



**BARAKA Capital Ltd**  
RSE Member  
in association with  
**Hartland-Peel**  
**Africa Equity Research**

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**RWANDA**

**BRALIRWA / RWANDA BREWERIES**

**Prepared by: Christopher W. Hartland-Peel**

**Date: May 30, 2014**

**Full year 2013 earnings down 19% to RWF 15.5bn (US\$22.9m). P/E 28.6, P/B 12.58 times.  
FY2014 earnings forecast up 18% to RWF 18.3bn (US\$26.9m). P/E 24.0, P/B 9.97 times.**

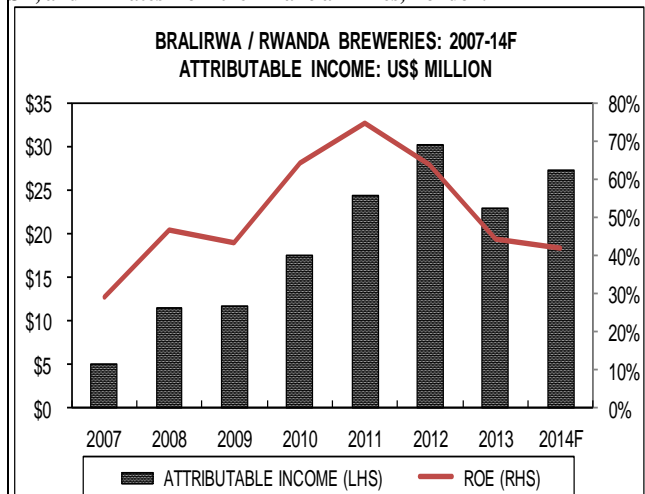
**KEY COMPANY INFORMATION**

Listed	Rwanda	
Market capitalisation	US\$651m	
Main shareholders	Heineken	75%
	Public	25%
Year end	December	
Sector	Brewery & Beverages	
FX rate to US\$	RWF 680	

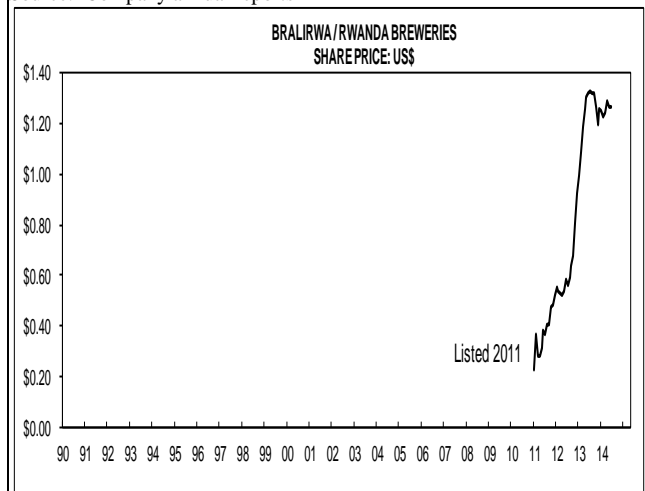
**SHARE INFORMATION**

P/E:12 month trailing	28.6 times	
Dividend yield	1.7%	
Dividend cover	2.00 times	
Price/Book	12.58 times	
Share price May 29, 2014	RWF	861
	US\$	\$1.27

Sources: All information, graphs, tables and data have been sourced from company annual/interim reports, share prices from the Rwanda SE, and FX rates from the Financial Times, London.



Source: Company annual reports



Source: RSE and exchange rates from the Financial Times.

**2013: 12 MONTH EARNINGS HIGHLIGHTS**

- Bralirwa's twelve month earnings to December 2013 were down 19% at RWF 15.5bn (US\$22.9m). H2 2013 earnings were down 30% compared to 2012. Dividend reduced 19%.
- 2013 highlights were:
  - (i) Sales up 2% on largely unchanged selling prices. Beer volumes fell 1% and soft drink volumes rose 1%.
  - (ii) EBITDA margin down 4pp to 35% and operating margin down 5pp to 28% as a result of largely unchanged selling prices and higher costs.
  - (iii) Interest expense up 40% to US\$0.3m.
- **Recommendation: FAIRLY VALUED** but time to take profits? Bralirwa's share price has risen fivefold since its 2011 listing and the stock is fairly valued (page 6). We also have concerns regarding consumer demand and disposable income, pricing power, costs and increased capital intensity.

