



Stock Type: Cyclical stock

NSE Ticker: NB

Auditor: KPMG Professional Services

Registrar: G.A. Oluwole, Nigerian Breweries Plc Registrar's Department Headquarters Annex, Abebe Village Road, Iganmu Lagos Nigeria.

Year-end: December 31

NIGERIAN BREWERIES PLC:

PRIMARY STOCK STATISTICS	2005
Market Cap.(N)	N324.36 billion (US\$2.55 billion)
Dividend Yield(%)	2.71%
Return On Equity(ROE)	28.79%
Return On Assets(ROA)	21.02%
Operating Margin(%)	19.26%
Net Profit Margin(%)	10.29%
Price as at Date-03/10/06	N42.89
Trailing P/E Ratio	32.75
Forward P/E Ratio	29.17
Price/Sales Ratio	4.33
52-Week Price range(High-Low)	N50.41 - N30.02
Shares Outstanding	7,562,564,340
Beta (B) - 4yrs	1.611
Share Float	45.90%
Trailing EPS(as at Q2, June, 2006)	N1.31
Estimated EPS(N)	N1.47

TURNOVER (N'billion)

Year/Quarter	2006	2005	2004	2003	2002	2001
Q1	19.825	19.984	16.00	N/A	N/A	N/A
Q2	40.30	40.10	36.30	N/A	N/A	N/A
Q3	N/A	58.460	52.550	N/A	N/A	N/A
Q4	N/A	21.775	21.044	N/A	N/A	N/A
Full Year	N/A	80.235	73.594	62.800	N/A	N/A

EARNINGS (PAT)

Year/Quarter(N)	N'b	N'b	N'b	N'b	N'b	N'b
	2006	2005	2004	2003	2002	2001
Q1	3.36	2.14	1.80	N/A	N/A	N/A
Q2	6.35	4.80	2.10	N/A	N/A	N/A
Q3	N/A	5.90	2.50	N/A	N/A	N/A
Q4	N/A	2.35	2.59	N/A	N/A	N/A
Full Year	N/A	8.25	5.09	7.40	N/A	N/A

DIVIDEND TABLE

YEAR	2005	2004	2003	2002	2001
Year end share price(N)	38.8	42.8	63.2	30.2	35
EPS(kobo)	109	67	194	193	240
DPS(kobo)	105	40	110	210	225
Dividend cover (times)	1.04	1.68	1.77	0.92	1.07

NB 12-MONTH PRICE/VOLUME CHART

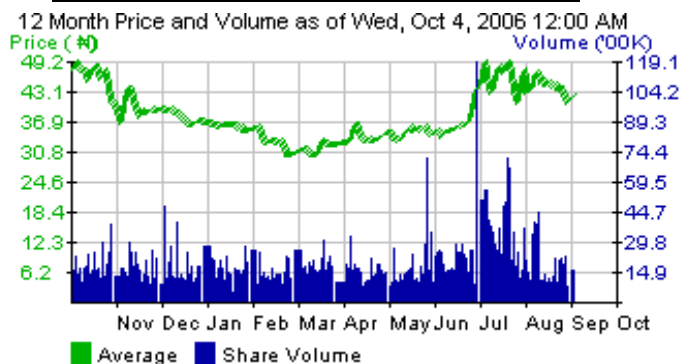


CHART SOURCE: Nigerian Stock Exchange (NSE)

We have used Price Earnings Multiples in our valuation to reflect the current market sentiments on the stock while we employed Discounted Cash Flow (DCF) method to arrive at the intrinsic value of the company. We also valued the company based on Price-to-Sales Multiples. Meanwhile, our Price Earnings Multiple gave a price of N48.14 while we arrived at N18.29 for the company's share price using Price-to-Sales Multiples method. However, with DCF method, we arrived at N17.73. By and large, we place more emphasis on the DCF valuation method as it is devoid of market sentiments and defects associated with other valuation methods. Similarly, a weighted average of these valuation metrics gave a target price of N27.02, with DCF allocated 40%, Sales Multiple-30% and Price Earnings Multiple-30%.

The company's potentials in the short and medium run are relatively unstable and as such we hold reservations to the current market price.

INVESTMENT RATIONALE & RISK ANALYSIS:

- We have a **SELL** recommendation for the stock based on our analysis of the company's fundamentals and anticipated growth prospects vis-à-vis the economic realities.
- There is a business risk of declining appetite for beer against a significantly increased output capacity. Nigerian Breweries Plc seems to be brewing more than the market's present drinking capacity and this is worrisome for a company that has just invested heavily in expanding output capacities in 2003.
- The excess supply has a negative effect on the company's pricing power and the presence of other highly competing pocket expenses such as telecom products have a crowd-out effect on the demand for beer.
- The expansion in capacity that could not be filled due to the declining demand would create huge idle costs that the company has to contend with. *The company's market risk is high with a beta (β)-value of 1.611 and this exposes it to earnings volatility especially when faced with unfavourable government policy.*
- NB Plc financial risk is minimal, as this is due to the benefit of leverage witnessed from the company's return on asset (ROA) of 21% as compared to the effective rate of interest of 9% as at 2005. This has impacted positively on the financial leverage index. *In short, it could be said that the company has all along benefited from its short-term interest bearing debt.*
- NB Plc has a large shareholding of 7,562,564,340 as at December 2005 with over almost 46 per cent held by Nigerians, Foreign citizens and associations while Heineken N.V. owns the remaining 54.01 per cent.

NIGERIA ECONOMIC CLIMATE:

Deteriorating economic conditions, rising unemployment and high inflation hit consumer spending prior to transition to democratic rule in May 1999. In 2004, the Central Bank of Nigeria (CBN) introduced a consolidation programme for banking. All banks in Nigeria were to increase their capital base to NGN25 billion by December 2005. This led to an unprecedented number of Initial Public Offers and Private Placement of Funds. The deluge dealt a serious blow to consumers' disposable income levels and consumers' purchasing power. The advent of cellular phones also took a big percentage of consumer's disposable income and competed indirectly with alcohol for a share of the consumer wallet.

The cost of doing business remains high in Nigeria and makes Nigerian businesses relatively uncompetitive. There are frequent and unpredictable cost increases because of erratic electricity, a poor infrastructure that inhibits distribution and production, the devaluation of the Naira and low capacity utilization.

In 2001, Lagos State promulgated a law introducing a 5% sales tax on beer and other products produced in the state. This represents double taxation of goods, alongside the 5% VAT that is paid to the Federal Government. It is therefore strategic for companies to build factories in other states and then deliver their goods into Lagos for retail because of population advantage.

In 2003, the government announced a ban on imported bottled beer. Local sources suggested that the ban was implemented to protect new investments in the local brewing industry. However, it is most likely that importers of beer are likely to resort to cross border smuggling, in order to satisfy demand for foreign canned beer.

THE BREWING INDUSTRY IN NIGERIA:

The brewing industry is one of the fastest growing branches of Nigerian manufacturing. It contributes about 28 per cent of MVA (Manufactured Value Added) and provides direct employment for over 30 000 persons. The indirect employment associated with the industry is close to 300 000 including the firms producing ancillary services. Beer, which is the most common product, is produced in all states of the country except Bauchi, Borno, Gongola, Niger and Sokoto. There are now 32 breweries producing more than 40 brands of beer. In addition, there are five brands of stout and five brands of malt drinks. In 1987 an estimated 2 billion litres of beer were consumed in the country.

