



Namibia Breweries Limited FY22 Initial Impression September 2022



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Namibia Breweries Ltd

FY22 Initial Impression

Current Price (c)

4249

Year End 30 June	FY18	FY19	FY20	FY21	FY22	Recommendation*	HOLD
Revenue (N\$ m)	2,687	3,098	3,392	3,406	3,929	NSX Code	NBS
Operating Profit (N\$ m)	613	652	453	613	668	Market Cap (N\$ m)	8,775
HEPS (c)	194.6	288.6	125.6	178.2	261.6	Shares in Issue (m)	206.5
HEPS growth (%)	-9.1	48.3	-56.5	41.9	46.8	Free Float (%)	50
PE	21.6	16.7	26.3	19.1	16.0	52-Week High (c)	5100
DPS (c, ordinary)	286	221	106	56	0	52-Week Low (c)	3411
DY	6.4	4.6	3.2	1.6	0		
EV/EBITDA	12.0	12.5	11.6	11.5	10.19		

Source: Namibia Breweries Limited, IJG Securities

FY22 Results

Namibia Breweries (NBS) released results for the year ended 30 June 2022 (FY22). Revenue for the period increased by 15.4% y/y to N\$3.93 billion. Basic EPS shot up by 44.3% y/y to 262.5 cps on the back of healthy profit numbers from strong sales volume growth in South Africa as well as through firm cost management despite facing challenges procuring raw materials. HEPS rose by 46.8% y/y to 261.6 cps. Profit for the year increased by 42.8% y/y to N\$539.9 million and ROE improved from 20.6% in FY21 to 24.8% in FY22. No final dividend has been declared for the period, as the potential Heineken transaction is conditional to NBS not declaring dividends. NBS, however, expects the dividend cycle to return to normal after the transaction gets concluded.

Cash and Cash Equivalents grew by 24.8% y/y to N\$751.5 million largely due to the dividend payment freeze. NBS's total liabilities fell by 3.2% y/y to N\$1.21 billion following the repayment of N\$120 million on its medium-term loan facility. As a result, NBS' debt-to-equity fell from 55.3% in FY21 to 40.7% in FY22.

Heineken and Distell Namibia Transaction

Subsequent to the reporting period, on 5 September 2022, the Namibian Competition Commission notified NBS that the proposed NBS/Heineken/Distell transaction was approved with several conditions, including a five-year moratorium on retrenchments below management level, up to 10% of refrigerator space allocated to products of Namibian-controlled entities, the disposal of Heineken's Strongbow brand, and the establishment of a MSME Development Fund. On 9 September 2022, the South African Competition Commission recommended that the country's Competition Tribunal approves that Heineken Group, through Sunside Acquisitions, acquires a controlling interest in Namibian Breweries Investment Holdings and the flavoured alcoholic beverages, wine, and spirits operations of Distell Group Holdings. Management expects the Tribunal to give its final verdict towards the latter part of 2022, which should be the final hurdle. As a result, NBS' shareholding in Heineken SA has been classified as a discontinued operation while relevant non-core assets have been classified as non-current assets held for sale.

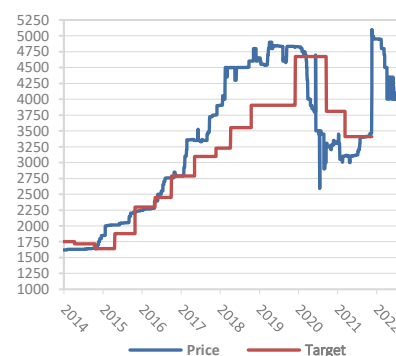
Sales and Volumes

NBS' overall volumes for the year rose by 12.0%. Following the rebound in volumes in FY21, Namibian volumes were relatively stable in FY22, dropping by 1.1% y/y. Due to challenging domestic conditions which continue to have an impact on disposable income, focus was placed on mitigating price increases through production efficiencies and cost management. Export volumes (ex-SA) grew by 15.0% y/y. Volumes shipped to South Africa also rebounded strongly during the year, increasing by 60.0% y/y. The rebound in this market has resulted in royalty income increasing by 34.6% y/y to N\$136.7 million and equity profit from associate coming in at N\$54.5 million (FY21: loss of N\$73.5 million). Management notes that growth in the premium market has been particularly strong in SA and that they are struggling to keep up with demand for particularly Windhoek beers.

Operating Margin

The operating margin deteriorated slightly from 18.1% in FY21 to 17.0% in FY22 as the growth in operating costs marginally outpaced revenue growth. Operating profit came in at N\$668.0 million, an increase of 8.2% y/y. Operating costs increased by 15.9% y/y, from a relatively low base considering the 7.1% y/y decline recorded in FY21. The increase is mostly attributable to a sharp increase in raw material and consumables costs as a consequence of global supply chain disruptions. As a result, raw material and consumables costs rose by 34.9% y/y to N\$1.03 billion in FY22 (FY21: -22.0%). Malt

NBS Share Price vs Target Price (c)



Dividends

No dividend was declared in accordance with the conditions of the potential Heineken SA disposal transaction. A special dividend of N\$26.35 per ordinary share is proposed and payable upon the successful conclusion of the Heineken transaction.



0.0005	13.04%
0.0003	50.00%
0.0001	14.29%
0.0003	12.50%
0.0005	

volumes have been secured until the end of FY23, including vessel space for the malt. Employment costs impressively fell by 7.3% y/y to N\$368.9 million.

Capital expenditure grew marginally from N\$138.0 million in FY21 to N\$139.0 million in FY22, despite management noting in the prior year's results release that it planned much higher capital investments in FY22 after the pandemic caused several delays to capital projects. The FY22 results release again noted that several large projects are in the pipeline for the next financial year, including the expansion of its solar plant after NBS acquired a further solar generation permit from the ECB which allows it to produce up to 30% of its own electricity. The current solar plant met 8.6% of NBS' electricity demand in the past year.

Conclusion

Despite the logistical challenges, raw materials supply constraints and the challenging domestic economic environment, Namibia Breweries again delivered impressive results driven by a strong rebound in South African volumes. Pending further analysis of the FY22 results and a discussion with management, we maintain our **HOLD** recommendation on Namibia Breweries. Our target price will be updated with the full review.

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