

**TANZANIA BREWERIES
LIMITED**
EQUITY RESEARCH REPORT

June 2021

Analyst : Chacha Winani
Phone: 255 787 670 359
Email: chacha@optimacorporate.co.tz

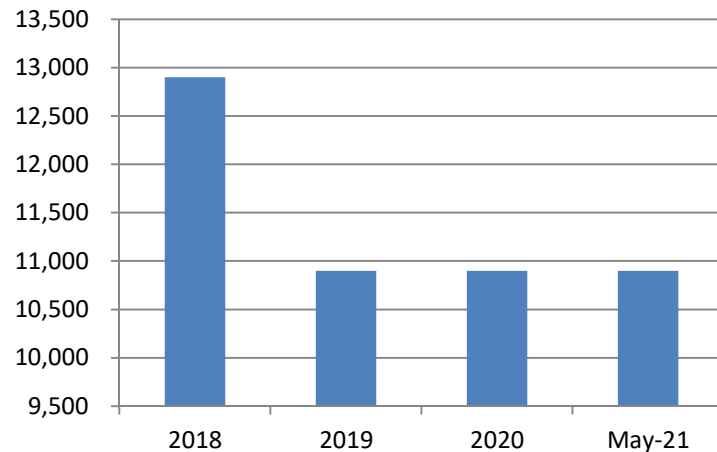
Analyst : Chacha Iswante
Phone: 255 752 198 331
Email: Iswante@optimacorporate.co.tz



HIGHLIGHTS

Closing Market Price on the 03 June 2021	10,900
Valuation	6,903
Upside potential	-37%
PE (Dec 2020)	36.1
P/BV (2020)	5.50
Shares outstanding	295,056,063
Net Profit (Dec 2020) - Unaudited	89,086,000,000
Year End	DEC
Market Capitalisation(TZS.Billions)	971,037
Exchange rate: USD/TZS (Average)- BOT 03.6.2021	2,290

Price per share



We initiate our coverage on TBL with a **SELL** recommendation in the **Medium Term**.

Investment Positives:

- TBL is expected to keep its leading position in the market for alcoholic and non alcoholic beverages in Tanzania.
- TBL has good margin levels resulting to strong profits.
- The company is in a robust financial situation with a strong balance sheet resulting from good margins and cash flow.
- The company is one of the best yield companies with high dividend expectations

Risks

- The effects of Covid 19 are expected to continue to have negative effect on demand of the TBL products which eventually might affect its earnings.
- Increased competition from locally and imported products will continue to put pressure on the margins.
- The company's revenues are vulnerable to adverse macroeconomic shocks that may affect demand of TBL products

Valuation update and recommendation

Two methods have been used to value the company arriving at the value of Tshs 6,903 per share which is 37% lower compared to the closing price on the 3rd June 2021

Based on our analysis, review and valuation, our recommendation is **SELL** in the medium term.

Economic overview

Projected Economic Indicators

%	2020a	2021b	2022b	2023b	2024b	2025b
GDP	1.9	3.8	5.1	5.8	6.0	6.3
Private consumption	1.1	3.5	3.3	4.1	4.2	4.5
Government consumption	7.5	5.0	5.0	3.0	2.0	3.0
Gross fixed investment	(4.0)	5.9	7.5	8.5	8.6	8.6
Exports of goods & services	(3.0)	4.0	6.1	6.3	7.0	8.0
Imports of goods & services	(11.0)	8.5	7.0	6.3	6.0	7.0
Domestic demand	(0.5)	4.5	5.2	5.8	5.9	6.2
Agriculture	2.5	3.0	3.3	4.0	3.8	4.0
Industry	1.2	4.3	5.0	6.1	7.3	7.7
Services	(1.5)	2.7	4.6	5.9	6.6	6.6

Economic Overview

GDP

- ▶ We estimate that Tanzania will have avoided a recession in 2020, with full-year real GDP growth of 1.9%, but this still represents a historical low. Assuming that the coronavirus is brought under control globally in 2021, growth will rebound to 3.8%, before accelerating to an average of 5.6% a year in 2022-24 and to 6.3% in 2025.

Inflation

- ▶ After edging down marginally to an estimated 3.3% in 2020 as higher domestic prices for food and essential goods offset lower global oil prices, inflation will pick up in 2021-23. This will be driven by a recovery in demand and by higher global crude oil prices. Nonetheless, inflation will remain below the central bank's medium-term target of 5%, peaking at 4.7% in 2023. The rate will moderate in 2024-25, to an average of 4.2% a year, as oil prices fall.