Production has grown rapidly. In the period 1980-82, brewing was the fastest growing branch of the manufacturing sector. The volume of production in 1982 was five times greater than in 1970. Even during 1982-86, when most manufacturing branches experienced severe difficulties and production levels fell significantly, the industry continued to grow slowly. Production fell marginally during 1987 and 1988 due to restrictions on the import of barley malt and problems associated with the use of locally produced substitutes. During this period, capacity utilization fell to an all-time low of about 30 per cent. Increasing success with local substitutes for barley malt has improved the capacity utilization rate to about 64 per cent in 1991.

The search for local substitutes for imported barley malt involved most of the firms in expensive experiments with research and development departments as well as substantial plant conversion expenses. Their efforts were complemented by the independent research endeavour at the Federal Institute of Industrial Research, Oshodi (FIIRO), which, through some of its research report series, demonstrated that lager beer could be produced using sorghum exclusively. Today, most of the more successful firms use maize and sorghum in their beer production process. However, the changeover in input mix has necessitated the use of expensive imported enzymes in the production process.

BUSINESS SUMMARY:

At its inception in 1949, **NB Plc** had only Star Lager (Nigeria's first) on the market. Over the years, it has broadened its product range. Except for the period 1984-86, when sales volume suffered an annual average decline of about 18 per cent, turnover growth in the company has generally been accompanied by growth in profit and production volume. Thus, when normal growth was restored in 1987, the 51 per cent and 83 per cent increases in turnover and operating profit, respectively, for 1987-88 were accompanied by about 35 per cent volume growth. Similarly, the turnover of about N1.7 billion recorded in 1991 was partly the result of 8 per cent growth in sales volume. However, from all indications, product pricing has been the major factor in the impressive growth in operating profits.

The deteriorating results recorded by the company in 1984-86 reflected the foreign exchange rationing policy of the period, which was necessitated by the severe balance of payments crisis of the post-oil-boom era. The import licence allocation of the company could hardly satisfy one third of its foreign exchange requirements. The government's mandatory backward integration policy in the mid-1980s saw the company establishing a 5 000-hectare farm, estimated to be worth N30 million, in Niger State. The farm is highly mechanized and produces mainly maize, rice and sorghum, with soya beans and cow peas as rotational crops. The main crops are used as replacements for barley malt. The changeover in input mix was assisted by the company's N2 million R&D facility, which was commissioned in June 1987, and plant conversion costing about N100 million.

The company works with highly structured plans, with annual budgets of intentions translated into explicit targets. The decision board sits towards the end of the year to deliberate on the report of each divisional head. Annual budget estimates are made in the middle of year while decisions on annual plans are left till the end of year.

The company has experienced remarkable changes in its technical capability. In 1949 it used to take between 28 and 30 days to produce a bottle of beer but with technological improvement it now takes about two weeks. The change in input content in the late 1980s also involved changes in processing technology.

Different measures of productivity are used for the technical division and other divisions. In the technical section, productivity is measured in terms of the efficiency of plant operation and also in terms of capacity utilization. In other divisions, it is in terms of the accomplishment of assigned responsibility. The company is viewed as a leader in the national industry and in Africa it enjoys a high rating, in terms of both productivity and product quality.

NBPLC concentrates on the production of its beer and related products, leaving ancillary services such as bottles, crown corks, labels, cartons and crates to be supplied by other local manufacturers. In fact, Nigerian law precludes a brewer from producing such ancillary services. Only the companies in the soft drinks industry appear to sponsor firms to produce such services. Backward integration into farming was a special concession granted to the breweries in 1984 following the stringent foreign exchange control measures introduced in that year. It also uses outside transport companies for 60 per cent of total distribution.

The company cooperates with other producers in the industry in lending materials which are urgently required. Under the umbrella of MAN, it cooperates with competitors to discuss issues affecting the industry, e.g. adverse government policy. There is no collusion with competitors in marketing and no cooperation in technical services, probably because most of the local brewers have foreign technical partners.

The prosperity of the company has been preserved by its efficient costing system, which seeks to protect profit margins in a high-inflation setting by adjusting prices in response to changing costs of production. Input costs rose about 1053 per cent in the period 1982 to June 1992 and selling prices have risen to almost the same extent. The management structure are bridged with suitably qualified experts from outside the system. This does not apply in the technical division because of its peculiarities: assistance to bridge gaps in the

Specific skills training is organized on an in-house basis with suitably qualified trainers in all divisions. Outside resources, both local and international, are often used to supplement the in-house capability. Under the staff development programme, personnel are given opportunities to realize their potential. Their strengths and weaknesses are assessed early in their careers and a career path is suggested which would offer challenging opportunities and rewarding work. Thus, the employee goes on training, locally and internationally, gets specific assignments and is pointed to jobs to grow into in the future. All these factors are articulated into well-laid career and succession plans so that staff members are adequately motivated and identify closely with the business.

The average labour turnover is about 6-7 per cent, which is not regarded as a problem. One minor threat to manpower stability comes from the oil exploration industry, whose members often poach the engineering staff after their rigorous and highly structured in-house training.

EXPORT HISTORY AND PERFORMANCE:

NBPLC entered the export market for the first time in 1986 with about 6 668 small bottles (valued at ₦24 138) of Star, a mild lager and Gulder, a stronger brew. The number of bottles exported grew to 43 693 (₦158 169 or N744 710) in 1987 but fell to 22 144 (₦80 161 or N503 571) in 1988, after which the company withdrew from the market until 1992 when it resumed exports. In 1992 about 156000 bottles valued at N814 115 were sold. During both phases of its export history the target market has been West Africans currently living in the UK and Europeans who have visited or worked in West Africa.

The company's withdrawal from the market in 1988 was occasioned by the ban on the importation of barley malt which forced the company to look for local substitutes. The initial use of maize and sorghum caused a drastic change in the taste of the products. This problem was solved around 1990 after N100 million had been spent on technological change and adaptation, principally the installation of mash filters. In making these changes the company received complementary assistance from its technical advisers in Holland. With the changeover to maize and sorghum, less sugar is used - 5 per cent as opposed to the 15-20 per cent when using barley malt. However, biological catalysts such as enzymes are now required. The interval between the two export phases saw the emergence of unauthorized or 'grey', exports. Export strategy now aims at dislodging such grey exports using a price strategy, with the company only seeking to break even in that segment of its operations.

LEGAL STATUS:

Nigerian Breweries Plc was incorporated on November 16, 1946 under the Companies Ordinance, Cap 38, as Nigerian Breweries Limited. On January 7, 1957 the name was changed to Nigerian Breweries Limited and later to Nigerian Breweries Plc in 1990. Nigerian Breweries Plc is a subsidiary of Heineken N.V, which has a 54.10% interest in the equity of Nigerian Breweries Plc, a publicly quoted company. In 2005, the brewed products market in Nigeria declined by 5% compared to 2004. Nevertheless, the Nigerian Breweries Plc consolidated its market position with 60% market share.

