

NAMIBIA BREWERIES LIMITED
FY19 Initial Impression
September 2019

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Namibia Breweries Ltd

FY19 Initial Impression

Target Price (c)	***3905***
Current Price (c)	4800

Year End 30 June	2016	2017	2018	2019	F2020
Revenue (N$m)	2,426	2,708	2,687	3,098	3,075
Operating Profit	541	611	613	652	663
HEPS (c)	186	230	194.6	288.6	218
HEPU growth (%)*	(0.7)	24	-9.1	48.3	-23.4
PE	13.7	16.4	21.6	10.6	20.6
DPS (c, ordinary)	80	84	92	100	116
DY	3.1	2.2	2.0	2.1	2.6
EV/EBITDA	10.8	13.8	12.0	12.5	9.1

Recommendation	SELL
NSX Code	NBS
Market Cap (N$m)	9,913
Shares in Issue (m)	206.5
Free float (%)	50
P/B (x)	5.1
52 week high	4900
52 week low	4503
Expected Total Return (%)	-18.6

Source: NBS, IJG
**HEPS and HEPS growth based on current calculation methodology and adjusts (removes) for deferred tax asset*

FY19 Results

Namibia Breweries (NBS) released results for the financial year ended 30 June 2019. The financial results have yet again surprised to the upside. Revenue increased by 15.3% y/y to N$3.09 billion. Basic EPS increased by 134.1% y/y to 450.8 cps, partially due to a deferred tax asset recognised by Heineken SA, which contributed N$334.7 million to NBS' profits. Normalising HEPS for the deferred tax asset recognition sees the HEPS growth rate drop to 48.3% y/y, which is still impressive in our view. The increase in volumes shipped to SA drove the top line growth. A dividend of 50cps was declared for 2H19, along with a 121.05cps special dividend.

Sales and Volumes

The increase in revenue stems from overall volume growth of 13.8%. The results note that this is due to a 3.9% increase in Namibian volumes and 45.5% growth in production volumes to South Africa. According to management, export volumes to international markets declined by 31%. Export volumes to international markets however only make up 2.6% of volumes, and the decline thus didn't have a significant impact on total revenue. Royalty income rose by 15.9%, indicating double digit growth in NBS products sold in SA.

Equity Profit from Associate

NBS recorded an equity profit of N$450.5 million from associate for FY19, ahead of expectations. N$334.7 million of this profit however stems from a deferred tax asset recognised by Heineken SA. The directors of Heineken SA have assessed that Heineken SA's assessed loss of N$1.3 billion is recoverable and have thus recognised a deferred tax asset arising from the assessed loss. This indicates a big change in expected profitability over the next couple of years. Management stated that plans to expand Sedibeng's capacity to 7.5 million hectolitres are still on track. Profits are likely to be reinvested or used to reduce debt over the next three years and as such no dividends are expected.

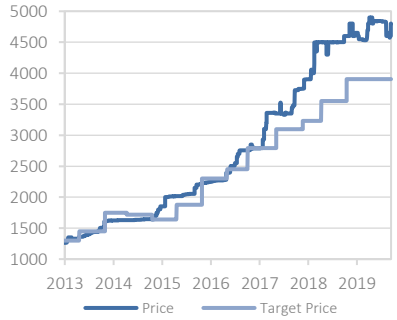
Operating Margin

Operating profit grew by 6.3%, well ahead of our expectations once again. Management continues its focus on managing costs and increasing efficiencies throughout the value chain. Operating expenses increased by 17.9% due to increased volumes. As a result, NBS' operating margin contracted to 21.0% from 22.8% in FY18. NBS however notes in the results release that the higher volumes contributed to lower costs per unit. Raw materials and consumables costs increased by 30.1%. The majority of operating expenses grew more than we expected. This is partly due to higher volumes exported to SA but not completely.

Conclusion

Pending further analysis of the FY19 results and management discussion, we maintain our **SELL** recommendation on Namibia Breweries. We have not adjusted our target price from the FY18 results and thus this report does not constitute a revision of our recommendation. The results have come in above our expectations for a fourth period, and it seems that the strategic move to enter the South African market is finally starting to bear fruit.

NBS Share Price vs Target Price



Dividends

A final dividend of 50 cents per ordinary share was declared for the year ended 30 June 2019.

A special dividend of 121.05 cents per ordinary share was declared for the year ended 30 June 2019.

- Last day to trade: 27 September 2019
- Payment date: 8 November 2019



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