Exchange rates (Tshs:USD)

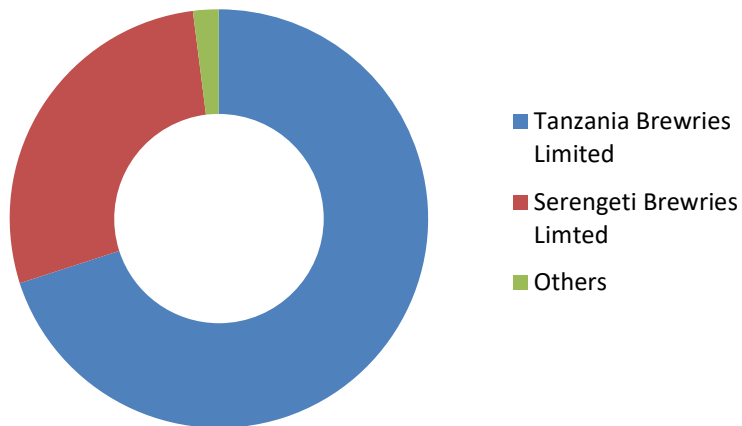
- ▶ Following a modest pace of depreciation in 2020, facilitated in part by the BoT's intervention in the foreign-exchange market, particularly in recent months, we expect the shilling to weaken more sharply in 2021. Depreciation will continue in 2022-25 owing to Tanzania's persistent current- account deficit and the BoT's tolerance of greater exchange-rate flexibility. We expect the shilling to weaken from an estimated average of TSh2,294:US\$1 in 2020 to an average of TSh2,499:US\$1 in 2025.

Business overview

Shareholders

Company	% Equities	SHARES
AB InBev-SA	64.00	188,693,282
PPF	4.20	12,402,720
NHIF	1.65	4,854,370
UNIT TRUST	1.44	4,235,750
LAPF	0.95	2,796,671
NSSF	0.24	700,624
African Partners	0.08	235,707
Holberg	0.07	206,900
Rondure	0.01	34,234
Banor	0.01	19,770
others	27.35	80,876,035
Total	100.00	295,056,063

Market Share



Background and history to the business

- ▶ The Tanzania Breweries Limited (TBL) was incorporated in 1933. In 1993 the Government of Tanzania entered a joint venture with SABMiller to run TBL. In 1998, TBL was listed on the DSE through a successful IPO.
- ▶ TBL Plc has a controlling interest in Tanzania Distilleries Limited, Darbrew Limited and Kibo Breweries Limited
- ▶ The TBL employs about 1,375 people and is represented throughout the country with four clear beer breweries, a spirit manufacturing facility, a traditional beer manufacturing facility and 8 distribution depots.

Principal Activities

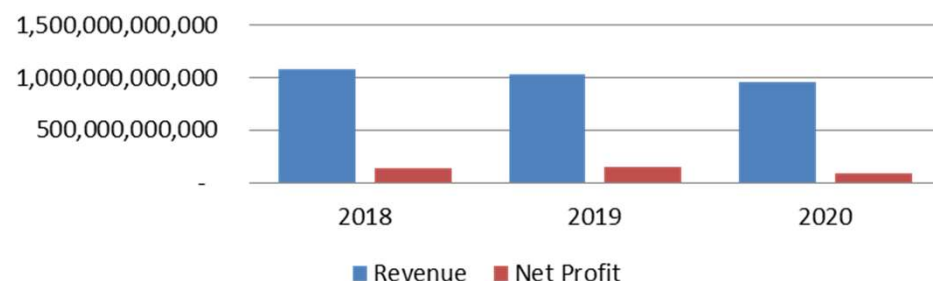
- ▶ The principal activities of TBL is production, distribution and sale of alcoholic drinks and non-alcoholic malt and fruit beverages.
- ▶ The company markets its own products under the following liquor brands; Safari, Kilimanjaro, Ndovu and Konyagi. Also, it distributes international wines and spirits under license from Distell Limited of South Africa'
- ▶ TBL operates in Dar es salaam, Arusha, Mwanza and Mbeya and 10 depots throughout the country. It also produces Malt at its malting plant in Moshi.
- ▶ Other prominent brands associated with the TBL group are Konyagi Gin and Redds Premium Cold, Dodoma and Imagi wine.

