Nigeria's Breweries & Beverages Industry Report

Prepared by

LEADCAPITAL LIMITED

April 2008

GDP (PPP) – US$'bn[1]	294.8
GDP – Real Growth Rate (%)	6.3
GDP Composition by Sector (%)	
Agriculture	17.6
Industry	53.1
Services	29.3
GDP Per Capita (US$)	1,400
Population (million)	138.2
Labour Force (million)	50.13
Unemployment Rate (%)	5.8
Exports (US$'bn)	61.81
Imports (US$'bn)	30.35
Foreign Reserves (US$'bn)	59.7
Inflation Rate (%)	10.5
Interest Rate – MPR (%)	10
Exchange Rate (US$/N)	116
NSE Index 2007 Growth Rate (%)	74

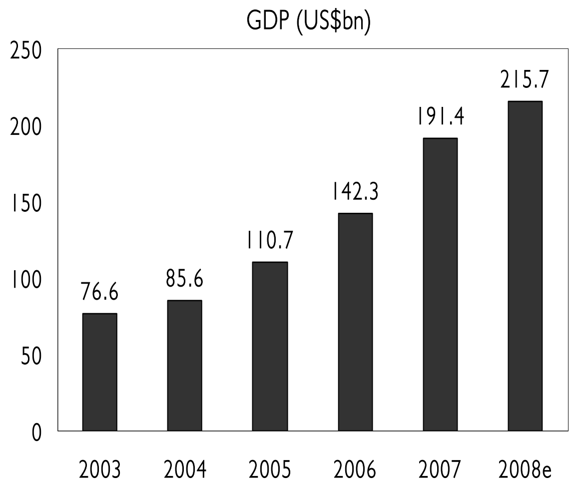
Analyst Bamidele Adewole
bamidele.adewole@leadcapitalng.com

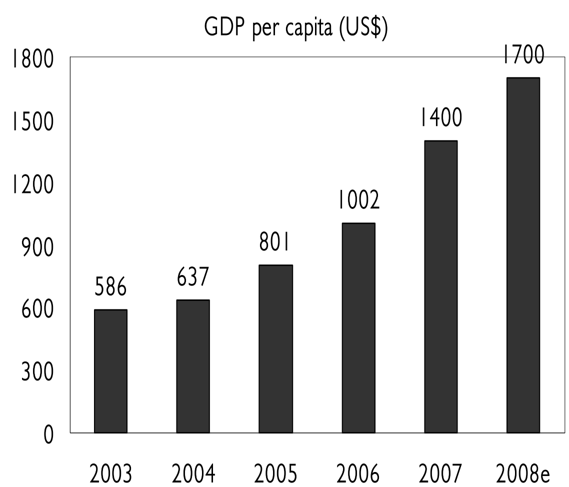
[1] All statistics are based on 2007 estimates. Source: World Factbook, CBN and LeadCapital Research

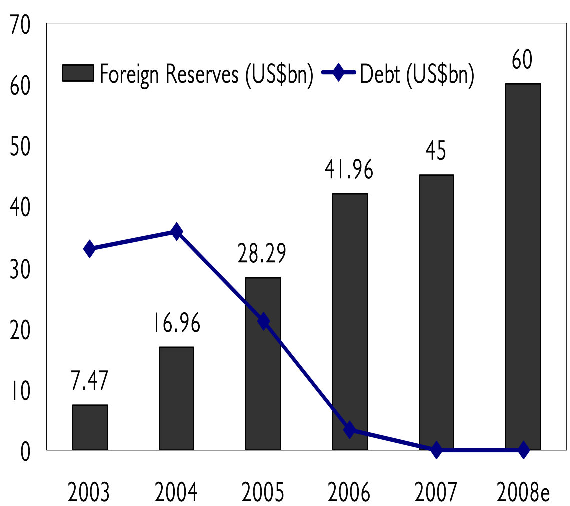
Macroeconomic Overview

Over the last few years, the Nigerian economy has experienced a series of reforms and restructuring of its key sectors. Such reforms include the financial, petroleum, power sector among others. The financial sector reform has been the most noticeable as the banks and insurance companies have been mandated to recapitalise in line with government regulatory requirements. The telecommunications industry also experienced a major transformation when the general system for mobile telecommunications (GSM) was introduced in 2001. The deregulation of the downstream petroleum sector and privatization of many government-owned parastatals also represent some of the many structural changes that have been made in recent years.

The size of the Nigerian economy as measured by the country's GDP has increased by a compound annual growth rate (CAGR) of 20.68% (in nominal terms) between 2001 and 2006. A noticeable trend in the economy's growth pattern is the increasing contribution of the non-oil sector, particularly the agricultural and manufacturing sectors to the nation's GDP. It is expected that in the years ahead, other key sectors such as construction, consumer goods and tourism may begin to play more important roles in overall economic growth and development. As the on-going economic reforms continue to trickle down into other segments, and baring any unforeseen circumstances, we expect a much more balanced and self-sustaining economy in years to come. Sustainability of such positing change will however remain a major challenge for successive governments.