RECENT DEVELOPMENTS:

- The multi-billion naira **Ama Brewery** boasts of the best cutting edge technology and world-class standard processes and **the biggest and most modern brewery in Africa**. It's located in Umuezeani Village in the Amaeke Ngwo Community of Udi Local Government Area of Enugu State, the brewery "has an installed capacity of three (3) million hectoliters p.a (i.e one million carton units per week) it is also equipped with an ultra-modern waste water treatment plant in line with safe manufacturing practices world-wide. Constructed at a cost of N40 billion, the ultra-modern brewery is seen as an essential fulfillment of the pledge made by world's leading brewing group, **Heineken NV** to invest a total of N70 billion in Nigeria within a five-year period.
- The company's un-audited second quarter result recently released revealed an organic growth in annual turnover by a margin of 0.75% while its **Profit Before Tax (PBT) & Profit After Tax (PAT)** rose by 36.5% and 34.53% respectively.

STOCK EXCHANGE QUOTATION:

Nigerian Breweries Plc was listed on The Nigerian Stock Exchange (NSE) on September 5, 1973 and belongs to the Breweries sub-sector of the Manufacturing sector. Meanwhile the company's shares outstanding as at date stood at 7,562,562,340 while the share price as at date of reporting was N45.00, thereby giving a total market capitalization of N324.36 billion (US\$2.55 billion)

SHAREHOLDING STRUCTURE:

The components of the company's shareholdings are presented in the

Heineken N.V.*	4,091,260,852	54.01%
Nigerians, Foreign citizens& Associations	3,471,301,488	45.90%
TOTAL	7,562,562,340	100%
*Comprising all companies within Heineken N.V. Group. ONLY companies within this group held more than 10% of the		

SHAREHOLDERS WITH ABOVE 5% OF THE COMPANY'S SHAREHOLDINGS AS AT DECEMBER 2005.

Heineken Brouwerijen B.V	2,853,760,692	37.74%
SocieteD'asst Ind. Et. Comm	497,657,964	6.58%
Distilled Trading Inter-	470,480,588	6.22%
TOTAL	3,821,899,244	100%

NIGERIAN BREWERIES DIRECTORS' INTEREST IN SHAREHOLDINGS

	March 2006	Dec. 2005
F.O.A Ohiwerei	2,059,636	2,059,636
F.B.O.Odimegwu	148,522	148,522
Dr.O.O Ajayi	17,760	17,760
Prof.(Mrs) J.O.Akande	119,972	119,972
I.A.B. Akingbade	20,000	20,000
A.J.M. Blum	Nil	Nil
W.G.Deelen	Nil	Nil
D.O.Esiekpe	Nil	Nil
F.E. Eusman	Dutch, resigned 21/09/2005	
W.Fijnaut	Nil	Nil
P.Hamers	Nil	Nil
D.Hazelwood	Nil	Nil
E.E.Imoagene	129,504	129,504
Chief K.B. Jamodu	286,704	286,704
Th.A.deMan	Nil	Nil
E.J.Van Willegen	Nil	Nil
I.E. Yamson	Nil	Nil

GROWING DEMAND:

Alcoholic drinks enjoyed strong demand from 2000 to 2005. Total volume sales grew by an estimated 62% from 2000 to 2005. In 2002, excise duty was reduced from 40% to 20% per litre of alcohol. This benefited alcoholic drinks in general. The Nigerian beer market amounted to 10.2 million hectolitres in 2003.

Beer is easily the most popular alcoholic drink, accounting an estimated 96% of the total volume of alcohol sold in Nigeria in 2005. It was also the fastest growing alcoholic drink in terms of total volume during the review period as a whole. Beer in particular benefited from foreign investment, with more than US\$800 million spent on expanding production capacity in beer between 2000 and 2005. Domestic premium beer is very popular and heavily advertised through mass media channels. The slowest growth in alcoholic drinks was in spirits during the review period. This is because imported spirits are expensive and out of the reach of the average consumer. Imported spirits is not widely available in on-trade channels and not heavily advertised

OUTLOOK FOR THE INDUSTRY:

The outlook for the brewing industry in Nigeria is two-folds and contingent on the political situation in the country. Firstly, it is evident that a stable political climate is a sine-qua-non for economic growth vis-à-vis increased purchasing power. Therefore, if the stability in the early years of democracy in the country could be sustained till after 2007 general elections, it would definitely augur well for the manufacturing sector in general and the brewery industry in particular.

If there are increases in disposable income levels, we believe this should be accompanied with a proportionate reduction in the challenges facing brewery products from competing products such as mobile phones' recharge cards. Moreover, the reforms in the banking sub-sector are also expected to free up disposable income, so that consumers will have more to spend on brewery products

However, with the recent spate of political killings in the country, one might say that 2007 election year would be extremely unstable. Without mincing words, this will not augur well for the brewery industry.

PEER GROUP ANALYSIS:

The Nigerian brewery industry has come a long way from the first Nigerian Breweries factory opened in 1946. The industry is beset by the vagaries of the Nigerian Economy which has culminated in a situation where the number of operational breweries has reduced from over 30 in the early 1980s to about 10 as of 2006. Increased operational costs and increased cost of imported raw materials led to the demise of smaller town/regional breweries leaving only the breweries with greater capital bases, advertising, retailing and distributional links. As at today there are 7 breweries quoted on the Nigerian stock Exchange. However there exists a large difference between the giants like Nigerian Breweries and Guinness Nigeria Plc and their rivals such as Jos International Breweries, Champion Breweries and International Breweries of Ilesha.

The Big two (Guinness and Nigerian Breweries) outmatch their smaller rivals in every sense. They have much greater turnover, profitability, market capitalization and distribution channels. While the other breweries are specifically state Government owned or initiated the Big two have links with international brewery establishments such as Heineken B.V. (Nigerian Breweries) and Guinness (Guinness Nigeria Plc). So therefore, the real competition lies in the rivalry between Guinness and Nigerian Breweries thereby segmenting the Nigerian market into a duopolistic scenario.

These two companies compete mostly in the Stout, Malt drinks and Beer distribution. In the stout area, Nigerian Breweries product (Legend Extra Stout) lags far behind Guinness Variants of Guinness Stout and Guinness Extra Smooth. Nigerian Breweries faces tough competition from Guinness in the Malt drinks industry. NB has the edge as the first indigenous bottler of Malt drinks (Maltina) however; Guinness variants of Malta Guinness and Amstel Malta (made under license from Amstel B.V.) have eaten into the company's share of the market. Nigerian Breweries however is the leader in the beer market with its brands of Gulder and Star being its most profitable products and also far outselling the Guinness variants of Harp and Satzenbrau.

Nigerian Breweries had a turnover of N80.2billion in 2005 representing a growth of about 9% from the previous year figure of N73.6 billion. The company's profit after tax increased by over 62% from N5.09billion in 2004 to N8.25billion in 2005. Guinness on the otherhand witnessed a reduction in sales by about 1% from N47.51billion in 2004 to N47.03 billion in 2005. While Guinness PAT dropped by a whopping 38.6% from N7.91billion to N4.86billion. With the reduction in earnings Guinness still maintained itself as a more intrinsically profitable company with a post tax profit margin of 10.33% in comparison to Nigerian breweries 10.29%. We may want to discount Guinness performance as below standard but have to acknowledge that Guinness spent N3.64 billion in phasing out its old bottles line and introducing new ones. If we add this figure to the profit after tax, the new PAT is N8.5billion which is higher than Nigerian Breweries PAT of N8.25billion.