Financial Highlights – Income Statement

TZS	2018	2019	2020	CAGR%
Revenue	1,078,770,000,000	1,025,960,000,000	961,886,000,000	-6%
Cost of Sales	(669,351,000,000)	(628,290,000,000)	(597,121,000,000)	-6%
Gross Profit	409,419,000,000	397,670,000,000	364,765,000,000	-6%
Other operating income	590,000	(1,031,000,000)	-	-100%
Selling&admn expenses	(128,164,000,000)	(118,688,000,000)	(131,231,000,000)	1%
Administrative Expnses	(54,701,000,000)	(50,258,000,000)	(61,070,000,000)	6%
Other operating expenses	(16,277,000,000)	(7,623,000,000)	(9,073,000,000)	-25%
Operating Profit	210,277,590,000	220,070,000,000	163,391,000,000	-12%
Financial items	599,000,000	1,428,000,000	1,434,000,000	55%
Profit Before Tax	210,876,590,000	221,498,000,000	164,825,000,000	-12%
Taxes on Income	(77,916,000,000)	(71,286,000,000)	(75,739,000,000)	-1%
Profit for Year	132,960,590,000	150,212,000,000	89,086,000,000	-18%

- ▶ Tanzania Breweries Limited (TBL) dominates the beer industry in Tanzania, with a market share of around 70 percent. It is the largest and oldest brewing company in the country. On the other hand, the Kenyan based East African Breweries Limited (EABL) retains 28 percent of the beer market share in Tanzania through Serengeti Breweries Limited, the second-largest beer producer in the country.
- ▶ The Group's revenue decreased by 6% impacted by the global covid-19 pandemic. Beer revenue and volumes have been mostly affected during April and May, whilst spirits have achieved single digit growth in the period.
- ▶ Operating Profit decreased by 25.8% contributed mostly by a decrease of revenues impacted by covid-19.
- ▶ Operational Overhead and Sales and distribution (S&D) costs increased during the year mostly due to central costs and exceptional items.
- ▶ Operating margin ended up at 17.0% compared to prior year at 21.5%.
- ▶ A total of TShs 39,717 million was invested in capital expenditure during the year compared to TShs 64,178 million of previous year.

Annual Performance



Historic financial information – Balance Sheet

TZS	2018	2019	Dec-20	CAGR
Non- Current Assets				
Intangible Assets	43,978,000,000	43,334,000,000	43,696,000,000	0%
Plant, Property & Equipment	579,902,000,000	542,214,000,000	488,349,000,000	-8%
Right of use Asset	-	10,302,000,000	12,540,000,000	
Investments	88,000,000	88,000,000	88,000,000	0%
Deferred tax asset	6,534,000,000	6,419,000,000	7,052,000,000	4%
Non- Current Assets	630,502,000,000	602,357,000,000	551,725,000,000	-6%
Current Assets				
Financial instruments	328,000,000	32,000,000	-	-100%
Inventories	97,424,000,000	112,726,000,000	108,299,000,000	5%
Trade receivables	135,770,000,000	100,439,000,000	92,592,000,000	-17%
Restricted bank balance	38,300,000,000	38,300,000,000	38,300,000,000	0%
Bank & cash	63,518,000,000	85,574,000,000	155,925,000,000	57%
Current Assets	335,340,000,000	337,071,000,000	395,116,000,000	9%
TOTAL ASSETS	965,842,000,000	939,428,000,000	946,841,000,000	-1%
EQUITY				
Equity	29,506,000,000	29,506,000,000	29,506,000,000	0%
Share premium	45,346,000,000	45,346,000,000	45,346,000,000	0%
Retained earnings	414,009,000,000	410,359,000,000	442,991,000,000	3%
Other reserves	66,643,000,000	66,643,000,000	66,643,000,000	0%
Non Controlling Interest	7,317,000,000	13,867,000,000	-	-100%
TOTAL EQUITY	562,821,000,000	565,721,000,000	584,486,000,000	2%
Non Current Liabilities				
Deferred tax	37,969,000,000	35,705,000,000	36,589,000,000	-2%
Lease liability	-	4,900,000,000	9,377,000,000	
defined pension benefit	1,933,000,000	1,933,000,000	1,496,000,000	-12%
TOTAL NCL	39,902,000,000	42,538,000,000	47,462,000,000	9%
Current liabilities				
Provision	12,704,000,000	12,862,000,000	12,469,000,000	-1%
Trade payables	342,305,000,000	298,367,000,000	268,527,000,000	-11%
Current income tax	5,294,000,000	12,915,000,000	5,547,000,000	2%
Lease liability	-	5,811,000,000	5,201,000,000	
Borrowing	2,816,000,000	1,214,000,000	-	-100%
	363,119,000,000	331,169,000,000	291,744,000,000	-10%
TOTAL LIABILITIES	403,021,000,000	373,707,000,000	339,206,000,000	-8%
TOTAL EQUITY&LIABILITY	965,842,000,000	939,428,000,000	946,841,000,000	-1%

Source: TBL Audited Financials and 12 months results (2020)- unaudited

Assets

- ▶ Overall the balance sheet declined by 1% CAGR from 2018 to 2020.
- ▶ Non current Assets shrunk by 6% CAGR from 2018 to 2020 mainly due to depreciation of assets
- ▶ Current assets was the main driver of the balance sheet. It grew by 9% from 2018 to 2020.

