

FX loss still a big clog in the wheel

International Breweries demonstrated a relatively stable performance across key metrics in H1 2024. The company, known for its Trophy Lager, reported a remarkable 92.2% y/y Revenue growth, reaching N223.2bn, up from N116.13bn in the same period of 2023. On a q/q basis, revenue also increased by 16.2%, rising to N119.98bn from N103.22bn in Q1 2024. This substantial topline growth was primarily driven by a price increase implemented earlier in the year, which was necessary to offset the deteriorating business margins in the face of the country's high inflation. However, the sharp rise in the cost of raw materials and overheads led to a significant increase in the cost of sales, which surged by 82.5% y/y to N144.99bn, up from N79.43bn in H1 2023.

IntBrew successfully completed its 161.2bn rights issue in June, offering shareholders six new ordinary shares for every existing share held at an issue price of N3.65/s. The management plans to utilize the net proceeds from the offering to reduce the company's leverage, positioning it for profitability following the construction of the Gateway plant, the second-largest brewery in Africa, which cost over \$250 million. Following the rights issue, IntBrew now maintains a healthier balance sheet, with its N474bn in borrowings fully repaid. Additionally, the company's liquidity has improved significantly, as its cash and cash equivalents increased by 50.3%, rising from N123.5bn in December 2023 to N185bn at the end of June.

IntBrew has secured the second position in the brewing sector, significantly increasing its market share from around 5.9% pre-merger in 2017 to approximately 22.6%. This growth was driven by the company's strategy of offering competitively priced products, which effectively boosted sales. However, the current economic environment, characterized by a substantial increase in the cost of doing business, has severely impacted the company's profit margins. As a result, IntBrew implemented price increases across its product segments earlier in the year.

While we do not expect the company to return to profitability in 2024, the recovery could be faster than anticipated, particularly as it has fully repaid its foreign exchange obligations. We upgrade our recommendation on International Breweries to a HOLD from a SELL previously with a price target of N4.2/s, up from N2.20/s previously. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50. Current Price: N4.6/s.

Recommendation

Hold

Target Price

4.20

Closing Price

4.60

*Price as of 14th August

Key data

Year to December, Nbn				
Metrics	2023	2024e	2025e	2026e
Sales	260.6	418.3	512.4	627.7
EBITDA	41.2	54.2	91.6	111.8
Net Profits	(70)	(95.9)	(5.1)	9.9
EV/EBITDA	13.5x	18.5x	18.1x	15.9x
Market cap.	N124.37bn (US\$77.73m)			
Bloomberg	INTBREW:NL			
Reuters	INTBREW:LG			

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INTERBREW PLC H1 2024, Nm

Nm, except where mentioned otherwise	H1'24	H1'23	y/y	Q1'24	Q1'23	y/y
Revenue	223,199	116,131	92.2%	119,983	103,216	16.2%
Cost of Sales	-144,999	-79,431	82.5%	-78,189	-66,810	17.0%
Gross Profit	78,200	36,700	113.1%	41,794	36,406	14.8%
SG&A	-41,496	-17,238	140.7%	-22,864	-18,632	22.7%
Impairment (Loss)/Writeback	17	-156	NA	2	15	NA
OPEX	-41,479	-17,394	138.5%	-22,862	-18,618	22.8%
EBITDA	36,721	19,306	90.2%	18,932	17,789	6.4%
Depreciation and Amortization	-22,268	-18,118	22.9%	-11,480	-10,788	6.4%
EBIT	14,453	1,188	1116.4%	7,452	7,001	6.4%
Other Income	7,993	705	1033.7%	3,136	4,857	-35.4%
Operating Profit / (Loss)	22,445	1,893	1085.6%	10,587	11,858	-10.7%
Net Finance Income / (Cost)	-30,681	-6,740	355.2%	-21,906	-8,776	149.6%
FX Loss	-141,999	-36,587	288.1%	-49,562	-92,436	-46.4%
Profit before tax	-150,235	-41,433	262.6%	-60,881	-89,354	-31.9%
Minimum tax	0	0	n/a	0	0	n/a
Tax Income / (expense)	43,452	17,840	143.6%	14,489	28,963	-50.0%
Profit from continuing operations	-106,783	-23,593	352.6%	-46,391	-60,392	-23.2%
Profit from discontinued operations	-	-	-	-	-	-
Profit / (Loss) After Tax	-106,783	-23,593	352.6%	-46,391	-60,392	-23.2%
Margins:	H1'24	H1'23	y/y	Q1'24	Q1'23	y/y
Gross margin	35.0%	31.6%	3.4ppt	34.8%	35.3%	-0.4ppt
Opex Margin	18.6%	15.0%	3.6ppt	19.1%	18.0%	1.0ppt
EBITDA Margin	16.5%	16.6%	-0.2ppt	15.8%	17.2%	-1.5ppt
PBT Margin	-67.3%	-35.7%	-31.6ppt	-50.7%	-86.6%	35.8ppt
Net margin	-47.8%	-20.3%	-27.5ppt	-38.7%	-58.5%	19.8ppt

Source: Company, CSL Research

Strong revenue growth, price hike as driver.

