



NAMIBIA BREWERIES LIMITED

FY18 Results Review

September 2018

Research Analyst:

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0,0005	4,85%
0,0003	13,04%
0,201	50,00%
0,0003	14,29%
0,0005	12,50%

Namibia Breweries Ltd

FY18 Results Review

Target Price (c) 3550

Current Price (c) 4503

Year End 30 June	2016	2017	2018	F2019	F2020	Recommendation	SELL
Revenue (N\$m)	2,426	2,708	2,687	2,850	3,075	NSX Code	NBS
Operating Profit	541	611	613	618	663	Market Cap (N\$m)	9,300
HEPS (c)	186	230	209	201	218	Shares in Issue (m)	206.5
HEPU growth (%)*	(0.7)	24	-9.1	-3.6	8.6	Free float (%)	50
PE	13.7	16.4	21.6	22.4	20.6	P/B (x)	5.7
DPS (c)	80	84	92	100	116	52 week high	4503
DY	3.1	2.2	2.0	2.2	2.6	52 week low	3480
EV/EBITDA	10.8	13.8	12.4	10.4	9.1	Expected Total Return (%)	-21.2

Source: NBS, IJG

*HEPS and HEPS growth based on prior calculation methodology

FY18 Results

Namibia Breweries (NBS) released results for the financial year ended 30 June 2018. The financial results have surprised to the upside with Heineken South Africa (HSA) posting a smaller loss than expected. Revenue for the period fell 0.8% y/y (IJG est: -2.7%) while operating profit increased by 0.3% y/y (IJG est: -7.4%). Revenue (net of discount allowed) beat our expectations by 2.0%. Basic EPS **increased** by 24.9% y/y to 192.6cps (FY17: 154.2cps), largely due to the reduced losses in the associate although a higher effective tax rate offset some of the gain. HEPS **decreased** by 9.1% when including the loss from associate (previous calculation method) which the financials note was an incorrect measure of calculation. The NBS results show HEPS increasing by 22.9%. A dividend of 46cps was declared for 2H18, along with a 193.67cps special dividend.

Sales and Volumes

The fall in revenue stems from a decrease in sales volumes of 5.5% y/y. Namibian volumes experienced pressure, exacerbated by a “pervasive discount culture in Namibian trade”, according to the results. Tafel Lager exceeded volume targets due to the Tafel Light brand’s popularity. As well as this demand remained strong in South Africa which saw NBS exporting more than the contracted volumes to Sedibeng. Royalty income rose by 4.5% overall and approximately 2% from HSA.

Equity Loss from Associate

The equity loss from associate fell by 79.1% y/y to N\$33.4m (a 26.2% smaller loss than what IJG expected). Our expectations were based on management guidance plus a margin for error. It is very encouraging to see management’s guidance on the efficiency of the SA operations materialising. This gives credibility to the net profit breakeven estimate for FY19. Sedibeng volumes rose to 4.4m hectolitres by the end of 2017, levels where we expect operating efficiencies to exist. Management today confirmed that HSA achieved an operating profit for the period ended 30 June 2018, ahead of expectations.

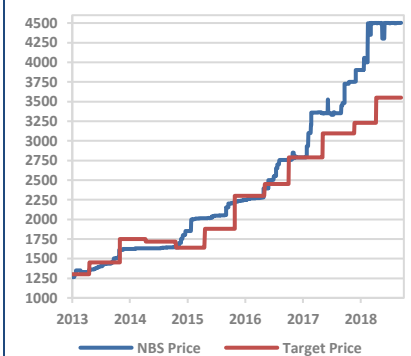
Operating Margin

Operating profits grew by 0.3%, well ahead of our expectations. Management continue to focus on cost efficiencies due to the challenging operating environment in Namibia and this seems to be paying off. Operating expenses decreased by 1.1% largely due to a 7.7% decrease in raw materials and consumables, as well as railage and a transport cost decrease of 7.2%. Employment costs increased by 3.0% y/y. The operating margin expanded by 20bp.

Conclusion

Pending further analysis of the FY18 results and management discussion, we maintain our **SELL** recommendation on Namibia Breweries. We have not adjusted our target price from the 1H18 results and thus this report does not constitute a revision of our recommendation. The results have come in above our expectations once again. Recent guidance on the performance of HSA seems to be accurate and a net profit in FY19 seems to be on track, ahead of our expectations. Overall the results were above expectations given the tough operating environment (increased competition, changing consumer preferences, as well as a lacklustre economy in Namibia).

NBS Share Price vs Target Price



Dividends

A final dividend of 46 cents per ordinary share was declared for the period ended 30 June 2018.

A special dividend of 193.67 cents per ordinary share was declared for the FY18.

- Last day to trade: 28 September 2018
- Payment date: 9 November 2018



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