**Valuation Drivers**

Valuation Driver	Yes/No	Impact
2014 forecast earnings growth	Yes	Up 19%
2014 forecast ROE	Yes	Down 3pp to 41%
ROE sustainability		Trending down
2014 forecast dividend growth	Yes	Up 19%

**Issues/Comments:**

- (i) **Pricing:** We see selling prices being raised 8% in 2014.
- (ii) **Cost pressures:** Input cost inflation and cost recovery.
- (iii) **Sales/total assets ratio:** Bralirwa is becoming more capital intensive as production capacity is increased together with backward integration into maize farming.

**Forecast Assumptions:**

December year end	2012	2013	2014F
Rwanda GDP growth (IMF)	8.0%	5.0%	7.5%
Beverage - Volume growth	5%	(1%)	5%
- Price increase	14%	3%	8%
Operating margin	33%	28%	29%
Sales/total assets	1.03	0.86	0.88
Tax rate	24%	27%	27%
Dividend payout ratio	54%	50%	50%

- **Impact:** Attributable earnings to rise 19% and the ROE to decrease 3pp to 41%. This, though, is above both the cost of capital (15%) and inflation (5%).
- The Rwanda macro-environment is supportive with IMF annual GDP growth forecast at 7.5% to 2018.

**Strengths**

- Rwanda's principal brewer with Heineken/local brands and the Coca-Cola franchise.
- Capacity being increased but yet to fully come on-stream.

**Weaknesses**

- Capital intensity rising as capacity increased and backward integration into maize farming.
- ROE increases more challenging.

**Opportunities**

- Good country GDP growth, rising per capita incomes and regional growth.

**Threats**

- Input inflation and ability to pass on higher costs.
- Competition from EABL.



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## Summary

*Rwanda's principal brewer and soft drink bottler.*

*2% sales growth in 2013 vs 18% in 2012 (when prices were raised 13% and volumes increased 5%).*

*Stable sales mix between beer and soft drinks.*

*Volumes flat since 2011, and in 2013 volumes fell 1%.*

*Exports down 29%.*

*Brands.*

*Limited customer segmentation and packaging limited to glass.*

*EABL is potentially a major competitor in the medium term.*

*Beer demand likely to be reduced by lower tea prices as the agriculture and small holder sector is affected.*

*Medium-term prospects positive.*

## Bralirwa/Rwanda Breweries: Company and Sector

- 72% of Bralirwa's sales are beer and the balance soft drinks. Segment profitability is not disclosed. Segment data is set out below:

BRALIRWA - SEGMENT DATA					
SEGMENTAL INFORMATION	2009	2010	2011	2012	2013
<b>Sales (RWF million)</b>					
Beer	32,599	38,355	47,632	55,540	56,684
Soft drinks	12,888	14,444	17,326	21,438	21,819
	45,486	52,799	64,958	76,978	78,503
Increase		16.1%	23.0%	18.5%	2.0%
<b>% share</b>					
Beer	71.7%	72.6%	73.3%	72.2%	72.2%
Soft drinks	28.3%	27.4%	26.7%	27.8%	27.8%
	100.0%	100.0%	100.0%	100.0%	100.0%
Total volumes (hl 000)	1,213	1,364	1,587	1,660	1,650
		12.4%	16.3%	4.6%	-0.6%

Source: Bralirwa annual reports.

- Exports, principally to the DRC, were down 29% in 2013 as import duties were raised in mid-2013.

- Bralirwa's principal brands:

Local	International	Soft drinks
Primus Turbo King Mützig	Heineken Amstel	Coca-Cola Sprite Fanta Krest (sparkling water)

Source: Bralirwa 2013 annual report.