International Breweries, like other brewers, faced significant macroeconomic challenges in the 2023 financial year. These included the impact of the cash crunch and fuel scarcity in Q1 2023, which severely affected sales volumes, followed by FX scarcity and steep Naira depreciation. High inflation and the resulting decline in household real income also contributed to a slowdown in Revenue growth during the year. To adapt to the current market conditions, sustain operations, and protect margins, the company implemented an upward price adjustment of approximately 23.5% across its product range in Q1 2024. This price increase supported a substantial rise in Revenue which cushioned margin pressures and helped manage the significant FX losses impacting the bottom line. International Breweries' unaudited H1 2024 financial results showed a remarkable 92.2% y/y Revenue growth, reaching N223.2bn, up from N116.13bn in H1 2023. On a q/q basis, Revenue increased by 16.2%, from N103.22bn in Q1 2024 to N119.98bn in Q2 2024. Consequently, we have revised our Revenue growth forecast for FY 2024 to N418.26bn up 60.5%y/y, up from our previous forecast of N311.68bn.

Significant rise in cost of inputs.

A steep rise in raw materials and overhead costs caused a significant rise in Cost of Sales (ex-depreciation), which was up 82.5% y/y to N144.99bn from N79.43bn (H1 2023). Despite the significant rise in Cost of Sales (COS), Gross Margin improved to 35.0% from 31.6% (H1 2023), with Gross Profit reaching N78.2bn, a 113.1% increase from N36.7bn in H1 2023. Q/q, Gross Profit also grew 14.8% rising to N41.79bn from N36.41bn in Q1 2024. We have revised our COS forecast for FY 2024 to N285.4bn from the previous N145.5bn.

Driven by the high-cost business environment, OPEX (ex-depreciation) which includes Admin, Marketing and Promotion Expense was up 140.7% y/y, reaching N41.5bn from N17.24bn in H1 2023. IntBrew recorded Other Income (from Scrap sales, sundry & royalty) of N7.99bn compared with N705m in H1 2023, which supported an increase in the Operating Profit to N22.45bn compared with N1.89bn in H1 2023. The management's strategy of sourcing raw materials locally seems far-fetched as the business still relies on imported raw materials for production hence, exposure to FX pressure.

Business liquidity & strategy.

IntBrew successfully completed its 161.2bn rights issue in June, offering shareholders six new ordinary shares for every existing share held at an issue price of N3.65/s. The management plans to utilize the net proceeds from the offering to reduce the company's leverage, positioning it for profitability following the construction of the Gateway plant, the second-largest brewery in Africa, which cost over \$250 million. Following the rights issue, IntBrew now maintains a healthier balance sheet, with its N474bn in borrowings fully repaid. Additionally, the company's liquidity has improved significantly, as its cash and cash equivalents increased by 50.3%, rising from N123.5bn in December 2023 to N185bn at the end of June.

The first-phase commencement of the use of gas-powered trucks for products distribution is expected to effectively come onstream in H2 2024 as 180 trucks out of the 540 trucks expected will be on board in H2. We expect this to positively impact the company's OPEX (Selling, General & Distribution) as diesel prices remain high. However, with only 180 expected in H2, we expect to begin to see the full impact in 2025. Due to the substantial rise in OPEX seen in H1, we have revised our FY 2024 OPEX forecast to N81.6bn from N77.9bn previously.

Outlook

We believe International Breweries Plc's earnings will likely remain under pressure as the company continues to navigate challenging macroeconomic conditions. However, based on our expectations for topline growth and cost of sales, we anticipate an improvement in the company's operating performance in the near term. We forecast a gradual recovery in profitability, driven primarily by price increases and enhanced operational efficiency.

The company has already exceeded our FY 2024 estimate for FX losses, which we initially projected at N34.5bn. As of H1 2024, International Breweries reported a substantial net foreign exchange loss of N141.98bn, with 75% (N106.55bn) realized and 25% (N35.45bn) unrealized. We have adjusted our net FX loss forecast for FY 2024 to N110.5bn hence we expect the company to close FY 2024 with a loss of N95.95bn. However, since the company has fully settled its foreign currency obligations that could have caused substantial FX losses in the coming years, we do not anticipate significant FX losses going forward. With its new capital structure, International Breweries is expected to have increased flexibility to capitalize on growth opportunities while reducing earnings volatility.

