Outlook

Views of a Sales Man I Ongoing capital raise I Nigeria: near-term inflation bias still to the upside I Fidelity Bank Plc H1 2024 conference call highlight i Champion Breweries Plc

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Date Fri 10/18/2024 12:14 PM
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Closes today - Nigerian Breweries Plc Rights Issue
Offer size: N599.1bn
Right price: N26.50
Rights Basis: Eleven (11) new ordinary shares for every Five (5) ordinary shares held as of 12 July 2024 ("Qualification Date")
Revised Closing date: Friday, 18 October 2024

Nigeria: near-term inflation bias still to the upside - Abdulazeez Kuranga

CBN MPC may increase the key policy rate further, by at least 50 bps, at the November policy meeting

- Based on recently published data by the National Bureau of Statistics (NBS), **headline inflation snapped two consecutive months of moderation by increasing** by 0.55 percentage points, to 32.70% y/y in September, from 32.15% y/y in August**. Our forecast was 32.53% y/y,** and the Bloomberg median consensus 32.40% y/y.
- The renewed increase in headline inflation reflects **higher fuel and other energy costs** which are having a passthrough impact on the cost of transportation, food, energy, and utilities. In addition, the increase also reflects flooding in the major northern food-producing states, capping most of the gains from the main season harvest. Furthermore, cost pressures from NGN depreciation against the USD in September, compared to August, may have piled extra pressure on consumer prices.

Notably, the USD/NGN pair increased by respectively 0.4% m/m and 3.1% m/m on average in the NAFEM and parallel market in September.

- Headline inflation **m/m in September increased after two months of moderation, settling at 2.52%,** after the 2.22% m/m price increase in August. This was driven primarily by an increase in food prices (2.64% m/m vs August: 2.37% m/m), even as core inflation (all items less farm produce and energy prices) surprised lower m/m, at 2.10%, from 2.27% m/m in August.
- Given how **m/m inflation increased across all the sub-baskets comprising core inflation,** the moderation is surprising in both all items less farm produce (2.17% m/m vs August: 2.27% m/m) and the NBS new measure of core inflation (all items less farm produce and energy prices). For instance, transport costs (6.5% of overall inflation basket) increased by 2.85% m/m, translating into a 1.53 percentage points increase, to 27.21% y/y in September, from 25.68% y/y in August. This is highest since the NBS started keeping the current data series, reflecting the 38.0% national average petrol price increase and fuel queues which persisted in the first two weeks of September.

Fidelity Bank Plc H1 2024 conference call highlight

Financial Performance and outlook

- Improvement in NIMs from 8.4% to 13.4% (through optimal growth in asset yields and relatively low funding costs relatively low) as well as fair value gains on swaps accounted for the major movement in income on financial assets measured at FVTPL.
- 86% of the growth in total assets was through interest-earning assets.
- Cost of funds increased by 60bps from 4.4% in FY23 to 5% in 1H24 as low-cost deposits accounted for 93% of total deposits.
- Size of CBN swaps was $600million as of June 2024. CBN repaid $150 million in October, leaving its current swap stock at $450million.
- Significant reduction in the losses of the UK subsidiary with a likelihood of profit making in the next three months.
- Expectation of 2 – 5% contribution to the group's Profit After Tax from the UK subsidiary in the short term and 10% in the long term.
- Dividend payout ratio guidance is maintained at 25% to 40% of PAT, regardless of the effect of windfall tax (if implemented).

Asset Quality

- The bank has one major exposure to the agriculture sector and full impairment has been taken.
- No intervention loans from the CBN exists.
- Significant paydowns on loans to customers in power sector, with no likelihood of deterioration.
- Higher cost of risk and impairment charges were solely due to prudence from the management given the volatile business environment.
- Its high stage II loans (37% of total gross loans as of 1H24) can be attributed to a significant exposure to the oil and gas sector (denominated in USD). The outlook is positive with high probability of moving to stage 1.
- The structure of its forbearance with CBN is done with consideration of two factors: capital retention and capital raise.
- The bank is in talks with the CBN to extend two major syndicated loans (denominated in USD) to Q3:2025 when it anticipates finalizing its capital raise exercise.
- 70% of its current forbearances with the CBN should fall off by the end of 2024.

Capital Raise

- The capital raise exercise is at the capital verification stage, expected to go through verifications from NDIC, CBN and SEC.
- The first outing was 2.1x subscribed. If all is absolved, it leaves **FIDELITYBK** with a second tranche capital raise range of N160billion to N195 billion.
- The bank intends to explore a private placement to raise the remaining capital, with expected conclusion date of Q3:2025.

- Use of Funds: Regional expansion and acquisition plan, technology refresh, working capital needs.
- The bank will explore two to five African countries in the next two to five years for its regional expansion plan.
- Capital adequacy ratio post-capital raise is expected to improve by 600bps.

Champion Breweries Plc Q3'24 (Not covered) - Strong Topline Drives Profit Turnaround

- Champion Breweries Plc (CHAMPION) reported a turnaround in its earnings, declaring a PAT of N408.2 million (versus a loss of N106.8 million) in its unaudited Q3'24 results. This performance is primarily attributable to a N1.82 billion (+68.4% y/y) increase in its revenue to N4.5 billion, driven by strategic pricing, product innovation, and increasing sales volume.
- Cost pressures however meant gross margins were lower in the review period. Specifically, the company's COGS grew by 72.8% y/y to N2.52 billion due to a surge in raw material costs, driven by a combination of currency devaluation and rising inflation. This led to a 1.42 percentage point decline in gross margin to 43.7%. Operating expense was however under control, growing by 7.4% y/y to N1.43 billion largely due to base effects from the previous year.
- The company also witnessed finance cost pressures as net finance cost surged by 178.4% y/y to 40.7 million due to the impact of the currency devaluation on the company's FCY interest payments. Foreign exchange loss and interest on the loan amount for the period came in at N34.9 million.
- Currently, CHAMPION is trading at an EV/EBITDA of 7.2x, below its five-year mean ratio of 8.7x.

Thank you

Best Regards

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