NAMIBIA BREWERIES LIMITED
FY17 Initial Impression
September 2017

Namibia Breweries Ltd

FY17 Initial Impression

Target Price (c)	3095
Current Price (c)	3480

Year End 30 June	2015	2016	2017	F2018	F2019
Revenue (N$m)	2,434	2,426	2,638	2,744	2,924
Operating Profit	507	541	569	579	664
EPS (c)	125.4	180.3	154.2	159.8	195.6
EPS growth (%)	27.7	43.8	(14.5)	3.6	22.4
PE	16.3	14.1	21.6	21.8	17.8
DPS (c)	74	80	84	88	93
DY	3.6	3.1	2.5	2.5	2.7
EV/EBITDA	11.00	10.8	10.2	8.1	8.6

Source: BVN, IJG

Recommendation	SELL
NSX Code	NBS
Market Cap (N$m)	7187.2
Shares in Issue (m)	206.5
Free float (%)	50
52 week high	3525
52 week low	2757
Expected Total Return (%)	-8.7

Namibia Breweries (NBS) released results for the year ended 30 June 2017. The results reflect excellent performance from the Namibian brewery, while the South African associate continued to deliver losses. Revenue was up 11.7% y/y and operating profit increased by 13.0% y/y. Basic EPS decreased 14.5% y/y to 154.2c, due to the losses in the associate, while HEPS increased by 23.6% from 185.7c to 229.6c. Dividends per share increased by 5.0% from 80c to 84c.

	FY17	FY16	%Δ
Sales	2,610,060	2,337,270	11.7%
Royalties	98,918	88,615	11.6%
Operating Profit	611,013	540,674	13.0%
Equity (loss)/profit from associate (JV)	(155,717)	(11,464)	1258.3%
Profit for the year	318,428	372,470	-14.5%

Revenue increased by 11.7% as overall volumes increased by 8%. This was driven by the large annual increase in volumes exported to South Africa, which was up by 46%. On the other hand, volumes in Namibia declined by 3% as a tough economic environment weighed on sales. Once again, the beer made up the majority of volumes, accounting for 94% of sales while softs made up the remaining 6%. Export markets also showed slight growth of 2%, driven mostly by good volume growth in Tanzania, which management indicated as their best performer. Mozambique, was the only export market which disappointed.

Operational performance improved slightly, as the operating profit margin expanded from 22.3% to 22.6%, owing largely to the decrease in administration and marketing expenses as well as a decrease in repairs and maintenance. The gross profit margin declined to 62.9% from 64.6% as the cost of raw materials increased by 17.2%.

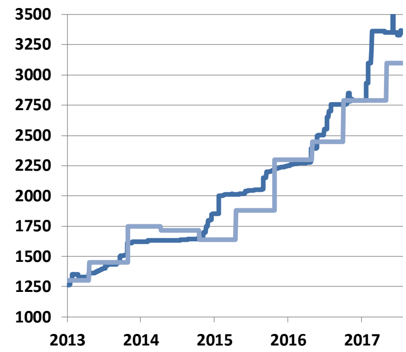
Once again, news from South Africa was slightly disappointing. Equity losses from the associate were larger than we forecasted, as losses from ongoing operations amounted to N$159.7 million.

Additionally, fair value adjustments to Plant, Property, and Equipment, impairments of assets and recognition of liabilities resulted in further equity losses of N$68 million, as was reported in the 1H17 results. However, according to management, the South African operation is gaining market share and “still in line with ambitions”.

Furthermore, Heineken SA plan to continue to expand their portfolio, which will consist of Heineken SA acquiring Stellenbrau Craft beers and the recent relaunch of Tafel lager in South Africa. Management claim the relaunch of Tafel Lager in South Africa has “exceeded all expectations”, which bodes well for the prospects of Namibia Breweries products in South Africa. Additionally, royalty income has increased by 11.6%, which indicate decent growth in products sold under licence.

Pending further analysis of the FY17 results and management discussion, we maintain our SELL recommendation on Namibia Breweries, as the price of the share is overvalued in our opinion. Please note that our target price and recommendation will be revised with our full report on the FY17 results.

NBS Share Price vs Target Price



Dividends

Notice is hereby given that a final dividend of 42 cents per ordinary share was declared for the period ended 30 June 2017. Bringing the total dividends to 84c for the financial year.

- Last day to trade: 6 October
- Ex-date: 9 October
- Payment date: 10 November

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