IJG Securities (Pty) Ltd.
Member of the NSX

NAMIBIA BREWERIES LIMITED

FY15 Initial Impression

September 2015

Namibia Breweries Ltd
FY15 Initial Impression

Target Price (c)	1880
Current Price (c)	2201

Year End 30 June	2012	2013	2014	2015	F2016
Revenue (N$m)	2,160	2,383	2,316	2,434	2,369
Operating Profit	494	500	451	506	446
HEPS (c)	149	178	159	187	167
HEPU growth (%)	7.9	18.9	-10.5	17.6	-0.71
PE	20.5	12.4	22.1	17.6	18.5
DPS (c)	54	62	68	74	72
DY	2.5	2.8	3.1	3.2	3.3
EV/EBITDA	11.1	9.4	12.5	11.1	12.6

Source: BVN, IJG

Recommendation	SELL
NSX Code	NBS
Market Cap (N$m)	4,546
Shares in Issue (m)	207
Free float (%)	50
P/B (x)	2.9
52 week high	2001
52 week low	1642
Expected Total Return (%)	-2.7

FY15 Results
Namibia Breweries (NBS) released results for the year ended 30 June 2015. The full year results reflect a stable operational performance with operating profit up 12.2% y/y. Basic EPS increased 26.0% y/y to 125.4c and HEPS is up 17.6% from 159.1c to 187.1c. The board declared a final dividend of 37cps, taking the total dividend for the year to 74cps, up 8.8% on last year.

Sales and Volumes
NBS managed to increase local sales volumes, however, export sales declined with the migration of RTD production to Sedibeng Brewery. Revenue increased by 5.1% y/y to N$2.434 billion, with total sales of goods up by 4.9% y/y, while royalty income rose 9.0%. Locally, sales volumes continued to increase on the back of beer sales, which was led by Tafel Lager and Windhoek Draught. As RTDs are generally a lower margin business than the core, beer, business, the drop in RTD volumes did lead to an increase in the operating margin and cushioned the blow on the bottom line.

Revenue per Category	FY14	FY15	y/y % Δ
Beer	2,105,731	2,266,443	7.6%
Softs	121,247	133,911	10.4%
RTDs	82,808	29,146	-64.8%
Other	7,146	4,677	-34.6%
Total	**2,316,932**	**2,434,177**	**5.1%**

Export Markets
In South Africa, total volumes produced by NBS and sold to the DHN Drinks joint venture (JV), its largest single customer, increased slightly, however, sales to Heineken and Diageo decreased significantly. This resulted in the value of export sales to South Africa to decrease 8.9%. Total beer volumes exported to Tanzania increased compared to the previous year, thus showing good growth in volumes albeit from a low base. Volumes sold to Mozambique however, slowed down with brand competition challenges, while growth in Zambia and Botswana has been impacted by the increase in alcohol levy.

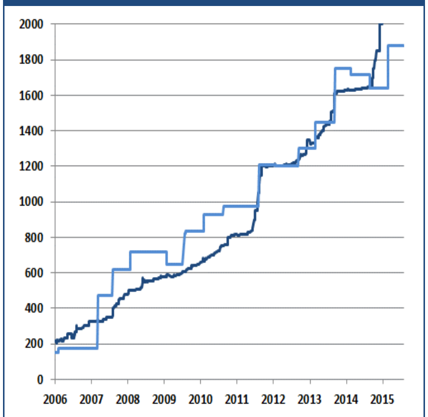
Export sales to South Africa declined as a percentage of total sales of goods, falling to 38.5% from 44.5% a year ago. This was due to the continuous migration of volumes from Namibia to Sedibeng in South Africa. This means that the local market once again gains greater importance to the company from a revenue and profit perspective.

Export Sales	FY14	FY15	y/y % Δ
DHN Drinks	885,128	912,228	3.1%
Heineken SA	108,078	26,089	-75.9%
Diageo SA	36,870	-	-100%
Total	**1,030,076**	**938,317**	**-8.9%**

DHN Drinks JV
The equity loss from the JV increased to N$127.5 million in FY15, from N$120.3 million in FY14, with the increase attributed to a fiercely competitive environment in South Africa and timing differences relating to marketing and operational spend.

On 27 July 2015, NBS entered into an agreement to acquire 25% of the issued share capital of Sedibeng Brewing (Pty) Ltd and an additional 9.5% of the issued share capital of DHN Drinks (Pty) Ltd from Diageo Highlands Holdings. The total estimated investment required is N$610.0 million, which according to the company will be "financed out of operations and by way of a medium term loan to the amount of N$200.0 million". Given the cash generated by operations, it is unclear how this will be achieved, and NBL management was unable to provide further insight at the time of writing.

Valuation
We currently have a **SELL** recommendation on NBS and looking forward we remain concerned about the increased competition in the local market to drive margin compression and sales-volume reductions for the business. Expected water shortages in Windhoek present a further risk, while funding the Sedibeng transaction a third. Nevertheless, we believe the transaction to be beneficial to the company as a whole, pending further information. However, we will update our forecasts and target price following discussions with management and further analysis.

NBS Share Price


Dividends
Notice is hereby given that a final dividend of 37 cents per ordinary share was declared for the period ended 30 June 2015.

• Last day to trade cum dividend:
23 October 2015

• First day to trade ex-dividend:
26 October 2015

• Payment date:
13 November 2015

Analyst
Jan-Hendrik Conradie
+264 61 383 523
janhendrik@ijg.net

Managing Director
Romé Mostert
Tel: +264 (61) 383 520
rome@ijg.net

Sales and Research
Rowland Brown
Tel: +264 (61) 383513
rowland@ijg.net

Jan-Hendrik Conradie
Tel: +264 (61) 383 523
janhendrik@ijg.net

Money Market & Administration
Leon Maloney
Tel:+264 (61) 383 521
leon@ijg.net

Tashiya Shekutamba
Tel:+264 (61) 383 511
tashiya@ijg.net

Director
Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Financial Manager
Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

IJG Direct
Naïke Burger
Tel: +264 (61) 383 515
naike@ijg.net

Equity & Fixed Income Dealing
Nigel Mubita
Tel: +264 (61) 383 514
nigel@ijg.net

Stuart Main
Tel: +264 (61) 383 512
stuart@ijg.net