

GNAM Investment Competition

Pan-Atlantic University – Lagos Business School

“International Breweries Plc – A Sleeping Giant”

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**LAGOS
BUSINESS
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PAN-ATLANTIC UNIVERSITY



**International
Breweries Plc**

Company Profile: International Breweries

- ▶ Incorporated in 1971 and commenced business in 1978
- ▶ Listed on the Nigerian Stock Exchange in 1995
- ▶ Head office in Osun State with Trophy lager beer as flagship
- ▶ The company change its financial year end from December to March in 2012/2013 to align with SAB Miller (its parent)
- ▶ Paid 1.1B in dividend for 2016
- ▶ 12.7% increase in revenue in 2016



**International
Breweries Plc**

Overview of the Nigerian Brewing Industry

- ▶ The history of the Nigerian Brewing industry dates back to the period prior to the Nigerian independence with the establishment of Nigerian Breweries Limited in 1946 as pioneer brewer in Nigeria.
- ▶ Nigeria is Africa's largest alcohol consumer, accounting for 36% of Africa's formal alcohol market according to Deutsche Bank Market Research.
- ▶ The growth of the brewing industry in Nigeria in Nigeria is largely driven by a huge population and growing middle class, as the industry has grown at annually at an average of 10%
- ▶ Beer makes up over 90% of alcohol sales in Nigeria

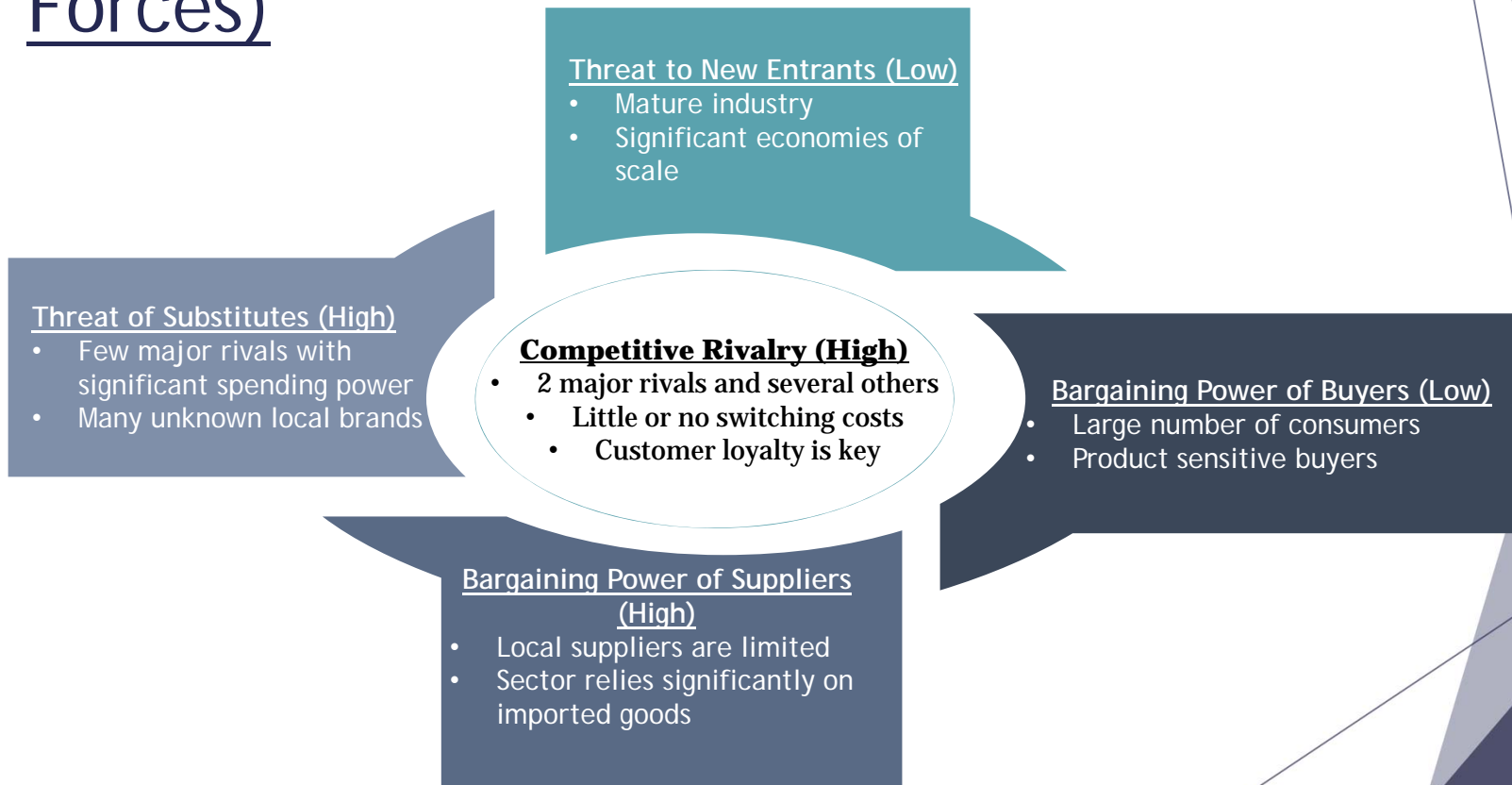
Macroeconomic Environment and Other Stats

