South Africa,total volumes produced by NBS and sold to theDHN Drinks joint venture (JV) decreased, with total beer and RTD volumes down 24% and 87% respectively, which according to management is according to plan. This resulted in the value of sales decreasing 29.2%%. Total beer volumes exported to Tanzania and Mozambique increased compared to the previousyear, thus showing good growth in volumes albeit from a low base. However, RTD volumes sold to export markets were down 36.0% compared to last year.

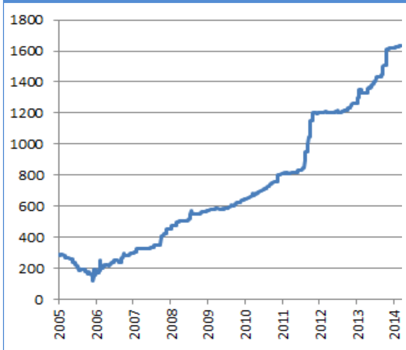
Export sales declined as a percentage of total sales of goods, falling to 45.9% from 61.3% a year ago. This means that local sales now outweigh exports.

Export Sales	FY13	FY14	y/y % Δ
DHN Drinks	1,250,549	885,128	-29.2%
Heineken SA	87,115	108,078	24.1%
Diageo SA	71,172	36,870	-48.2%
Diageo GBP	8,739	-	-100.0%

JV losses and Operating Margin

The equity loss from the JV increased by 10.4% or N$11.3m, to N$120.3m, contributing negatively to the bottom line. NBS operating profit decreased 9.7% as a 2.8% decline in revenue was coupled with weaker operating margins. The operating margin decreased 1.5pps to 20.5%. In our view a fierce operating environment in SA has most likely resulted in lower margins and increased losses from the JV.

Share Price (c)



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Cash Position

Cash flow from operating activities decreased significantly from N$481.3m to N$265.9m, down 44.8% from the prior financial year, to a total of N$55.9m, less than the dividends payable of N$70m. We are also concerned that available cash decreased significantly despite the fact that working capital was cash flow positive.

Valuation

We currently have a HOLD recommendation on NBS and looking forward we remain concerned about the increased competition in the local market after the construction of the SAB Brewery in Okahandja. However, we will update our forecasts and target price followingdiscussions with management and further analysis.

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