Most recently, GUINNESS posted its 2006FY result with a turnover of N53.65 billion, representing a 14.49% rise over N46.86 billion in 2005. Similarly, its PAT leaped by 53.12% with a twin-benefit of N4.00dividend and bonus of 1 for 4. This invariably pushed GUINNESS EPS to N6.31 with a yield of 2.52% and P/E ratio of 25.12.

Based on 2005 comparative results, for the long-term investor dealing basically with dividends, Guinness has out-matched its rival Nigerian Breweries with a dividend of N3.00 and dividend yield of 3.13%. This is better than Nigerian Breweries whose dividend yield is 2.70%. When we look at the 5 yr dividend history of both equities, Guinness still outperforms its rival with 4.54% dividend yield as compared to 3.75% of Nigerian Breweries. With respect to return on equity (ROE), Guinness had 26.66% as opposed to NB which had 28.79% measured by 2005 annual accounts. The return on assets for Guinness was 9.73% to NB's 11.23%. The Net Assets Per Share (NAPS) gives a return of 15.45% and 3.79% for Guinness and Nigerian Breweries respectively.

The main threats to the industry are maintenance and upgrade of ageing plants, rising costs of petroleum products and cost of raw materials such as barley (imported with high excise costs). The companies in the sector are looking inward towards greater use of corn and maize. The big two are investing a large amount in technology and upgrades to remain competitive. Guinness has upgraded its Ikeja plant and Nigerian Breweries has spent over \$12million dollars in upgrades and has fully established its multimillion dollar

PEER GROUP COMPARISONS AS AT DEC. 2005

SELECTED PEER RATIOS	NIGERIAN BREWERIES PLC	GUINNESS NIGERIA PLC	CHAMPION BREWERIES PLC	JOS INT'L BREWERIES PLC
Market Share by				
Turnover (2005) %	62.56	36.67	0.77	n/a
PAT(N'b)	8.25	4.86	0.1	n/a
Latest Stock Price	44.52	152.1	2.38	3.61
P/E Ratio	32.75	37.75	22.10	n/a
P/Sales Ratio	4.33	3.82	n/a	n/a
12 Month Trailing EPS	125	412	10.77	n/a
Market Cap.(N'b)	324.36.	187.03	2.142	6.083
Shares Outstanding (million)	7,563	1,180	900	1,685
ROE(%)	28.79	26.66	n/a	n/a
ROA(%)	11.23	9.72	n/a	n/a
Net Assets Per Share (N)	3.79	15.45	n/a	n/a
Profit Margin %	10.29	10.33	15.49	n/a
Shareholders Funds (N'b)	28,674.2	18,227.4	662.9	n/a
Beta	1.611	1.106	n/a	n/a
Div. Yield %	2.7	3.13	n/a	n/a
5 Yr Div. Yield Avg. %	3.75	4.54	n/a	n/a

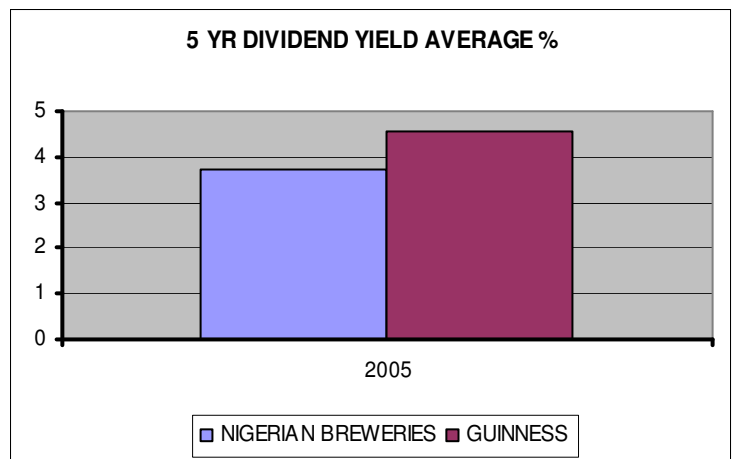
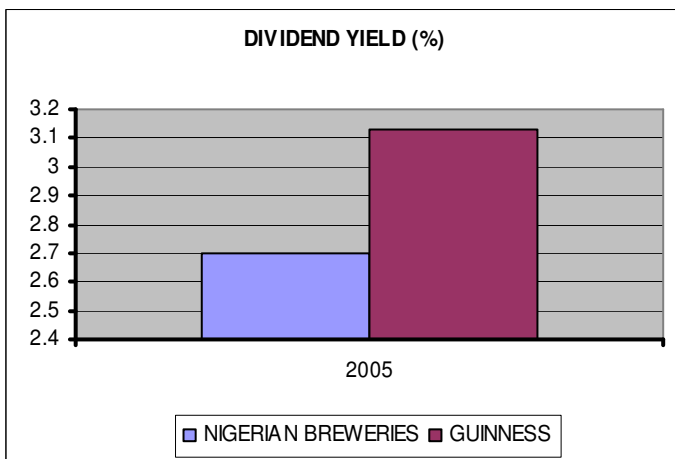
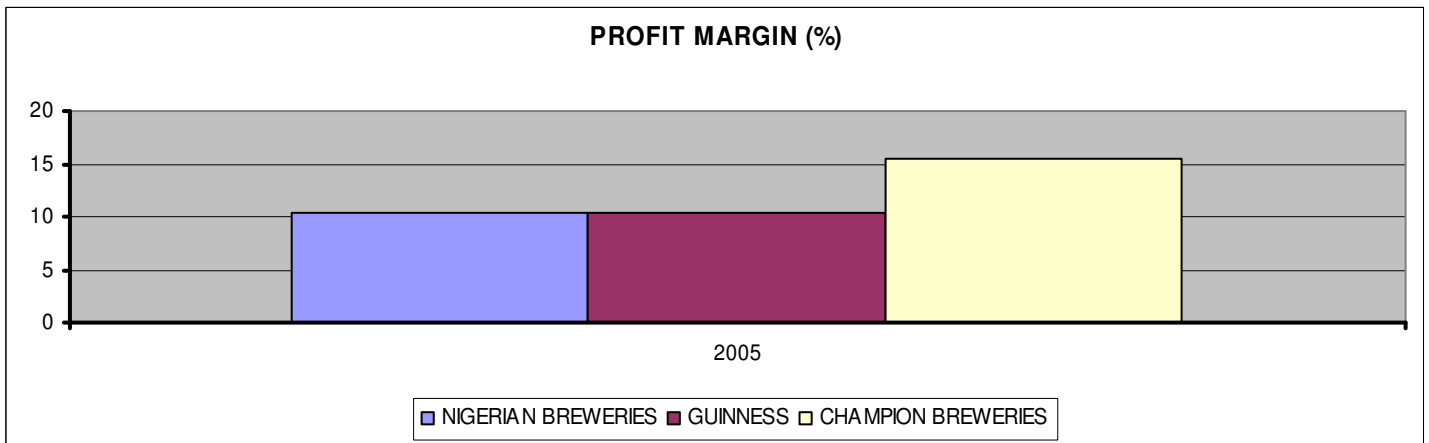
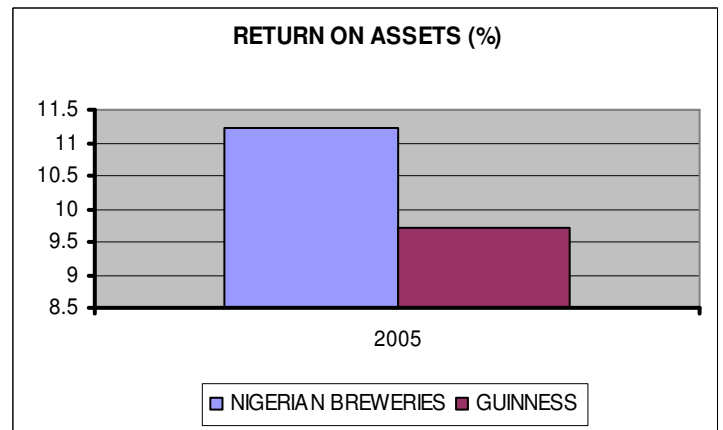
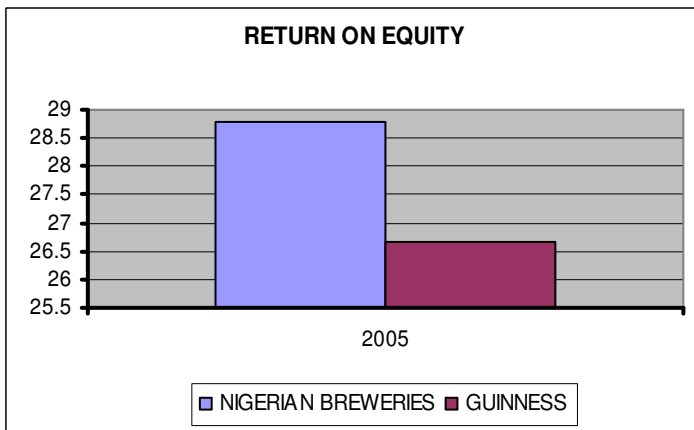
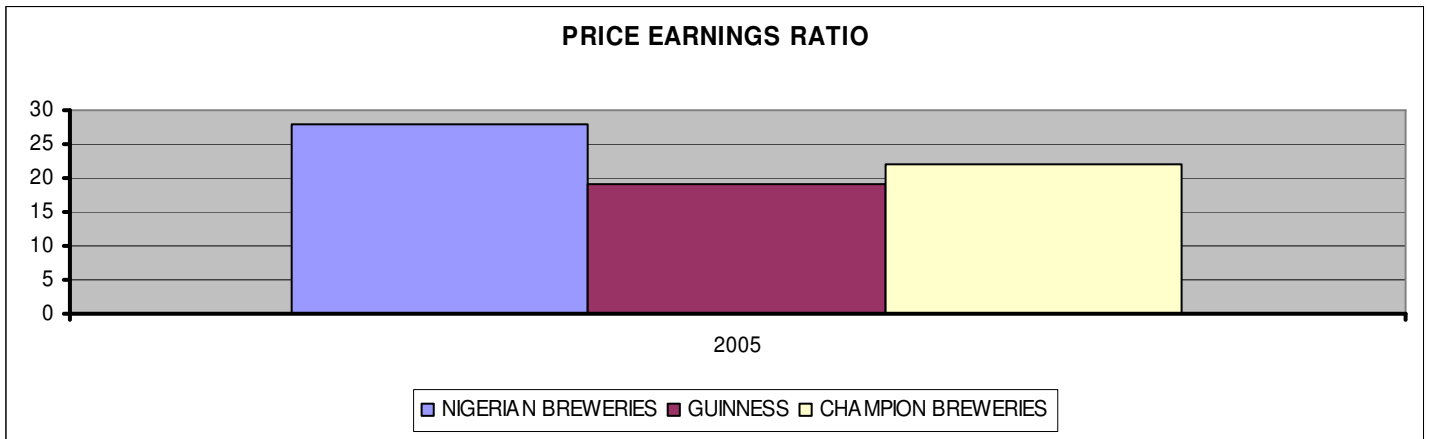