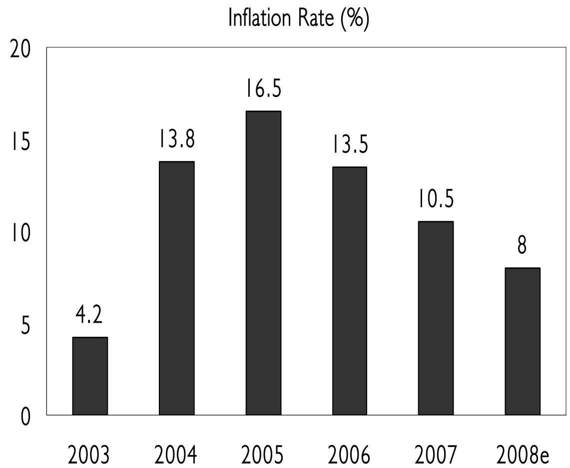


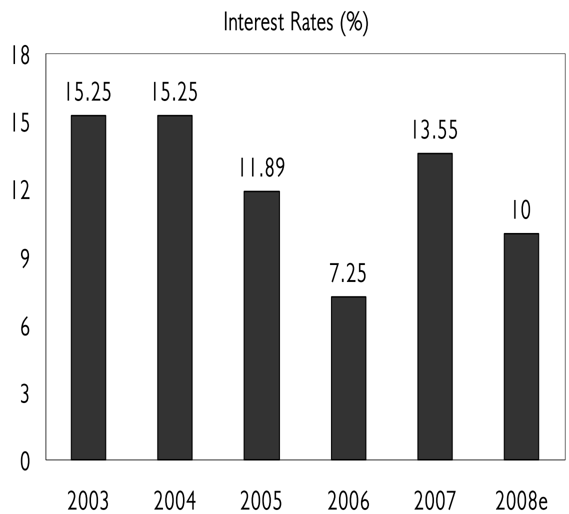


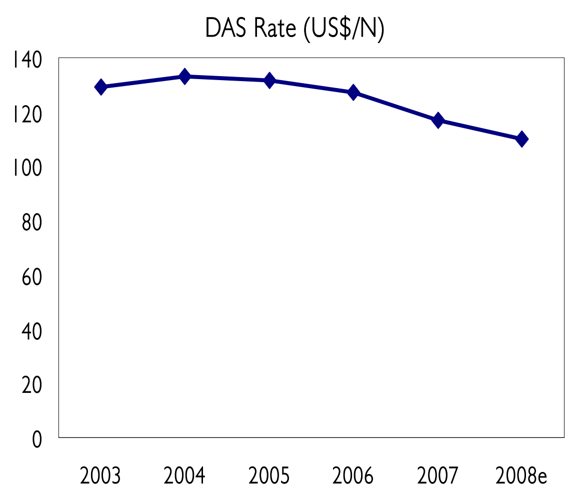
Nigeria's gross domestic products (GDP) increased steadily from 2003 to 2007 but witnessed a sharp rise in 2007. This was due largely to the benefits of the economic reform process which has led to a more balanced and sustainable income generating system. The non-oil sector has continued to grow at a much faster rate than the oil sector with the agro-allied industry employing about 70% of the labor force while contributing over 40% to GDP. This trend, coupled with our recent international ratings, as well as our favourable debt position and positive Foreign Direct Investment (FDI) has been the main catalyst for the huge rise in GDP in 2005. GDP is expected to grow at a rate of 8% and 10% for years 2008 and 2009 respectively.

Perhaps one of the biggest achievements of the previous administration was the country's foreign debt management. In 2005, the Paris Club of creditor countries agreed a debt relief package for Nigeria. About US$18 billion of debt was written off with Nigeria buying back a chunk of the outstanding loans. The significant debt relief would ensure long term debt sustainability and represent an important contribution by Nigeria's Paris Club creditors to its economic development.

Foreign reserves have also grown phenomenally over the past 5 years from US$7.47 billion in 2003 to US$45 billion in 2007 (CAGR 57%). The Central Bank of Nigeria (CBN) attributes such tremendous growth to the increasing crude oil prices in the international market. Based on this trend and considering other macroeconomic variables, we forecast Nigeria's foreign reserves to attain US$60 billion at the end of 2008.





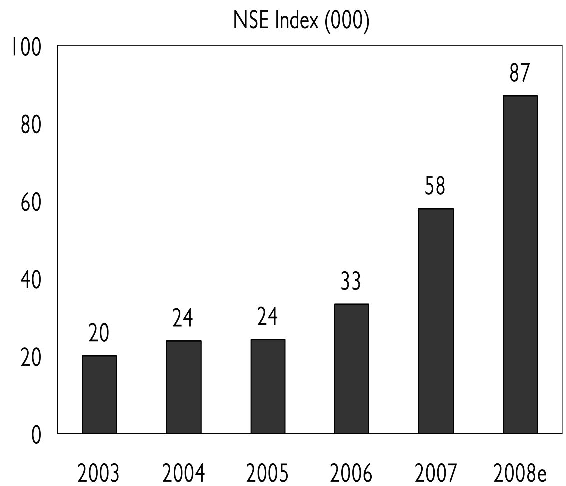


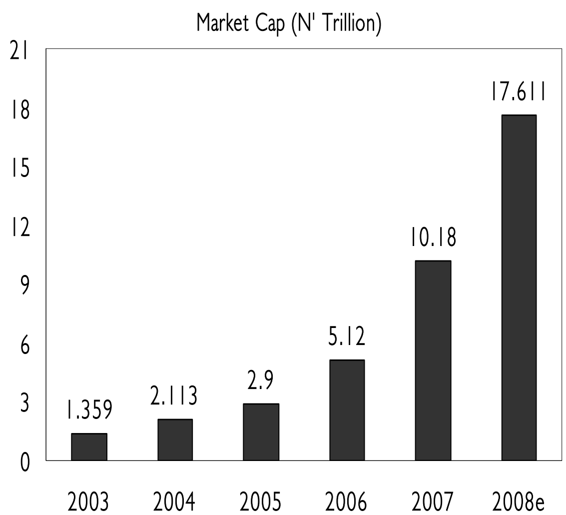
Consumer prices (year on year) declined sharply in 2005 due to the application of strict monetary and fiscal policy measures. With single digit inflation already being experienced, the economy is gradually moving towards a more stable and investor friendly position. This decline in inflation figures is further aided by the boost in agricultural production which has led to the general rise in the food supply resulting in reduced price level. Government's favorable monetary and fiscal policies have also contributed to the favourable consumer price index position. LeadCapital research believes that considering the increasing contribution of the real sector to overall GDP and with government's 7 point agenda focusing on power and infrastructural development among others, Nigeria's inflation rate can actually come down to as low as 8% at year-end 2008.

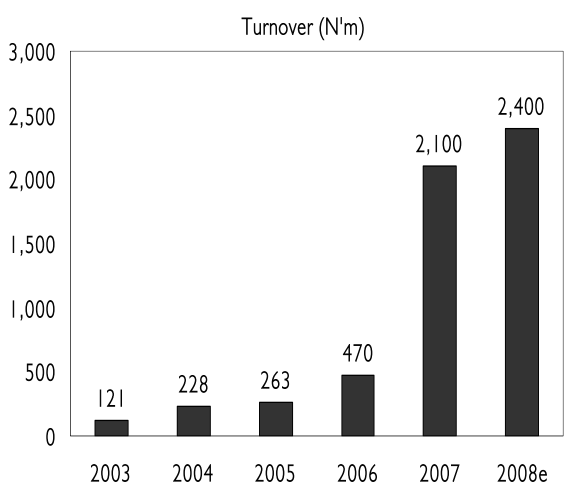
Interest rates[2] have been on a decline over the past 5 years. The government through the Central Bank of Nigeria (CBN) has established certain punitive measures to keep interest rates to minimal levels. The rates fell by a Compound Annual Decline Rate of 22% in between 2003 and 2006 from 15.25% to 7.25% but rose sharply in 2007 to 13.55%. As at April 28th 2008, interest rates stood at 13.65%.

