



# **NAMIBIA BREWERIES LIMITED**

## **FY20 Initial Impression**

### **September 2020**

*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

### FY20 Initial Impression

**Target Price (c)** **3810**

**Current Price (c)** **3301**

Year End 30 June	2017	2018	2019	2020	F2021	Recommendation	HOLD
Revenue (N\$ m)	2,708	2,687	3,098	2,646	3,051	NSX Code	NBS
Operating Profit	611	613	652	453	661	Market Cap (N\$ m)	6,818
HEPS (c)	230	194.6	288.6	125.6	191	Shares in Issue (m)	206.5
HEPS growth (%)	24	-9.1	48.3	-56.5	52	Free float (%)	50
PE	16.4	21.6	16.7	26.3	17.3	P/B (x)	3.9
DPS (c, ordinary)	84	286	221	106	110	52 week high	4836
DY	2.2	6.4	4.6	3.2	3.3	52 week low	2590
EV/EBITDA	13.8	12.0	12.5	11.6	8.4	Expected Total Return (%)	15.3

Source: NBS, IJG

### FY20 Results

Namibia Breweries (NBS) released results for the year ended 30 June 2020. Revenue decreased by 14.6% y/y to N\$2.646 billion. Basic EPS fell by 71.9% y/y to 126.5 cps, as a result of decreased volumes, losses at the associate, and margin compression. HEPS fell by 56.5% y/y (we remove the tax loss writeback from the base period in our calculation). Overall volumes declined by 16.6% y/y, with Namibian volumes falling 14.6% y/y on the back of the ban on alcohol sales in April and May this year. According to NBS, pre-COVID-19 volumes exhibited growth over the prior year. Profit for the year declined by 71.7%, but it should be noted that the base year includes the tax loss writeback of N\$334.7 million, which substantially inflated profits. A final dividend of 53cps was declared for 2H20, with total ordinary dividends for FY20 up 6% y/y as a result.

### Sales and Volumes

NBS' overall volumes declined by 16.6% y/y, with Namibian volumes declining by 14.6% y/y and export volumes (ex-SA) growing by 10.4% y/y. Volumes shipped to SA declined by 22.9% y/y, which is due to the lack of shipments to SA during the more severe lockdowns imposed on that country. The contractual agreement remains in place with regards to volumes to be shipped to SA, and these volumes have slowly commenced in 1H21 according to management. As the contractual dates are similar to the NBS financial year we should see the contractual volumes shipped in full in FY21, but this will be substantially lower than in FY19. During FY20 no price increases were put through on the returnables portfolio, the largest product line. Discounts allowed for the period dropped by 22.0% y/y, more than the decline in volumes.

### Equity Profit from Associate

NBS recorded an equity loss from associate of N\$76.70 million for FY20, well below our expectations of course due to the severe lockdown which prohibited alcohol sales in SA from 27 March to 1 June, and again from 12 July through to 17 August. This marks a sharp turnaround from the equity profit of N\$76.98 million recorded in 1H20. The half year figure was already below our expectations.

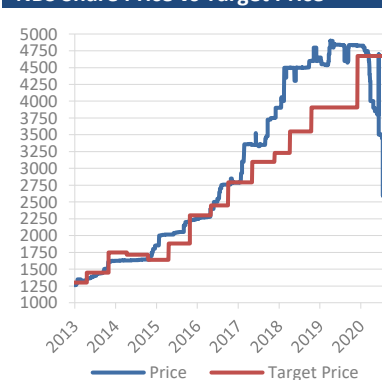
### Operating Margin

The operating margin fell to 17.1% in FY20 from 21.1% in FY19. Operating profit fell by 30.5% y/y to N\$453.2 million, well below our expectations. Operating expenses were well contained and a focus for management through the pandemic period, but could only be reduced by 10.3% versus the 16.6% decline in volumes and 14.6% decline in revenue. One of the more impressive feats was decreasing employment costs by 14% over the period. The drop in raw materials and consumables costs was in line with that of volumes at 16.3%. Administration and marketing expenses only fell by 1.0% as new products were launched and marketed during FY20. Railage and transport costs declined by 11.1% while repairs and maintenance costs grew by 30.9%.

### Conclusion

2020 has been a challenging one for most businesses, including NBS. The HSA component and SA volumes performed much worse than the Namibian operations due to the severity of the lockdowns in SA. We believe that the Namibian volumes will tick up to within single digit percentages to the FY19 volumes in FY21. The SA operations may take more time to recover due to significantly higher economic toll of the severe South African lockdowns. However, the premium space should see HSA better placed for a recovery than SAB in the SA market. We have included rough adjustments to our model for this initial impression which see our target price drop to N\$38.10. Pending further analysis of the FY20 results and management discussion, we maintain our **HOLD** recommendation on NBS. Our full review will see changes to our target price.

### NBS Share Price vs Target Price



### Dividends

A final dividend of 53 cents per ordinary share was declared for the year ended 30 June 2020.

- Last day to trade: 2 October 2020
- Record Date: 9 October 2020
- Payment Date: 13 November 2020





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