TABLE I: NIGERIAN BREWERIES: PROFIT & LOSS ACCOUNTS 2001-2005

	2005 N'000	2004 N'000	2003 N'000	2002 N'000	2001 N'000	5-Yr Avg N'000
Turnover	80,235,361	73,594,134	56,508,797	33,697,873	23,489,939	53,505,221
Average Turnover	76,914,748	65,051,466	45,103,335	28,593,906		
Cost of Sales	38,852,175	37,601,705	25,288,194	6,694,528	5,430,238	22,773,368
Gross Profit	41,383,186	35,992,429	31,220,603	27,003,345	18,059,701	30,731,853
S& D Exp.	12,765,140	10,493,873	8,752,651	5,896,568	3,255,663	8,232,779
Admin Exp.	13,164,151	11,072,787	9,407,075	7,003,230	4,826,665	9,094,782
Operating Expenses	25,929,291	21,566,660	18,159,726	12,899,798	8,082,328	17,327,561
Other Operating Income				46,209	58,098	20,861
Operating Profit	15,453,895	14,425,769	13,060,877	14,149,756	10,035,471	13,425,154
Interest Expenses	2,598,233	5,413,679	2,326,603	2,170,816	556,953	2,613,257
Interest Income	42,084	136,049	257,773	0	0	87,181
Net Interest	2,556,149	5,277,630	2,068,830	2,170,816	556,953	2,526,076
Profit Before Tax & Extraordinary Item		9,148,139	10,992,047	11,978,940	9,478,518	8,319,529
Extraordinary Item	0	0	0	0	-1,989,167	(397,833)
PBT	12,897,746	9,148,139	10,992,047	11,978,940	7,489,351	10,501,245
Tax	4,643,189	4,061,736	3,639,760	2,759,986	2,954,307	3,611,796
PAT	8,254,557	5,086,403	7,352,287	9,218,954	4,535,044	6,889,449
Interim Dividend	1,890,641	0.00	0.00	0.00	0.00	1,890,641
Final Dividend	6,050,050	3,025,025	4,159,409	7,940,528	4,253,827	5,085,768
Total Dividend Paid	7,940,691	3,025,025	4,159,409	7,940,528	4,253,827	5,463,896
Transfers to General reserves	313,866	2,061,378	3,192,878	-644,082	281,217	1,041,051
	8,254,557	5,086,403	7,352,287	7,296,446	4,535,044	6,504,947