Since 2004, Nigeria's exchange rates have continually appreciated against the dollar and other major world currencies. This performance can be attributed to the country's improvement in naira fundamentals through growth in export revenue driven amongst others, by rising oil prices and an increasing external reserve position.

[2] Measured by 90 day treasury bills







Capital Market Overview

The capital market has experienced a phenomenal growth over the past couple of years. The deluge of public offerings and rights issues have increased the overall level of activity in the market with volumes and values attaining unprecedented levels. The CBN enforced recapitalization drive (for banks) in 2005 is largely responsible for the bullish trend that has been experienced in recent times. With the Pension reforms having had its desired effect through the injection of fresh capital into the market by the PFAs, the level of capital market activities have increase tremendously.

Market capitalisation and Turnover have also received respective boosts due to the 'pseudo explosion' of the market over the past 3 years. With marginal growth in the bond market due to its relative unattractiveness, the capital market has attained unprecedented levels. The recent recapitalisation directive for market operators is expected to boost activities as stockbroking firms are expected to approach the capital market for funds to meet up with the regulatory requirements and separate the stronger firms from the weaker ones.

The country has experienced 8 years civil rule for the first time in its recent history and since post-independence period. Political power has been successfully transferred from one civilian government to another. Furthermore, the country has retained its BB- credit rating by S&P and Fitch and has received rave reviews as a result of its ongoing reforms and agendas. Sustainability of these initiatives will however remain a major challenge for the new administration in the years to come.

Overview of the Beverage Industry

The beverage industry in Nigeria is dominated by the bottlers for some of the key global brands. The main business constraints in Nigeria remain relatively low purchasing power, an expensive operating environment and high import dependence. There was however a notable improvement in purchasing power since the transition to civilian rule in 1999. This benefit is however being eroded by the poor state of infrastructure and epileptic power supply.

The market however experienced strong and steady retail volume growth and even stronger value sales increase during the review period. This growth was aided by factors including; increase in advertising activity, the introduction and packaging of new products and better economic conditions. The hot and humid weather experienced in Nigeria for most of 2005 also boosted soft drinks sales.

Carbonates are the largest sector in volume terms. In 2005, carbonates led the beverages market in volume terms, accounting for about 49% of soft drinks volume sales. Carbonates are popular amongst all Nigerians but especially the young. Many Nigerians consume between 2 and 8 bottles a day and remain unaware of the health implications of their actions.

During the review period, bottled water was the most dynamic sector in terms of total volume growth, at a rate of 46%. Bottled water benefited from the lack of running tap water in most cities and the fact that such water is not fit for drinking in areas where it is present. In 2006, bottled water was the second largest sector by volume after carbonates.

The level of competition among players in the Nigerian soft drinks market is increasing. New players such as Classic Beverages Nigeria Ltd and CWAY Food & Beverages Co Nig Ltd were able to change market dynamics and secure market share with the successful introduction of their products.

The increased competition resulted in the deployment of various strategies which include the sale of soft drinks in plastic bottles, making it possible for their drinks to be sold in traffic jams and other 'on the go' market points. They new players capitalized on the traditional glass packaging format of Coca-Cola and 7-Up to shut them out of the large traffic market. Coca-Cola responded by confronting such brands headlong and introduced its own plastic bottles in 2004.

Another notable trend in the beverages industry is the high level diversification of products and the increase in the product base by the major players. While Coca-Cola already has the fanta brand in 3 different flavours, and Coke in two flavours, other players CWAY and Lacasera have sought to aggressively increase their product portfolio thereby widening their market reach and spreading risks. Some of the new products introduced have been well received by the market while others have struggled to make any major impact.

The outlook of the beverage market in Nigeria looks very positive and there is big growth potential. Growth will be fuelled by an increase in disposable income, company advertising and heightened competition among key players. New products launches are expected to boost soft drink sales especially with the entry of Virgin soft drinks.

Overview of the Breweries Industry

The brewery industry in Nigeria has a history that dates back to the pre-independence era. Beer of different brands was imported into Nigeria before the World War II. During and after the war, Nigerian's started acquiring a taste for Continental European beer and there was a tremendous increase in the quantity of beer imported to Africa. This created an opportunity for a brewery to be set up in Nigeria. The then Nigerian Breweries Limited (NBL) was established amidst fierce competition among the leading brands. Nigerian Breweries was however able to withstand such competition with all the hitherto established companies fizzling out into obscurity.

The Nigerian breweries sector is a sub-sector of the food and beverages industry. The principal activities of brewery companies include the production, packaging and sales of alcoholic and malt beverages. Over the years, the sector has developed from a duopoly to a sector characterised by stiff competition, albeit with the dominance of two major players. The sector has also evolved from purely bottling activities to a diversified industry involved in the production of canned drinks and the use of tetra packs.

The industry had an estimated production capacity of 1.3 billion liters as at 2002. Today, current production is about 1.1 billion liters with Nigerian Breweries and Guinness accounting for over 86% of market share. This translates to a total revenue of over N128 billion, representing approximately 1% of nominal GDP. With inflation rate falling in recent times, we do not expect such revenues to increase considerably in the near future.

The breweries industry currently employs more than 5,000 people. It has about 18,100 distribution outlets in the country made up of wholesalers, hotels and clubs. The industry is operating in a moderately risky environment though economic fundamentals are still strong. However, as we do not anticipate any adverse changes in economic conditions, we expect such inherent risk factors to reduce considerably.

Despite the dominance of Guinness and Nigerian Breweries in the Nigerian beer market, evidence has shown that well run regional breweries are very successful. Jos Breweries controls a substantial market share in the northern region with the production of 'Rock' and 'Class' lager beers as well as the 'Malt Royale' non-alcoholic drink. Other notable regional players include Premier Breweries and International Breweries with the latter recently approaching the capital market to raise N1.3 billion in a bid to expand production capacity and improve plant and equipment reliabilities amongst other objectives.