	2012	2013	2014	2015	2016
Population (million)	165	169	174	179	184
Economic Growth (GDP, annual variation in %)	4.2	5.5	6.2	2.8	-1.6
Industrial Production (annual variation in %)	1.5	0	5.5	0.3	-5.7
Unemployment Rate	7.6	7.1	4.8	4.3	5
Inflation Rate (CPI, annual variation in %,)	12.2	8.5	8.1	9	15.7
Policy Interest Rate (%)	12	12	13	11	14
Exchange Rate (vs USD)	156.2	160	183	199.1	304.7

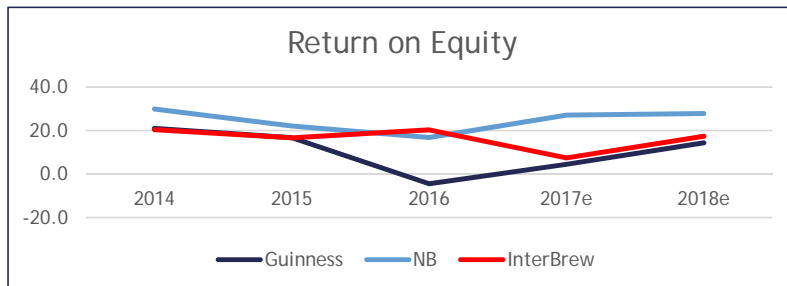
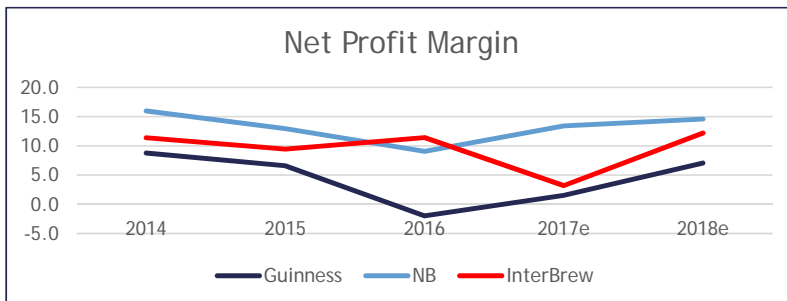
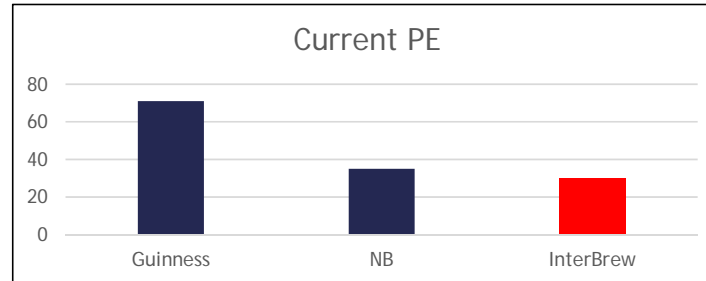
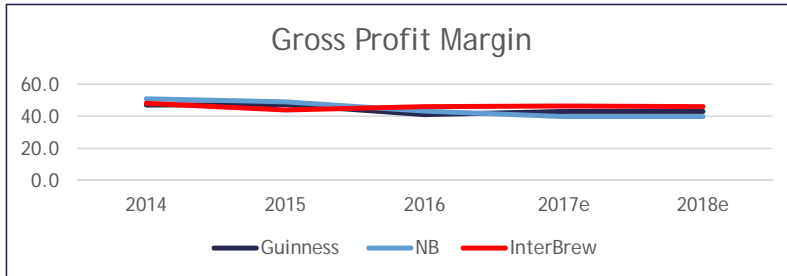
The impact of the volatility of the Nigerian economy on business cannot be overemphasized. However, we will focus on a few key indices:

