Securities (Pty) Ltd.
Member of the NSX

NAMIBIA BREWERIES LIMITED
FY16 Initial Impression
September 2016

Namibia Breweries Ltd

FY16 Initial Impression

Target Price (c)	2450
Current Price (c)	2757

Year End 30 June	2013	2014	2015	2016	F2017
Revenue (N$m)	2,383	2,316	2,434	2,426	2,609
Operating Profit	500	451	506	540	569
HEPS (c)	178	159	187	186	202
HEPU growth (%)	18.9	-10.5	17.6	-0.7	5.0
PE	15.5	27.7	14.7	14.9	13.6
DPS (c)	62	68	74	77	85
DY	2.2	2.5	2.7	2.8	3.1
EV/EBITDA	11.1	12.3	11.0	10.3	9.7

Source: BVN, IJG

Recommendation	HOLD
NSX Code	NBS
Market Cap (N$m)	5,694
Shares in Issue (m)	207
Free float (%)	50
P/B (x)	2.8
52 week high	2758
52 week low	2201

FY16 Results

Namibia Breweries (NBS) released results for the 2016 financial year ended 30 June 2016. Sales of goods for the period decreased 0.8% or N$17.8 million, to N$2.337 billion compared to FY15. This decline was primarily due to production volumes migrated to South Africa. NBS received a royalty of N$49.7 million and N$38.9 million from DHN Drinks and Heineken SA respectively. Which means that, total royalty income only increased by N$9.5 million. What is promising though, is the fact that the loss from the JV has decreased by N$85.7 million, while the recorded loss of association was only N$61.8m for the year.

Operating profit rose 6.7% y/y to N$540.7 million, slightly below our forecast of N$552.5 million. Raw materials & consumables and railage & transport costs were reduced by 15.1% and 12.4%, respectively, on the back of lower volumes being produced locally. HEPS fell 0.7% to 185.7c, missing our forecast of an 3% increase to 193cps. While basic EPS increased 43.8% y/y to 180.3c given the fact that during the current year a portion of the N$1.6 billion assessed loss in Heineken SA is recoverable and have therefore included, in current year income, an amount of N$89.2 million, being its share of the deferred tax asset.

The board of directors declared a final dividend of 40c per share, taking the total dividend to 77c per share, up 8.5% on the 71c per share of last year.

Local Sales and Export Markets

NBS managed to increase local sales volumes by 6.7% with new products being launched, and the acquisition of Aquasplash from Namibia Dairies during the period. However, export sales declined with the migration of production to Sedibeng Brewery. Total volumes produced by NBS and sold to Heineken Exports Company decreased by 93.3%, while sales to DHN Drinks, which is now Heineken SA, its largest single customer, decreased by 41.9%. No further sales were made to Diageo since the restructuring. This resulted in the value of export sales to South Africa decreasing by 43.3%.

Export Sales	FY15	FY16	y/y % Δ
Heineken SA	912,228,000	530,123,000	-41.9%
Heineken Exports Company	26,089,000	1,741,000	-93.3%
Export Sales	**938,317,000**	**531,864,000**	**-43.3%**

Export sales to South Africa declined as a percentage of total sales of goods, falling to 20.7%, from 39.8% 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.

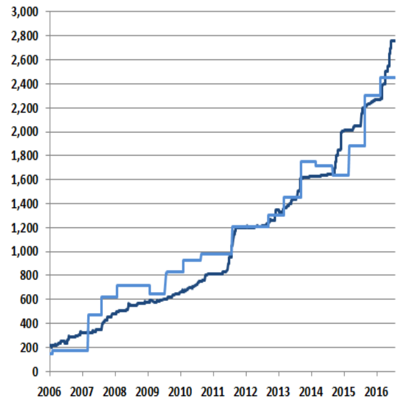
Total export volumes sold, excluding South Africa, contributes about 4.9% of total volumes sold. Export beer volumes excluding South Africa decreased by 5.0% when compared to FY15. According to management, China and Mozambique remain a challenge, however Tanzania doubled volumes year-on-year for the third consecutive year and continues outperforming expectations. Botswana managed to halt an initial decline in volumes through pack renovation and competitive pricing. Zambia remains challenging due to currency devaluation.

Sedibeng Brewery

On 1 December 2015 NBS acquired 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 investment amounted to N$593.7 million, which was financed out of operations and by way of medium term loans from Standard Bank and RMB. N$200 million was used for the restructuring of the South African operations, while the remaining N$300.0 million was used for operational costs. This will need to be repaid over the next 5 years, with NBS enjoying a payment holiday of one year. The loan will be partially amortised over the period, with a balloon payment at the end of the loan period. Interest bearing loans and borrowings increased from N$13.8 million at the end of FY15 to N$479.7 million at the end of FY16, increasing the accompanying finance costs from N$8.8 million for FY15 to N$39.4 million in FY16.

After the transaction was concluded, DHN carried on the business of marketing, sale and distribution of international beer and cider brands and Sedibeng carried on the business of manufacturing these brands and exclusively supplying these manufactured products to DHN for distribution in the relevant markets. With effect from 31 December 2015, Sedibeng Brewery (Proprietary) Limited sold and transferred its operations as a going concern to DHN Drinks (Proprietary) Limited. The Company also changed its name to Heineken South Africa (Proprietary) Limited and from this date became an integrated operation producing and distributing beer and cider in South Africa.

NBS Share Price



Dividends

Notice is hereby given that an final dividend of 37 cents per ordinary share was declared for the period ended 30 June 2016.

- Last day to trade cum dividend: 21 October 2016
- First day to trade ex-dividend: 24 October 2016
- Payment date: 11 November 2016

Analyst

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During the current year, as a result of the reorganisation described above, the directors consider that, at year end, a portion of the N$1.6 billion assessed loss in Heineken South Africa (Proprietary) Limited is recoverable and have therefore included, in current year income, an amount of N$89.2 million, being its share of the deferred tax asset included in the Heineken South Africa (Proprietary) Limited accounts.

Water Restrictions
With the impending water crisis in the central areas of the country, and the possibility of water restrictions, management have implemented a number of measures to become more self-sufficient with regards to water, and to save water. As such, the company has drilled four boreholes, with a fifth borehole being drilled at the moment. In the past six months a water pre-treatment plant was installed and management indicated that the company has ongoing projects, such as a water reclamation plant that is aimed to be completed by the end of October, which is set to reduce water consumption by 25%. NBS aims to be 70%-80% self-sufficient by the end of FY16. Currently, 4.4 liters of water is used to produce one liter of beer, which is down from 4.8 before implementing the water savings initiatives. The ratio is expected to decrease further to 3.4 liters once the reclamation plant is completed. Together with the water savings plans, NBS has a volume migration plan in place, to move more production volumes to the Sedibeng Brewery in South Africa if faced with a water crisis.

Valuation
We currently have a **HOLD** 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 remains a risk, while increased leverage from the Sedibeng transaction another risk. 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.

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