Official statistics shows that as at 2004, the Nigerian beer and Malt market had a total consumption of 8.6 million liters (7 liters per capita). Since 1998, an average sales growth of approximately 10% per annum has been observed. If we assume a constant growth over the next five years and baring any unforeseen circumstances, we expect production and consumption rates in the beer and malt market to attain unprecedented levels. Major hindrances to such expected growth trajectory includes the issue of religious and socio-economic considerations and connotations as well as a reduction in disposal income of consumers.

Critical Success Factors

Effective Marketing

Aggressive marketing is a significant factor for the success of brewers and beverage manufacturers. Being a manufacturing related industry with keen competition among its players, large resources are required for adequate advertisements and general publicity. Various media for marketing are usually deployed such as print, electronic as well as billboards and sponsorships of events & programmes. All these efforts create awareness in the minds of consumers, invariably leading to greater patronage.

Distribution Network

An effective and efficient distribution network is a key success factor for this industry. Since beer and other drinks are consumed in virtually all areas of the country, it is pertinent that the end product gets to the final consumer as at when needed. Also, the demand for certain products such as alcoholic drinks is heavy in certain areas and as such producers should ensure a higher preference in such areas. Adequate distribution network therefore compliments the productive and marketing strategies of the companies.

Management Team

Just like in any other industry, an essential ingredient for success lies in the quality of its management team. The track record, experience and competence of top management determines to a large extent the ability to grow volumes and margins. Also, competent staff should be employed in strategic units to ensure a positive impact on the company's bottom line.

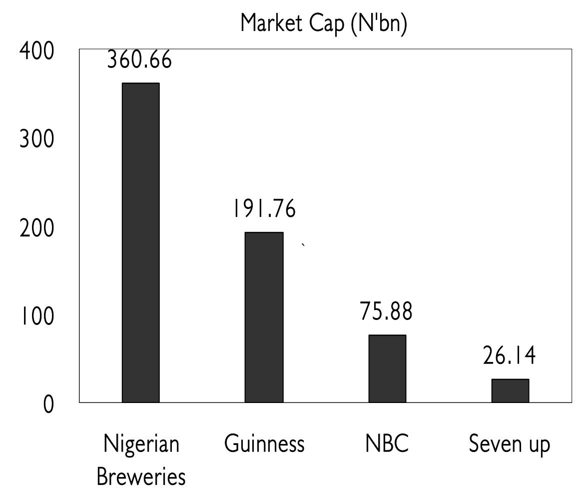
Major Players

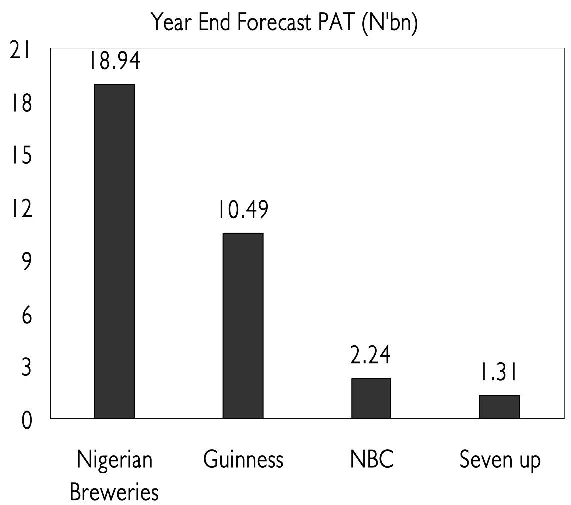
In the Breweries sector, there's a clear dominance of the two top players – Guinness Nigeria Plc and Nigerian Breweries Plc. Despite the absence of any visible entry barriers into the industry, the market-hold in the 'pseudo duopolistic market' hinders the chances of new entrants. With an estimated joint market share of over 80%, with well known brands such as Star & Harp Larger, Guinness Stout, Heineken, Maltina etc dominating the market, we do not expect any possible threat to the 'big two' in the years to come.

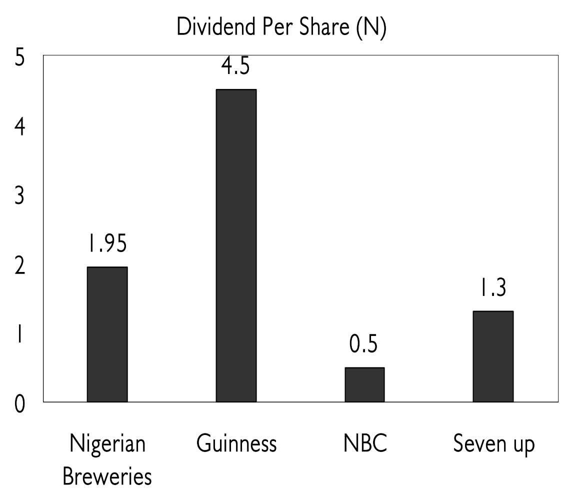
Despite the aforementioned market control of Guinness and Nigerian Breweries, other companies albeit with much lower market share, have managed to carve out a niche for themselves with local players servicing the lower income end of the brewery market. Some of such companies include:

- Jos International Breweries
- Champion Breweries
- Premier Breweries
- Golden Guinea Breweries
- International Breweries

The key players in the Beverages sector also comprise of two blue chip companies – Nigerian Bottling Company Plc and Seven up Plc. The two players with brand loyal customers which cut across location, tribe and religion have been the dominant force in this sector for over four decades. The possible entrant of Virgin soft drinks might present itself as a threat in the long term but such possibilities will be hinged on their ability to deploy effective market penetration strategies capable of 'stealing' patronage from the existing players.