TABLE II: NIGERIAN BREWERIES: COMMON-SIZED PLC ACCOUNTS 2001-2005

<i>COMMON-SIZED</i> P & L ACCOUNTS	2005 %	2004 %	2003 %	2002 %	2001 %	5-Yr Avg %
Turnover	100%	100%	100%	100%	100%	100%
Cost of Sales	48.42%	51.09%	44.75%	19.87%	23.12%	37.45%
Gross Profit	51.58%	48.91%	55.25%	80.13%	76.88%	62.55%
S& D Exp.	15.91%	14.26%	15.49%	17.50%	13.86%	15.40%
Admin Exp.	16.41%	15.05%	16.65%	20.78%	20.55%	17.89%
Operating Expenses	32.32%	29.30%	32.14%	38.28%	34.41%	33.29%
Other Operating Income	0.00%	0.00%	0.00%	0.14%	0.25%	0.08%
Operating Profit	19.26%	19.60%	23.11%	41.99%	42.72%	29.34%
Interest Expenses	3.24%	7.36%	4.12%	6.44%	2.37%	4.70%
Interest Income	0.05%	0.18%	0.46%	0.00%	0.00%	0.14%
Net Interest	3.19%	7.17%	3.66%	6.44%	2.37%	4.57%
Profit Before Tax & Extraordinary Item	0.00%	0.00%	0.00%	0.00%	-8.47%	-1.69%
Extraordinary Item	0.00%	0.00%	0.00%	0.00%	-8.47%	-1.69%
PBT	16.07%	12.43%	19.45%	35.55%	31.88%	23.08%
Tax	5.79%	5.52%	6.44%	8.19%	12.58%	7.70%
PAT	10.29%	6.91%	13.01%	27.36%	19.31%	15.37%
Interim Dividend	2.36%	0.00%	0.00%	0.00%	0.00%	0.47%
Final Dividend	7.54%	4.11%	7.36%	23.56%	18.11%	12.14%
Total Dividend Paid	9.90%	4.11%	7.36%	23.56%	18.11%	12.61%
Transfers to General reserves	0.39%	2.80%	5.65%	-1.91%	1.20%	1.63%

TABLE III: NIGERIAN BREWERIES: BALANCE SHEET STATEMENTS (2001-2005)

BALANCE SHEET	2005	2004	2003	2002	2001	5-Yr Avrg
	N'000	N'000	N'000	N'000	N'000	N'000
Fixed Assets	<u>52,426,880</u>	<u>54,448,027</u>	50,041,941	37,022,760	15,287,003	<u>41,845,322</u>
Long-term Debtors & Prepayments	<u>1,393,442</u>	<u>1,709,963</u>	<u>1,302,422</u>	<u>1,406,246</u>	<u>720,383</u>	<u>1,306,491</u>
Current Assets						0
Stocks	12,342,741	18,124,961	2,767,099	13,575,157	12,155,056	6,093,540
Debtors & Prepayments	2,290,177	3,486,587	6,415,268	5,641,152	1,173,748	1,155,353
Foreign Currencies purchased for imports	132,978	130,121	7,465,334	8,396,521	8,263,716	52,620
Banks and Cash balances	<u>4,919,765</u>	<u>4,644,318</u>	<u>18,407,866</u>	<u>1,357,578</u>	<u>12,685,022</u>	<u>1,912,817</u>
Total current Asset	<u>19,685,661</u>	<u>26,385,987</u>	<u>33,753,145</u>	<u>27,564,162</u>	<u>33,557,159</u>	<u>28,189,223</u>
TOTAL ASSETS	<u>73,505,983</u>	<u>82,543,977</u>	<u>85,097,508</u>	<u>69,829,773</u>	<u>49,564,545</u>	<u>72,108,357</u>
AVERAGE TOTAL ASSETS	<u>78,024,980</u>	<u>83,820,743</u>	<u>77,463,641</u>	<u>59,697,159</u>	<u>49,564,545</u>	
CURRENT LIABILITIES						
Taxation payable	2,892,313	1,264,770	1,822,539	3,147,173	2,061,429	2237645
Dividend payable	8,269,481	4,475,222	5,544,101	8,812,526	5,175,554	6455377
Other current liabilities	<u>21,965,423</u>	<u>38,866,979</u>	<u>44,441,194</u>	<u>27,729,630</u>	<u>13,972,467</u>	<u>29395139</u>
Total current Liabilities	<u>33,127,217</u>	<u>44,606,971</u>	<u>51,807,834</u>	<u>39,689,329</u>	<u>21,209,450</u>	38088160
NET CURRENT ASSETS/(LIABILITIES)	<u>-13,441,556</u>	<u>-18,220,984</u>	<u>-18,054,689</u>	<u>-12,125,167</u>	<u>12,347,709</u>	<u>(9,898,937)</u>
LONG-TERM LIABILITIES						
Deferred taxation	7,373,907	5,545,326	3,233,180	1,063,152	1,470,084	3,737,130
Gratuity	4,332,668	4,137,736	3,869,748	2,300,000	1,681,936	3,264,418
Loan Capital				5,280	5,280	2,112
Total long-term liabilities	<u>11,706,575</u>	<u>9,683,062</u>	<u>7,102,928</u>	<u>3,709,184</u>	<u>3,152,020</u>	<u>7,070,754</u>
TOTAL LIABILITIES	<u>44,833,792</u>	<u>54,290,033</u>	<u>58,910,762</u>	<u>43,398,513</u>	<u>24,361,470</u>	<u>45,158,914</u>
NET ASSETS	<u>28,672,191</u>	<u>28,253,944</u>	<u>26,186,746</u>	<u>26,431,260</u>	<u>25,203,075</u>	<u>26,949,443</u>
CAPITAL & RESERVES						
Share Capital	3,781,282	3,781,282	1,890,641	1,890,602	945,295	2,457,820
Revaluation Reserve	7,504,208	7,791,540	8,636,577	10,372,873	10,372,873	8,935,614
Share Premium	4,568,038	4,568,038	4,640,154	6,528,684	6,627,993	5,386,581
Bonus Reserve			1,890,641		945,295	567,187
General Reserve	<u>12,820,663</u>	<u>12,113,084</u>	<u>9,128,733</u>	<u>7,633,824</u>	<u>6,305,669</u>	<u>9,600,395</u>
SHAREHOLDERS FUNDS	<u>28,674,191</u>	<u>28,253,944</u>	<u>26,186,746</u>	<u>26,425,983</u>	<u>25,197,125</u>	<u>26,947,598</u>

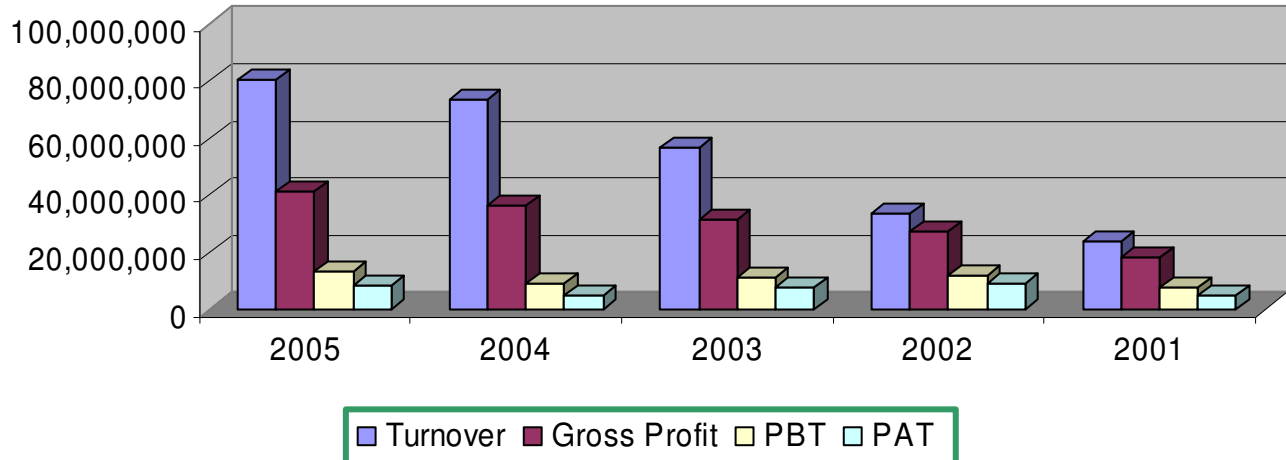
TABLE IV: NIGERIAN BREWERIES PLC: TRENDS IN FINANCIAL RATIOS (2001-2005)