Valuation: HOLD recommendation

We upgrade our recommendation on International Breweries to a HOLD from a SELL previously with a price target of N4.2/s, up from N2.20/s previously. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50. Current Price: N4.6/s.

Nigeria | Brewers | IntBrew Plc.

15 August 2024

Income Statement	2022	2023	2024e	2025e	2026e
Revenue	218,650,267.0	260,598,228.0	418,260,155.9	512,368,691.0	627,651,646.5
Cost of sales	114,631,311.0	145,527,342.0	284,416,906.0	322,792,275.3	395,420,537.3
Gross Profit	104,018,956.0	115,070,886.0	133,843,249.9	189,576,415.7	232,231,109.2
SG&A Expenses	68,268,529.0	75,780,873.0	81,560,730.4	99,911,894.8	122,392,071.1
Operating income/ (expense)	283,200.0	1,912,950.0	1,912,950.0	1,912,950.0	1,912,950.0
EBITDA	36,033,627.0	41,202,963.0	54,195,469.5	91,577,470.9	111,751,988.1
Depreciation, amort. & ROU	42,946,606.0	41,052,784.0	43,474,003.7	44,839,087.4	46,247,034.7
Impairment of financial assets	33,823.0	1,273,778.0	-	-	-
Writeoffs on PPE	913,919.0	7,502,573.0	553,809.0	571,198.6	589,134.2
EBIT	(7,860,721.0)	(8,626,172.0)	10,167,656.9	46,167,185.0	64,915,819.2
Interest Income	5,165,679.0	11,464,181.0	16,737,570.1	19,963,455.3	24,038,493.8
Interest Expense	10,677,670.0	29,724,445.0	37,652,513.5	34,207,513.5	34,207,513.5
Net Foreign Exchange Loss	13,471,751.0	70,380,858.0	110,500,000.0	40,500,000.0	40,500,000.0
EBT	(26,844,463.0)	(97,267,294.0)	(121,247,286.5)	(8,576,873.2)	14,246,799.5
Tax Credit / (Expense)	5,218,174.0	27,241,384.0	25,300,000.0	3,501,243.0	(4,274,039.9)
Net Profit/(Loss)	(21,626,289.0)	(70,025,910.0)	(95,947,286.5)	(5,075,630.2)	9,972,759.7
Earnings per Share, N	(0.8)	(2.6)	(3.6)	(0.2)	0.4
Number of Shares Outstanding (000)	26,862,069.0	26,862,069.0	26,862,069.0	26,862,069.0	26,862,069.0

Cash Flow Summary	2024e	2025e	2026e
Operating Cash Flow	226,272,132.3	65,805,927.7	114,367,654.3
Investing Cash Flow	(52,168,804.4)	(53,806,904.9)	(55,496,441.7)
Financing Cash Flow	(130,000,000.0)	-	-
Closing Cash & Cash Equivalents	167,595,751.9	179,594,774.7	238,465,987.4

Ratio Analysis	2022	2023	2024e	2025e	2026e
Gross Margin	47.6%	44.2%	32.0%	37.0%	37.0%
EBITDA Margin	16.5%	15.8%	13.0%	17.9%	17.8%
EBIT Margin	(3.6%)	(3.3%)	2.4%	9.0%	10.3%
PBT Margin	(12.3%)	(37.3%)	(29.0%)	(1.7%)	2.3%
Net Profit Margin	(9.9%)	(26.9%)	(22.9%)	(1.0%)	1.6%
ROE	(18.4%)	(60.7%)	(18.0%)	(1.0%)	1.9%
ROCE	(2.4%)	(1.7%)	3.5%	16.3%	22.1%
OPEX/Sales	31.2%	29.1%	19.5%	19.5%	19.5%
FCF Margin			41.6%	2.3%	9.4%
Net debt/Equity (x)	1.41x	2.17x	(0.31x)	(0.34x)	(0.44x)
Net debt/EBIT (x)	(21.02x)	(29.08x)	(16.48x)	(3.89x)	(3.67x)
Assets Turnover (x)	0.45x	0.36x	0.67x	0.78x	0.83x
Assets/Equity (x)	4.13x	6.28x	1.17x	1.25x	1.41x
Interest cover (x)	(0.74x)	(0.29x)	0.27x	1.35x	1.90x
Effective Tax Rate	(19.4%)	(28.0%)	(20.9%)	(40.8%)	(30.0%)
EV/EBITDA		13.54x	18.51x	18.07x	15.87x

Source: Company, CSL estimates

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	BUY	HOLD	SELL	Not Rated	Total
Coverage universe	16	11	3	3	33
% distribution	48%	33%	9%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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Price targets:	Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market and may not occur if the company's earnings fall short of estimates.
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