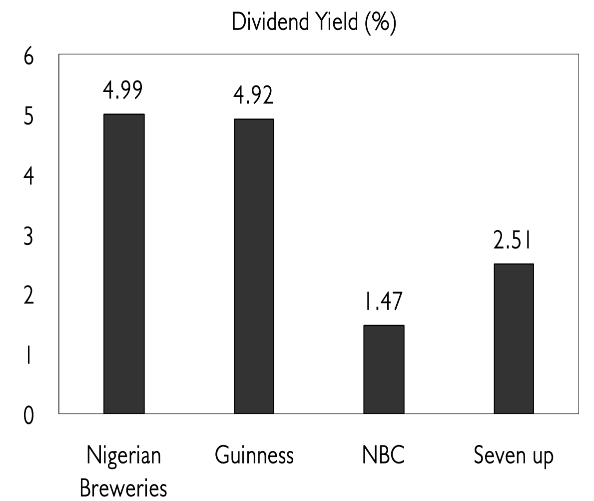


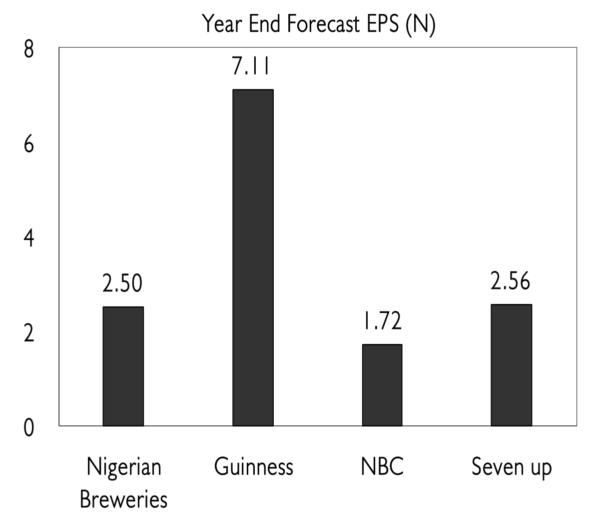
Competitive Analysis

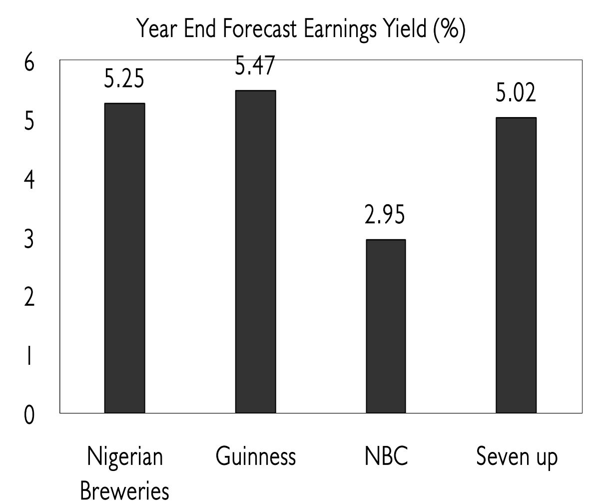
Nigerian Breweries (NB) is clearly the market leader by market capitalisation. At N360 billion, the company's market cap. is larger than that of all its closest competitors combined. The company was the most capitalised on the floor of the stock exchange during the pre-banking consolidation era. The major driver of its capitalisation is its shares outstanding of 7.5 billion ordinary shares, spread amongst over 3,500 shareholders – also the largest in the whole industry.

By earnings (both trailing and forecast) Nigerian Breweries is also an industry leader. Our forecast earnings, based on extrapolations from their most recently released interim results, reveal an expected year end PAT of N18.94 billion compared with that of its closest rival Guinness (N10.49 billion), NBC (N2.24 billion) and Seven up (N1.31 billion). Such impressive performance in its bottom line is driven by growth in turnover matched with effective cost management processes.

Guinness Nigeria Plc is the industry leader in terms of absolute dividend per share. The company's seeming impressive dividend policy is however driven by its relatively high absolute price. NB however has the highest dividend payout ratio at 80%, followed by Guinness at 63%. The two beverage companies – NBC and Guinness have dividend payout ratios of 50% and 55% respectively. The scrip issue history for the industry also favours Nigerian Breweries as the company has declared generous scrip dividends to shareholders more consistently than any of its peers. Despite its low earnings retention policy, NB has still been able to grow capacity over the years.







The generous dividend payout of Nigerian Breweries is further emphasised by its dividend yield position. At 4.99%, its dividend yield surpasses that of Guinness which is 4.92% and Seven up at 2.51%. Nigerian Bottling Company Plc confirms its position as the least performing stock in terms of dividend payment with its dividend yield of 1.47% trailing that of its peers. The company will therefore be required to improve its dividend policy to that match those of its peers and remain attractive to investors.

Despite NB's market leadership by absolute forecast earnings, the forecast EPS for the various companies reveals a completely different scenario. Guinness, buoyed by its relatively low shares outstanding of 1.47 billion ordinary shares, has the highest forecast EPS for the industry. This analysis reveals that the company is actually more viable than NB in terms of earnings, albeit on a per share basis. Nigerian Breweries will therefore have to grow its earnings at a much faster rate than its share capital growth in order to improve its EPS.

Our year end forecast earnings yield confirms Guinness' leadership in terms of relative earnings valuation. Despite its high absolute price, the yield on its earnings of 5.47% is above that of NB (5.25%), Seven up (5.02%) and NBC (2.95%). Such valuation attests to our expectations for an impressive year end performance by the company. It can therefore be deduced that while Nigerian Breweries seems to maintain a clear dominance in terms of absolute values, Guinness Plc has the advantage of superior relative indices. In the beverage category, NBC clearly needs 'rejuvenation' of some sort in remain a force to be reckoned with among the big players.

Nigerian Breweries Plc

Current Price (N)[3]	48.00
Shares Outstanding (billion)	7.56
Market Capitalisation (N'bn)	363
Trailing PAT (N'bn)	13
Trailing EPS (N)	1.73
Trailing P/E ratio (x)	27.82
Expected PAT (N'bn)	18.94
Forecast P/E ratio (x)	19.16
Forecast Earnings Yield (%)	5.2
Forecast Dividend Yield (%)	5.0
6 Month Target Price (N)	53
12 Month Target Price (N)	68

Recommendation

Short Term	HOLD
Long Term	BUY

Analyst

Bamidele Adewole
bamidele.adewole@leadcapitalng.com

Company Profile

Nigerian Breweries Plc ('NB' or 'the company') was incorporated in 1946 but began operations through its Lagos office in 1949. The company became a public liability company in 1990 in which it had its name changed from Nigerian Breweries Limited to Nigerian Breweries Plc. NB is involved in the brewing, marketing and distribution of larger beer, stout and non-alcoholic malt drinks. The company's brand portfolio consists of the following:

- Star (1949)
- Guilder (1970)
- Guilder Max (2006)
- Heineken (1998)
- Legend Extra Stout (1992)
- Amstel Malta (1994)
- Maltina (1974)
- Farouz (2006)

Nigerian Breweries is a subsidiary of Heineken Holding NV which has a 54% equity ownership of the company. The company which is situated in Lagos operates through five breweries strategically located in Lagos (1946), Aba (1957), Kaduna (1963), Ibadan (1982) and Enugu (1993). NB is regarded as one of the largest breweries in Africa having once been the most capitalised company listed on the NSE (with an estimated 30% of total market capitalisation in 2005).