	2005	2004	2003	2002	2001
LIQUIDITY RATIOS					
Current ratio	0.15	0.63	0.68	0.83	1.62
Quick Ratio	0.07	0.12	0.05	0.14	0.06
Cash Ratio	0.15	0.11	0.27	0.25	0.99
EFFICIENCY RATIO					
Receivables' Turnover	35.03	14.16	20.42	5.97	20.01
Inventories' Turnover	2.55	2.06	1.41	0.45	0.45
Payables' Turnover	3.61	4.25	6.09	1.37	1.00
Days' Sales Outstanding	10.42	25.77	17.87	61.10	18.24
Days' Payable Outstanding	101.00	85.95	59.98	266.62	363.29
Days' Inventories Outstanding	143.12	177.31	258.50	806.02	817.02
Cash Conversion Cycle	52.54	117.13	216.40	600.51	471.97
Total Asset Turnover	1.09	0.89	0.66	0.48	0.47
Fixed Assets Turnover	1.53	1.35	1.13	0.91	1.54
Equity Turnover	2.80	2.60	2.16	1.28	0.93
Total Asset to Equity	2.56	2.92	3.25	2.64	1.97
AR/SALES	0.03	0.07	0.05	0.17	0.05
SOLVENCY RATIOS					
Debt -Equity Ratio	1.56	1.92	2.25	1.64	0.97
Total Debt Ratio	0.61	0.66	0.69	0.62	0.49
Total Interest bearing Debt-Capital Ratio	0.14	0.35	0.39	0.27	0.16
Interest coverage Ratio	3.18	0.94	3.16	4.25	8.14
Cash Flows Coverage Ratio	11.07	3.99	6.75	2.27	1.24
Cash Flow- Debt Ratio	3.34	1.32	0.88	0.29	0.22
Financial Leverage Index	1.37	1.03	1.83	1.72	0.89
PROFITABILITY RATIOS					
Gross Margin	51.58%	48.91%	55.25%	80.13%	76.88%
Operation Margin	19.26%	19.60%	23.11%	41.99%	42.72%
Return on Assets(ROA)	21.02%	17.48%	15.35%	20.26%	20.25%
Return on Equity(ROE)	28.79%	18.00%	28.08%	34.89%	18.00%
Net Profit Margin	10.29%	6.91%	13.01%	27.36%	19.31%
Effective Interest Rate	13.34%	17.36%	8.84%	16.15%	10.31%
Effective Tax Rate	36.00%	44.40%	33.11%	23.04%	39.45%
VALUATION METRICS					
Shares Outstanding	7,562,564,340	7,562,564,340	3,781,282,000	3,781,204,000	1,890,590,000
Trailing EPS(k)	109.15	67.26	194.44	243.81	239.87
DPS(k)	105.00	40.00	110.00	210.00	225.00
NAPS(N)	3.79	3.74	6.93	6.99	13.33
Trailing P/E ratio	32.75	63.64	32.50	12.39	14.59
Forward P/E	29.17				
Market Price as at December 31(N)	38.80	42.80	63.20	30.20	35.00
Dividend Yield(%)	2.71	0.93	1.74	6.95	6.43
Earnings Yield(%)	2.81	1.57	3.08	8.07	6.85
Dividend Cover	1.04	1.68	1.77	1.16	1.07
Pay-out Ratio(%)	96.20	59.47	56.57	86.13	93.80
Retention rate(τ %)	3.80	40.53	43.43	13.87	6.20
Cash Flow Per Share	3.80	2.86	4.15	1.30	0.37
Price/Share	4.15				
Price/Book	11.60				
Volatility-Beta(β)	1.611				

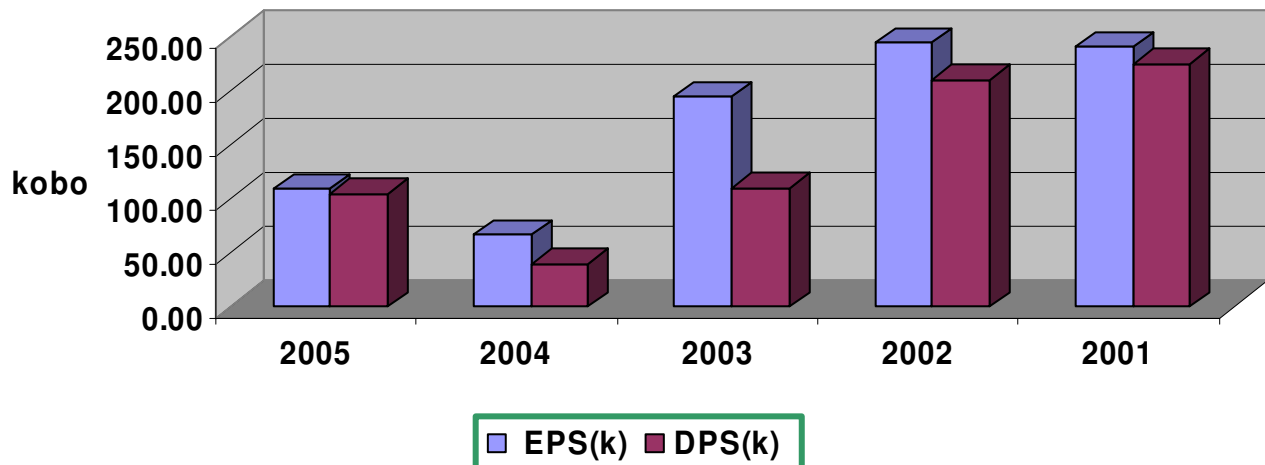
PRICE AS AT DATE 03/10/2006

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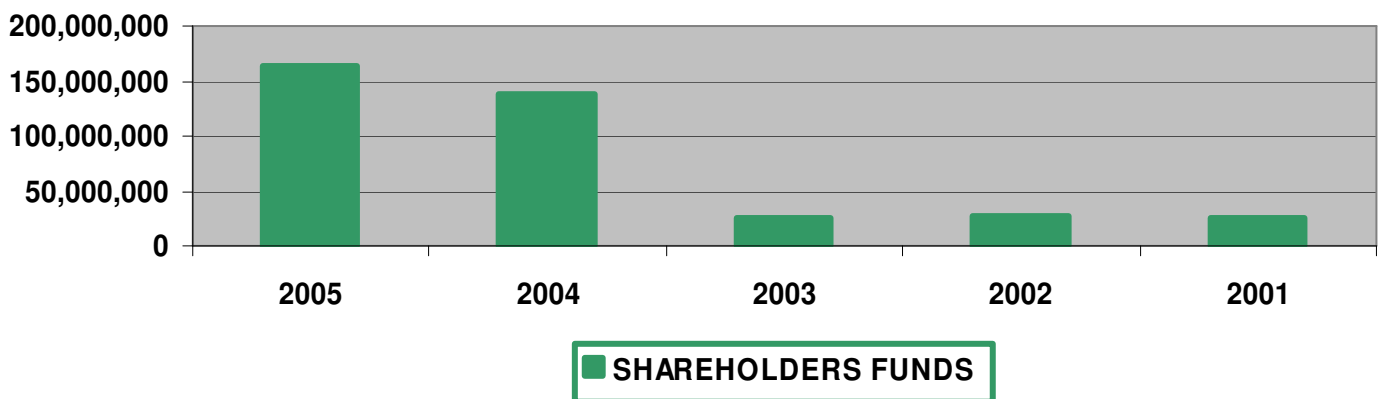
NIGERIAN BREWERIES PLC: TRENDS IN TURNOVER, GROSS PROFIT, PBT & PAT (N'000) 2001-2005.



