



Credit Rating Announcement

GCR affirms Nigerian Breweries Plc's national scale long and short term Issuer ratings of AA_{+(NG)} /A1_{+(NG)}, with the Outlook revised to Positive.

Rating Action

Lagos, Nigeria, 29 April 2022 – GCR Ratings ("GCR") has affirmed the national scale long term and short term Issuer ratings of AA_{+(NG)} and A1_{+(NG)} respectively, assigned to Nigerian Breweries Plc, with the Outlook revised to Positive.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Nigerian Breweries Plc	Long Term Issuer	National	AA _{+(NG)}	Positive
	Short Term Issuer	National	A1 _{+(NG)}	--

Rating Rationale

The ratings accorded to Nigerian Breweries Plc ("NB" or "the Company") reflect its leading market position in the Nigerian brewery industry, on the back of substantial production capacity facilitating sustained high market share.

NB remains the dominant brewer in Nigeria, with c.60% market share, underpinned by its large production capacity over 17 million hectolitres ("mhl"), compared to a combined 14.5mhl by its two key competitors. NB continued to mitigate challenging global supply chain dynamics and international commodity price movements through greater import substitution, partnering with local suppliers to grow sorghum and reduce reliance on malt barley. Entrenching these partnerships will further complement the existing extensive distribution network, robust customer base and well diversified product base. In addition, the optimal expansion of the existing production capacity is underway, which will increase the installed capacity to 19mhl, and capture further market share.

GCR takes cognisance of significant revenue growth in FY21, peaking at N437.3bn over the review period. The growth was underpinned by stronger volumes in premium brands and inflation induced price increases. This notwithstanding, the EBITDA margin moderated by 2 percentage points to 18% in FY21, due to rising input costs and exacerbated by lingering forex challenges, albeit remaining in line with peer average. GCR anticipates 15% revenue growth in FY22 and 20% in FY23, supported by higher volumes from the optimal capacity expansion of the brewing plants and continued price increases. Over the outlook period, we expect that imported input cost inflation and the impact of the expected rise in excise duty on the products will be mostly offset by price adjustments, with the EBITDA margin largely preserved at around the historical range of 18%-21%. NB's ability to raise prices, despite a generally contained consumer environment, highlights the competitive advantage it maintains by dominating the less price sensitive premium segment.

The leverage and capital structure are strong rating factors, given the conservative debt profile and credit protection metrics. Having repaid its commercial papers and high lease liabilities during FY21, gross debt normalised to N31.4bn, from N91.4bn in FY20. However, debt is offset by cash holdings of N17bn. Combined with strong earnings, net debt to EBITDA significantly improved to 0.2x in FY21 (FY20: 0.9x). Similarly, operating cash flows coverage of debt strengthened to 276% (FY20: 84%) and net interest coverage slightly improved to 7.4x (FY20: 6x) supported by the lower debt level at FY21. GCR expects that the leverage metrics will remain strong in the near term, should NB plan to raise further debt.

The sources versus uses liquidity coverage is estimated at 1.9x for the 12 months period to December 2022. This is underpinned by the GCR's projection for robust net operating cash flows in FY22, and cash holding of N17bn at December 2021. This will be further supported by substantial unutilised committed and uncommitted facilities, which will be utilised to sufficiently meet debt repayment of N24.5bn, capex commitments and dividend payments.

Outlook Statement

The Positive Outlook reflects GCR's expectation that NB will meet its growth target through capacity expansion and volumes growth, while maintaining a conservative debt level that is supportive of a very strong credit profile.

Rating Triggers

Upward rating migration is dependent on NB's demonstrated ability to further increase market share amid tight competition, attain or exceed growth targets, ramp up the EBITDA margins above 25%. We also expect that net debt to EBITDA will remain below 0.5x and OCF coverage of debt at above 100%, and 12-months liquidity coverage is sustained above 2x.

Conversely, an escalation in debt (particularly short-term debt), higher than expected capex spend and excessive dividend payments, could result in liquidity pressures and trigger a negative rating action. Any significant earnings pressure, or a dip in revenue likely due to exogenous factors, could place pressure on the ratings.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
 Criteria for Rating Corporate Entities, January 2022
 GCR Ratings Scales, Symbols & Definitions, May 2019
 GCR Country Risk Scores, December 2021
 GCR Nigeria Corporate Sector Risk Scores, April 2022
 Nigerian Breweries Plc's rating reports, 2018-21

Ratings History

Nigerian Breweries Plc					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	AA _(NG)	Stable	April 2018
Short Term Issuer	Initial	National	A1+ _(NG)		
Long Term Issuer	Last	National	AA+ _(NG)	Stable	April 2021
Short Term Issuer	Last	National	A1+ _(NG)		

RISK SCORE SUMMARY

Risk score	
Operating environment	6.75
Country risk score	3.75
Sector risk score	3.00
Business profile	2.00
Competitive position	2.00
Management and governance	0.00
Financial profile	2.00
Earnings	0.00
Leverage & capital structure	1.50
Liquidity	0.50
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Nigerian Breweries Plc's Total Risk Score	10.75

GLOSSARY

Credit Rating	See GCR Rating Scales, Symbols and Definitions.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Rating horizon	The rating outlook period, typically 18 to 24 months.
Risk Management	The process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to Nigerian Breweries Plc. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Nigerian Breweries Plc participated in the rating process *via* tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Nigerian Breweries Plc and other reliable third parties to accord the credit ratings included:

- 2021 audited annual financial statement, and prior four years annual financial statements;
- Internal and/or external management reports;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;

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