The company's major competitor is Guinness Nigeria Plc for which they both jointly control over 80% of total market share. NB's competitive advantage however lies in the diversity of its product portfolio as it has been able to attract a relatively higher patronage in most segments of its business especially among lagers and non-alcoholic drinks.

[3] All Prices as at 28th April 2008

In response to competition, Nigerian Breweries has been involved in several re-branding, product development and diversification efforts in the last 5 years. In 2006, the company launched its Guilder Max brand which was a darker, richer version of the successful Guilder Lager. In an attempt to enter the soft drink market, NB launched the Farouz brand of soft drinks (pineapple and pear flavour). Recently, they repackaged the Maltina brand by introducing a larger sized bottle while maintaining the price of the former bottle. The Star brand which is the flagship product of the company was also re-branded and has achieved huge success since then.

Perhaps most impressive is NB's marketing strategy. The company has been at the fore front of several event sponsorships and show promotions notable amongst which are the "Star Quest", "Guilder Ultimate Search" and the Amstel Malta Box Office (AMBO). Other advertising media deployed by NB include print, electronic and billboards. Such huge investments have yielded huge dividends with turnover volumes growing at high rates.

Nigerian Breweries looks well placed to take advantage of the ever growing demand for beers, stouts and non-alcoholic drinks in Nigeria. Its success would however depend on the ability to improve market share through continuous market penetration and product development strategies. The company should also invest heavily human capital development as well as strengthen its research and development capabilities. Its leverage on the reputation of parent company Heineken also remains a critical success factor for the long term.

Investment Strategy

In terms of operating performance, over the past 5 years (2002 – 2006), the company grew its turnover by a Compound Annual Growth Rate (CAGR) of 15% from N48.5 billion to N86.3 billion while PAT increased by an 11% CAGR from N7.2 billion to N10.9 billion. Despite its organic expansion through regular plant construction and asset acquisition over the years, the company's fixed assets and net assets have grown by a 4% and 8% CAGR respectively. However, quite impressive is the fact that its Return on Capital Employed (RoCE) stands at 45% clearly showing its ability to grow earnings at a much faster rate than asset growth.

NB has an impressive dividend policy. The company has consistently paid cash dividends for the past 15 years and has declared 1:1 scrip issues on four occasions during this period. At its current price, the company is valued at 19.16 times its forward earnings - higher than that of Guinness at 18.63x. However, based on its generous dividend policy (dividend yield 4.99%) and its relative price stability, we place the shares of NB on a HOLD for short term oriented investors and a BUY for investors with long term horizons.

Guinness Nigeria Plc

Current Price (N)	132.48
Shares Outstanding (billion)	1.47
Market Capitalisation (N'bn)	195.40
Trailing PAT (N'bn)	10.6
Trailing EPS (N)	7.19
Trailing P/E ratio (x)	18.43
Expected PAT (N'bn)	10.47
Forecast P/E ratio (x)	18.63
Forecast Earnings Yield (%)	5.4
Forecast Dividend Yield (%)	4.8
6 Month Target Price (N)	165
12 Month Target Price (N)	180

Recommendation

Short Term	BUY
Long Term	BUY

Analyst

Bamidele Adewole
bamidele.adewole@leadcapitalng.com

Company Profile

Guinness Nigeria Plc ('Guinness' or 'the company') was established in 1962. With its head office situated in Dublin, Ireland, the company's history dates back to 1759 when 'Arthur Guinness' signed a 9,000 year lease on a disused brewery in Dublin. Today, Guinness is one of the largest multinational brands in the breweries market with several branch offices, outlets and manufacturing plants in various locations of the world. The company has over the years carved a niche for itself in terms of the production and distribution of high quality brewed products, some of which have become household names.

Incorporated in 1950, Guinness Nigeria Plc was officially listed on the Nigerian Stock Exchange (NSE) in 1965. Guinness is majorly involved in the brewing, packaging and marketing of Guinness foreign extra stout, Guinness extra smooth, Malta Guinness, Harp Larger Beer and Gordon's Spark. Since its incorporation, Guinness Nigeria Plc has grown in leaps and bounds and has, through its two major stout brands, built a competitive advantage in the stout category of the breweries sector.

With its head-office located in Ikeja, Guinness has four manufacturing plants in Ikeja, Ogba, Benin and Aba. The board of directors[4] consists of 13 members including representatives from Kenya and the United Kingdom. The major shareholders of the company include Guinness Overseas Limited (UK) – 46% and Atalantaf Limited – 8%. In December 2006, Guinness was awarded the NIS ISO 1400:2004 certification for conformity of the Environmental management System.

4 As at June 31st 2007

Guinness Nigeria Plc has a large and growing customer base with majority of them concentrated around the south western region of the country. Due to religious connotations, the company's alcoholic products do not enjoy widespread patronage in the northern part of Nigeria, hence the strategy to aggressively market its non-alcoholic brand - Malta Guinness. The company is however faced with stiff competition from other malt based brands such as Maltina and Amstel Malta.

In order to further strengthen its dominance of the stout market, Guinness recently introduced the Guinness Extra Smooth brand to complement the success of its fledging Foreign Extra Stout Brand. The market's reaction to this initiative was positive and the brand is receiving an impressive patronage from the public. The company also launched three major brands which have recorded huge volume sales since inception. Such brands include the lemon flavoured Smirnoff Ice, Gordon's Spark (a blend of dry gin & crisp fruit) and Satzenbrau Premium Pilsner Larger.

With its major competitor in the breweries market being Nigerian Breweries Plc, Guinness' strategy is to continues to leverage on competitive advantages while diversifying its product based to cut across all classes, tastes and geographic regions. In the past 5 years, the company has been engaged in brand promotion strategies which range from promotions to sponsorship of major events and TV shows. Guinness' major challenge will be its ability to increase market share in the non-stout market (currently dominated by NB) through aggressive market penetration strategies.