NIGERIAN BREWERIES PLC: EARNINGS & DIVIDEND PER SHARE'S HISTORY 2001-2005



NIGERIAN BREWERIES PLC: TRENDS IN SHAREHOLDERS FUNDS 2001-2005



INHERENT RISK :

There is a business risk of declining appetite for beer against a significantly increased output capacity. The company seems to be brewing more than the market's present drinking capacity and that isn't good news to companies that have just invested heavily in expanding output capacities in 2003. The excess supply has a negative effect on the company's pricing power and the presence of other highly competing pocket expenses such as telecom industry has a crowd-out effect on the demand for beer. Put differently, the cross-industry competition is another big threat to the company.

While the brewed products declined by 5% in 2005 compared to 2004, the company witnessed a 30% decline in revenue growth in 2005 as compared to 2004. This further confirms the volatility of the stock even within the industry. The expansion in capacity that could not be filled due to the declining demand would create huge idle costs that the company has to contend with. The company's market risk is high and this subjects it more to earnings volatility especially during unfavourable government policy. The company's financial risk is minimal as this has been eroded by the benefit of leverage witnessed from the company's return on asset of 21% when compared to the effective rate of interest of 9% as at 2005. This has impacted positively on the financial leverage index. In short, it could be said that the company has all along benefited from its short term interest bearing debt. **Meanwhile, the company has a large shareholding of 7,562,564,340 as at December 2005 and given the widespread of ownership of the company, the stock is highly liquid.**

FINANCIALS:

NB revenue that has been growing at an average of 40% since 2000, nosedived in year 2004 with a growth rate of 30% from its 67% revenue growth in 2003. This signal continued in year 2005 with an all time low revenue growth of 9%. The company, whose growth in earnings and turnover depends on volume suffered a serious decline in product demand in year 2004 and 2005.

Gross margin which declined by 6.34% in 2004 from 55.25% figure of 2003 increased by another 2.67% in 2005 thereby constituting 51.58% of the year's turnover. This exhibits the company's policy direction of cost saving strategy given the declining growth in turnover. Though operating expenses increased by 3%, the reduction by 3.99% in interest expenses significantly overshadowed the increase in the Operating Expenses (OPEX) and contributed to a large extent, to the improvement in the company's earnings for the financial year 2005. Notwithstanding the decline in revenue growth, the company's Return On Asset (ROA) which represents the performance of the company's total asset invested has been on the increase from 15% in 2003, 17% in 2004 to 21% in 2005.

FORECASTS:

We forecast a relatively stable turnover in YR 2006 with a rebound in YR 2007 due to the expected increase in public events as the 2007 elections draw near. We expect the company to capture a big chunk of several funds being earmarked for political spending as from next year. That can be expected to have a multiplier effects on the rest of the economy which will restore the consumer capacity the brewery sector is presently lacking.

We expect an annual growth rate of 1% in turnover in FY2006 while we also expect that the electioneering activities in 2007 as well as the proposed reduction in tariffs in the telecom sector would facilitate a turnover growth of 10% in 2007 and 2008. Thereafter, we estimate a perpetual annual turnover growth rate of 5% in 2009 and beyond.

We however recognize the dependency of the company's operations on fuel and present costs of idle capacity from its plant at Ama- Enugu, we assume that the company would sustain its cost-saving strategies.

VALUATION METRICS

In an attempt to derive an appropriate value for NB, we have employed three different valuation methods viz: DCF, P/E and P/S Multiples. Our DCF valuation for NB is N17.73 while valuation based on trailing P/E ratio of 32.75 as at Tuesday October 3, 2006 with a forecast EPS of 1.47, is N48.14 and our value based on Price/ Sales multiple of N18.29. We however weighted these valuation bases and allocated more weight to DCF given its measurement of company's prospects and potentials as follows : DCF 40%, Sales Multiple 30%, P/E 30% and based on these we have a target price of N27.02.

DATA SOURCES: 1. The Nigeria Stock Exchange (NSE) 2. Company's Financials 3. Enugu State Government Website 4. www.euromonitor.com 5. Others internet sources.

This improvement may equally be a resultant effect of the short term leverage used by the company during the years concerned. With a continuous growth in asset performance induced by cost reduction and declining interest rate expenses, the **return to equity** which nosedived in 2004, due to a very high interest payment, increased again to 28.8% in 2005 as a result of interest rate restructuring.

The benefit of leverage is further pronounced in the financial Leverage index that has been consistent above one except in FY2004. The company's debt profile is largely short term debt consisting of Bank Overdraft and Commercial papers.

Operationally, Nigeria Breweries has increased its Asset turnover times from a low of 0.47 in 2001 to 1.09 in 2005. The numbers of days inventory is tied down has also reduced from an average of 258 days in 2003 to 143 days in 2005. With this, the company still needs to work on its sales strategy in order to reduce this period. The company also usually benefits from cheap source of credit as evidenced in the increase in the number of days it takes to pay its creditors. For example, the company annually benefits cheap credit through delays in its credit payment from an average period of 59 days in 2003 to 88 in 2004, and finally to 110 in 2005. The company's credit policy is quite impressive as the average number of days it takes to collect receivables was contracted from 20 days in 2003 to an average of 5 days in 2005. This shows an efficient management of company's resources.

Apart from the existing equity, the company's other sources of fund have been from its rights issue (in 2000) and other short term debt arrangements in form of O/D facilities and commercial papers. In term of solvency, the company has an interest coverage ratio 3.18 times as compared to 0.97 in 2004. It was also observed that the number of times the operating cash flows covered interest payments obligation increased from 3.99 times in 2004 to 11.07 times 2005.

NB'S HALF YEAR(Q2) RESULTS

With a review of the company's half year results released recently, we observed that the Nigerian Breweries could not achieve a significant growth in turnover as it posted N40.3 billion in 2006-Q2 as against N40.0 billion posted in the corresponding quarter of previous year i.e. 2005-Q2. Though, in contrast to this, the management was able to sustain its cost-saving strategies as its PAT rose by 34.53% from N4.72 billion in 2005-Q2 to N6.35 billion in 2006-Q2. Put differently, the company has on the other hand, focused more on its cost-saving objective by reducing its interest expenses. We therefore expect a further drop. This would undoubtedly counter the effect of other rising cost on the balance sheet.