- Population growth - Which signifies an increasing market for consumer markets
- Inflation rate - Which hit double digit in 2016, affecting consumer spending power and cost of input for manufacturers
- Exchange rate - This is perhaps the biggest factor, because most raw materials are imported

InterBrew - Industry Analysis (Porter's 5 Forces)

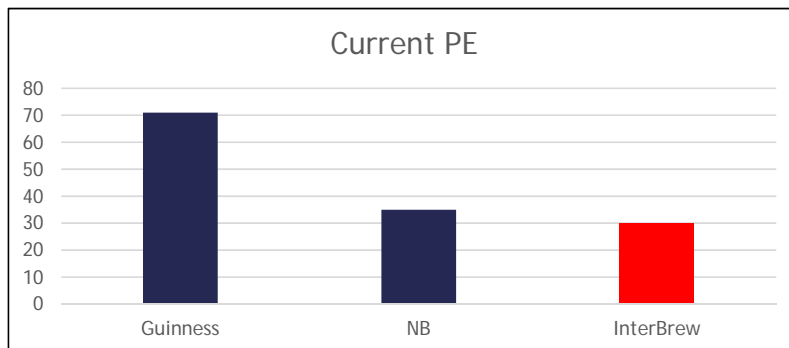
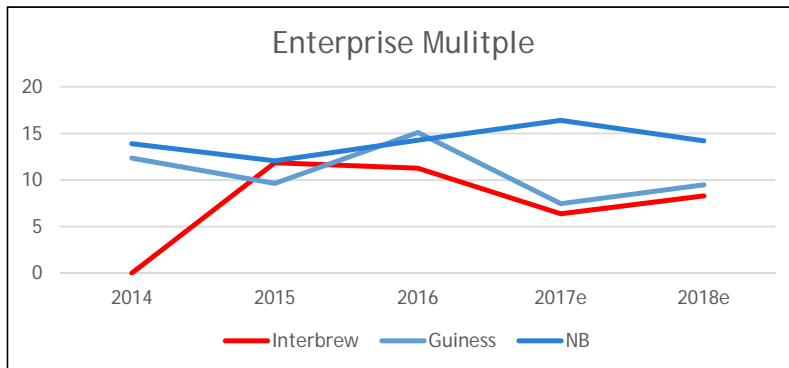


Competitor Analysis



- Major competitors by market dominance are Nigerian Breweries (NB) and Guinness Nigeria Plc (Guinness)
- All companies have similar gross profit margins. However, InterBrew sits right in the middle when net margins are compared.
- With a current PE ratio of about 30x, it is the least valued amongst the three stocks

Valuations



- Of the two valuation metrics used - PE ratio and Enterprise multiple, we can see that InterBrew is clearly undervalued.
- Factoring the merger of company with Intafact and Pabod Breweries (which was recently approved by shareholders of both companies), the company plans to shift its focus to "value brands" (cheaper beverages).
- Given the rising population in Nigeria, we are of the view that this strategy shift will continue to yield positive results for the company.

Key Risks

- **Monetary Policy** - The Central Bank of Nigeria (CBN), has continued its advocacy of a tight monetary environment. This will put continuous pressure on borrowing cost, so overall, finance cost will always be a key risk in this industry. We can see how this affected the financial performance of Guinness in 2016, which led to a net loss overall
- **Foreign Exchange (FX)** - This continues to be a major issue for any producer that imports raw materials into Nigeria - as is the case for Nigerian players in the brewing sector. However, there appears to be relative FX liquidity in the market given the recent rise in oil prices (Nigeria's major FX earner). So we do not anticipate any significant volatility for this area in the short term.
- **Natural factors** - The recent flooding in key agricultural regions, pose a threat to this industry, as scarcity means increased cost for manufacturers. This inevitably means rising cost of production.

Conclusion



- Based on our analysis, we strongly believe that International Breweries is a solid buy, as it appears to be undervalued based on a PE ration of 30x compared to rivals, and a low enterprise multiple of 6.36 compared to closest competitors. This sentiment is shared by the stock market as seen in the share price appreciation over the past 5 years (over 200%)