Investment Strategy

Guinness Nigeria Plc with a market cap of over N192 billion is the second largest breweries company by capitalisation. The company has a history of paying generous cash dividends with a 16% growth rate (CAGR) in dividend payment over the past 10 years from N1.00 in 1997 to N4.50 at the end of June 31st 2007. The company is however not reputed for its scrip policy having only declared two bonus issues during the same period.

With the exception of 2005, the company has consistently grown its turnover from N37.9 billion in 2003 to N62.2 billion in 2007, representing a CAGR of 13%. After tax earnings have also grown consistently by the same margin (N6.6 billion to N10.6 billion) while Net Assets have improved from N20.7 billion to N31.6 billion (11% CAGR) all within the same period. Currently, the company's Return on Assets stands at 20.73% while Return on Capital Employed and Return on Equity are 47.04% and 21.45% respectively. All these indices exceed that of its closest competitor – Nigerian Breweries (NB).

With 1.47 billion shares in issue and a 2nd quarter 2007 interim PAT of N5.2 billion, our June 2008 forecast earnings for the company stand at N10.4 billion, translating to a forward PE valuation of 18.29x. Based on antecedents, we expect the company to declare a DPS of N6.40 (dividend yield 4.8%). Based on its Net Assets of N31.6 billion, its price to book value is 6.1x – comparing favourably with that of NB. Based on the above analysis and Guinness' historical price analysis, we are confident of the company's ability to record decent returns in the short and long term.

Nigerian Bottling Company Plc

Current Price (N)	58.42
Shares Outstanding (billion)	1.29
Market Capitalisation (N'bn)	75.90
Trailing PAT (N'bn)	1.29
Trailing EPS (N)	0.99
Trailing P/E ratio (x)	58.79
Expected PAT (N'bn)	2.23
Forecast P/E ratio (x)	33.95
Forecast Earnings Yield (%)	2.9
Forecast Dividend Yield (%)	1.5
6 Month Target Price (N)	55
12 Month Target Price (N)	65

Recommendation

Short Term	SELL
Long Term	HOLD

Analyst
Bamidele Adewole
bamidele.adewole@leadcapitalng.com

Company Profile

Nigerian Bottling Company Plc. ('NBC' or 'the company') was incorporated in 1951 to establish and operate factories for the bottling of soft drinks. The company has the sole franchise for the bottling of Coca-Cola soft drinks in Nigeria.

NBC became a public company in 1972 with its shares listed on the Nigerian Stock Exchange. It has 16 bottling facilities around the country, and it uses 82 distribution warehouses and 200,000 distribution outlets. Coca-Cola's range of products in Nigeria include Coca-Cola; Fanta in orange, lemon, blackcurrant and apple flavors; Sprite; and Schweppes in bitter lemon, pineapple, club soda ,tonic water as well as the Eva brand of table water.

The company has the largest market share in its industry and has continued to consolidate on the success of its major brand – Coca-cola which is known world wide. Its key success factor has been the already strong and established brand name and its continued effort at increasing its market reach to a wide range of consumers. Its recently introduced Diet Coke brand is a confirmation of the company's drive to satisfy the various needs of the market.

The Eva water brand also stands as a major player in the industry, with major competition coming from the likes of Ragolis water and Spring water. Despite the high level of diversification and innovation in the juice category, the company's 5-alive brand has been able to establish a huge presence, warding off competition from Chivita and other brands. The product comes in a wide array of flavours which include citrus, apple, pineapple and blackcurrant. All the brands have been well received by the market since their launch.

Due to the cluttered bottled water market in Nigeria, marked by poor imagery and traditionally no clear brand leader, a strategy has recently been launched to position Eva as the leading brand of bottled water. This is also in line with the fact that bottled water is the fastest growing segment in Nigeria's beverage market – with an estimated 35% of the total beverage market share as compared with 6% in 1998 and 26% in 2002.

With a staff strength of over 7,000 people, NBC is regarded as the largest employer of the non-oil private sector in Nigeria. The company built an ultra-modern bottling facility in May 2001 in Edo state. The two line bottling plant has an annual production facility of 20 million cases and covers eight sales territories. On the 4th of September 2007, NBC commissioned its 15th bottling plant in Abuja.

The company seems poised for a continuous and steady growth in the near future. NBC's key success factor remains its ability to leverage on its core business while also increasing capacity through investments in plants and machinery and ensuring growth through research and development. It however needs to consolidate on its budding competitive advantage in the bottled water market through aggressive marketing, increased output and adequate distribution of its Eva brand. Its globally recognized brand – Coca-Cola also stands out as a cash cow but will be challenged by the perennial competition from arch rival 'Pepsi' manufactured by Seven-up Plc.

Investment Strategy

NBC has an unattractive dividend policy – recording consistent but declining dividend per share over the past 5 years from N1.50 in 2002 to 30 kobo in 2006. This can be interpreted as an indication of declining earnings as its retained earnings have not increased by the same margin. Also unimpressive is the company's scrip issue history with only 3 scrip issues recorded in the last 10 years.

Like its peers in the beverages and indeed breweries sector, Nigerian Bottling Company (NBC) has proven to be a rather stable stock with an unlikely tendency to experience sharp rises in price. Its year to date price performance reveals a 1.67% increase compared with the NSE all share index performance of 4.85%. Year 2007 to date, the company has appreciated by 56.76% - again not comparing favourably with the index performance estimated at 80% during the same period. This further underscores the NBC's underperformance over the years.

The company's 3rd quarter interim results show a return to profitability from a prior period loss position of N183 million to an impressive profit of N1.67 billion. If we extrapolate this performance and factor in a 10% markup, (due to expected boost in performance as a result of the festive period) we expect the company's YE PAT to be N2.23 billion. Our FYE 2007 value will therefore be 33 times its earnings. This is above its average peer group PE ratio of 23.11x. Based on its rather unimpressive historical price performance and unattractive fundamentals, we place the shares of NBC on a SELL/HOLD for investors with short and long term horizons respectively.