Cash generation

- ▶ The Group generated TShs 253,451 million from operations. The same was used as follows (among others) :
 - ▶ TShs 82,195 million - Corporate income tax,
 - ▶ TShs 39,717 million to pay capital expenditure,
 - ▶ TShs 7,383 million used in financing.
 - ▶ Tshs 52,966 million paid as dividend

Ratios Analysis

Investment Ratios	2018	2019	2020
Price per share (End of the year)	12,900	10,900	10,900
Dividend (Tshs per share)	700	350	160
EPS	451	509	302
P/E	29	21	36
P/BV	6.8	5.7	5.5
Dividend Yield	0.05	0.03	0.01
Book Value per share	1,907.5	1,917.3	1,980.9

Positives and Risks

Investment Positives

- ▶ **Leading player in the market:** We expect TBL to keep its leading position in the market supported by wide range of alcoholic and Non Alcoholic products that it offers.
- ▶ **Good Profit Margins:** TBL has good margin levels resulting to strong profits despite challenges associated with Covid 19 and macroeconomic shocks.
- ▶ **Strong Financial Position:** The company is in a robust financial situation with a strong balance sheet resulting from good margins and cash.
- ▶ **Dividends payments:** The company is one of the best yield companies with high dividend expectations.

Risks

- ▶ **Effect of Covid 19:** The effects of Covid 19 are expected to continue to have negative effect on demand of the TBL products which eventually might affect its earnings.
- ▶ **Exposure to macroeconomic shocks:** The company's revenues are vulnerable to adverse macroeconomic shocks that may affect demand of TBL products
- ▶ **Increased Competition:** Increased competition from locally and imported products will continue to put pressure on the margins.

Valuation

<i>Comparables - data from financial statements</i>	Report type	Date	Currency	Total shares	Market Price per share	Market capitalisation	Net Assets	Profit After Tax	Basic EPS	Price to Book Value	PE	Localisation factor	Price to Book Value	PE
EABL	2020 Annual Report	June 2020	Kshs	790,774,356	154	121,976,944,413	19,899,133,000	4,086,477,000	5	6.1	29.8	0.8	4.9	23.9
Nigeria Breweries Plc	2020 Annual Report	Dec 2020	NAIRA	7,996,902,051	56	447,826,514,856	161,076,413,000	7,368,369,000	1	2.8	60.8	0.7	1.9	42.5
Phoenix Beverages-Mauritius	2020 Annual Report	June 2020	MUR	16,447,000	602	9,901,094,000	4,419,610,000	446,278,000	27	2.2	22.2	0.7	1.6	15.5
				8,894,123,407	821	580,447,953,269	204,148,296,000	9,131,777,000	11.1	3.7	37.6	0.7	2.8	27.3
Source: EABL, Nigeria Breweries, AB InBev and Publicly Published Information														
Ref: Market Multiple 1 - Section MT - Market Multiples														

<i>Method</i>	Equity Value (Tshs)	Share Price (Tshs)
Price to Book Value	1,640,095,472,622	5,559
PE	2,433,624,997,693	8,248
Average share price		6,903

Two methods have been used to arrive at the average price of Tshs 6,903 which is 37 % Lower than the closing market price of Tshs 10,900 as on the 3 June 2021.

- ▶ Price to Book Value and Price Earning Ratios from listed Stock Exchanges in the region were used to arrive at the market multiple prices.

Important Information

Analyst' stock ratings are defined as follows:

Outperform/Buy: The stock is of good value, is currently underpriced and have strong fundamentals

Neutral/Hold: The stock is correctly valued with little upside or downside pricing

Underperform/Sell: The stock is currently overpriced, its total return is expected to underperform; it has weak fundamentals and challenging operating environment

Contact:

Analyst : Chacha Winani

Phone: 255 787 670 359

Email: chacha@optimacorporate.co.tz

Analyst : Chacha Iswante

Phone: 255 752 198 331

Email: Iswante@optimacorporate.co.tz

Important Disclosures

Optima Corporate Finance policy is to update research reports/notes as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Optima Corporate Finance's policy is only to publish research notes that are impartial, independent, clear, fair and not misleading.

The Research Analyst identified in this research report certify, with respect to the companies or securities analyzed, that:

- the views expressed in this report accurately reflect her/his personal views about the subject company and securities and
- no part of her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Note: This document does not constitute an offer, or solicitation of an offer, for the sale or purchase of any security. Whist every care has been taken in preparing this document, no representation, warranty or undertaking (expressed or implied) is given and no responsibility or liability is accepted by Optima Corporate Finance or any employee of Optima Corporate Finance as to the accuracy of the information contained and opinions expressed herein.