Seven up Nigeria Plc

Current Price (N)	48.50
Shares Outstanding (million)	512
Market Capitalisation (N'bn)	24.85
Trailing PAT (N'bn)	1.2
Trailing EPS (N)	2.34
Trailing P/E ratio (x)	20.71
Expected PAT (N'bn)	1.31
Forecast P/E ratio (x)	20.52
Forecast Earnings Yield (%)	4.8
Forecast Dividend Yield (%)	2.4
6 Month Target Price (N)	50
12 Month Target Price (N)	55

Recommendation

Short Term	HOLD
Long Term	HOLD

Analyst Bamidele Adewole
bamidele.adewole@leadcapitalng.com

Company Profile

Seven-Up Bottling Company Plc was incorporated as a Private Limited Liability Company on 25th June 1959 under the name Seven-Up Limited. On 16th May 1960, the name was changed to Seven-Up Bottling Company Limited and in 1978 it became a public company. The name 'Seven-Up Bottling Company Plc' was adopted on 26th November, 1991 in compliance with the provisions of the Companies and Allied Matters Act of 1990. Currently, the Company's shares are quoted on the Nigerian Stock Exchange.

The company is engaged in the business of bottling and marketing of soft drinks. Currently, the products under the company's portfolio are 7-Up, Pepsi and various brands of Mirinda. During the 2005 year, a new flavour of Pepsi was introduced into the market. The company has therefore remained focused on ways of improving manufacturing process in order to achieve greater business efficiency in respect of its business portfolio.

The company has over the last few years been facing stiff competition from its major competitor in the soft drinks market – Coca-cola (manufactured by Nigerian Bottling Company Plc). The well publicised 'Cola war' has led to both companies being involved in aggressive marketing and sponsorship campaigns especially in the area of sports with the most prominent being the Pepsi Football Academy sponsored by Seven-Up Company and Coca-cola FA Cup sponsored by Nigerian Bottling Company.

The Pepsi brand is the major driver of the company's business and is the most popular and well received of the company's three products. It has continued to overshadow the other two brands due largely to its increasing competition with Coca-cola and its global recognition as a top soft drink brand. The company therefore intends to leverage on this platform by focusing and developing its core product, and improving on the quality of its other brands in order to gain a lager share of the market.

The 7-up brand which was very popular in the late 1980s and early 1990s however suffered a decrease in market share especially over the last ten years. It was reputed as one of the most consistent performers in terms of turnover and growth but gradually became less popular especially when compared to the other more established peers within the Soft drinks industry. The company in response to that trend has increased its marketing and distribution efforts towards the product and this has already started reflecting in the reception being given by the market.

Mirinda soft drink which is the least known of the company's products, was launched in 1995. The build up to the launch was characterized by a number of promotional and marketing activities – the highlight of which was the use of the popular orange men. The immediate success attained was however short lived as the product came under intense competition from other well established brands both in the carbonated soft drinks category of the industry and the juice market. Today, the product is a far distance away from the hype that greeted its launch over a decade ago. A cost-benefit analysis could therefore suggest a product development strategy or outright removal from the market.

Investment Strategy

Seven up is one of the most fundamentally viable stocks in the capital market. The stock is currently trading at a discount to its year high price of 26.02% and a premium to its year low price of 37.41%. Year to date, the stock has gained 12.43% while its year 2007 to date price appreciation stands at 24.66%. Year 2006 to date, the stock has gained by 76.66%. This analysis therefore shows that the company is not one of the fast moving stocks in the capital market and may be more attractive to investors with decent appetites for risk requiring regular income flows through dividend payments.

Despite its consistent dividend policy, the company however has a rather 'below par' history of scrip issues – having only declared two scrip issues in the last 10 years. As the Nigerian capital market is bonus driven, we do not foresee any sudden sharp increases in its price performance when its full year 2008 results are released.

Seven up announced its second quarter results ended September 2007 with a 17.8% growth in turnover from N11.8 billion to N13.9 billion and a 49% increase in after tax earnings (PAT) from N440 million to N665.6 million. Based on this result, our year end forecast PAT of N1.2 billion will lead to a year 2008 forward PE valuation of 20.52x and earnings yield of 4.8%. These indices compare favourably with industry averages of 23.11x, 4.59x. However, based on technical analysis as well the stock's illiquidity, we place HOLD recommendations on the stock for investors with short and long term horizons.

Outlook

The Nigerian economy is one of the fastest growing in the world. Official statistics suggest that the country is growing at an annual YOY real growth rate 6.3%. Analysts are however of the opinion that this figure is highly conservative, suggesting a much higher rate of growth given the current fiscal and monetary policy initiatives. Some optimists even predict that the country might begin to inch towards world dominance in the near future.

The new government under the leadership of President Umaru Yar'Adua has promised to continue in the efforts of his predecessor in ensuring the full implementation and sustainability of the several ongoing reforms. LeadCapital research believes that baring any unforeseen circumstances, Nigeria's national output and standard of living of its citizens would improve substantially. The country's growing foreign reserves – a dividend of the rising world oil prices presents an enabling platform for expansion, growth and stability but if mismanaged could lead to dire consequences.

Nigeria is however grappled with some of the 'evils' that have bedeviled the country since the pre civil rule era. Corruption at all levels still remains a bane and has often hindered the country's ability to reap from the gains of its several initiatives. Per Capital income has improved considerably but Nigeria's 'hyper inequality level' suggests that such statistic might be misleading as income generated is not evenly spread. Power and infrastructural inadequacies still remain major challenges to Nigeria's socio-economic development.

The Nigerian Breweries and Beverages industry is well positioned to take advantage of the immense growth opportunities which presents itself due to the unprecedented level of Per Capita growth currently being experienced. The average income level of the labour force (which makes up a considerably large percentage of breweries and beverage consumers) has grown phenomenally over the last five years. In the private sector, average wages have risen (in monetary and real terms) beyond expected proportions with an average Nigerian now able to afford certain commodities which were hitherto considered as 'luxuries'.

Breweries & Beverage manufacturers perhaps aware of the vastly improving trend, have intensified production, distribution and marketing efforts in order to take full advantage of the opportunities that have presented themselves. In recent times, the sector has been one of the most active, with sponsorship of major events now seen as the norm rather than exception. We believe that such practice can only encourage healthy competition especially among the industry's major players.

The manufacturing sector in Nigeria is expected to grow substantially in the near future. The current administration has not hidden its desire to achieve this objective with the Nigeria's President including 'power and infrastructure' as his main focus in the 2008 budget. With the non-oil sector growing in faster proportions than the oil sector, we see the beverages and breweries industry as a 'cash cow' of some sort and a viable tool for overall macro-economic growth and development.