Among the observations we make is that Bralirwa has limited segmentation of the market, especially in the value segment, eg with a lower alcohol content (Primus is 5% ABV). Further, Bralirwa does not use aluminium cans for packaging or PET bottles for soft drinks.

- EABL, the major Kenyan brewer, which distributes its beers in East Africa, including Rwanda, distribute Pilsner lager and Senator together with their spirit brands of Johnnie Walker and Smirnoff. Bralirwa until 2013 used to distribute Guinness but the franchise was not renewed (presumably as EABL put the distribution through their own distribution channels).
- Beer demand was, according to Bralirwa's 2013 annual report, affected by low tea and coffee prices which reduced agricultural and smallholders' incomes which, in turn, reduced demand. Further, tea prices, according to African Tea Brokers who manage the Mombasa tea auctions, are down 20% compared with 2013.
- Medium-term prospects for Bralirwa are positive. As mentioned in the 2011 IPO prospectus, the following are still valid:
  - 55% of the population is between 15-64 years old - Bralirwa's target market.
  - Traditional beer production is more than 50% of beer market. Thus, there is considerable potential to move to higher quality commercial beer.
  - Rwanda's per capita beer consumption is low at 9 litres and compares with 18 litres in Burundi.

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<p><i><b>Bralirwa's capital expenditure of US\$59m 2012-13.</b></i></p>	<p>7. Bralirwa has been investing heavily in expanding and modernising its operations and in the two years 2012-13 US\$59m was invested in:</p> <ul style="list-style-type: none"> <li>7.1. Four new fermentation tanks at the Gisenyi brewery. These were commissioned 2013.</li> <li>7.2. An automated bottling line at the Kigali Coca-Cola plant. Commissioning is due 2014.</li> <li>7.3. An irrigated 52 hectare maize farm. Operational 2013.</li> </ul>
<p><i><b>2014 capital commitments of US\$10.5m.</b></i></p>	<p>8. Capital commitments as of December 2013 amounted to US\$10.5m.</p>
<p><i><b>Future prospects.</b></i></p>	<p>9. For investors, we believe Bralirwa's stock market performance will be a blend of possibly conflicting issues. Amongst these are:</p> <ul style="list-style-type: none"> <li>9.1. Demand - a poor agricultural season (tea, coffee) will hurt demand. However, in the medium-term demand will rise as living standards and disposable incomes increase.</li> <li>9.2. Competition - EABL will be a force to be reckoned with in the medium-term.</li> <li>9.3. Cost pressures - a function of imported inputs (barley, hops, glass, packaging, CO<sup>2</sup> and exchange rates).</li> <li>9.4. The business is becoming increasingly capital intensive with capacity expansion and backward integration into maize farming. The sales/total assets ratio is one indicator to watch.</li> </ul>



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	RWANDA STOCK MARKET		BRALIRWA/RWANDA BREWERIES					
	Year end	December	2009	2010	2011	2012	2013	2014F
Reuters:								
<i>IPO in FY2011.</i>	Year end share price - Rwanda Fr	136	136	333	630	844	861	
	Increase	0.0%	0.0%	144.9%	89.2%	34.0%	2.0%	
	Year end share price (US\$)	\$0.24	\$0.23	\$0.55	\$1.00	\$1.25	\$1.27	
	Increase	-2.3%	-3.8%	140.7%	81.0%	25.1%	1.4%	
	Issued shares (million) - year end	0.1	514.3	514.3	514.3	514.3	514.3	514.3
			5,000 for 1 split					
	Issued shares (million) - adjusted	514.3	514.3	514.3	514.3	514.3	514.3	514.3
	Market capitalisation - RFr million	69,943	69,943	171,257	324,000	434,057	442,799	
	US\$ exchange rate - period end	571	594	604	631	676	680	
	Market capitalisation - US\$ million	\$122.4	\$117.7	\$283.5	\$513.1	\$642.1	\$651.2	
<i>Strong Rwanda GDP growth but current a/c deficit. Inflation presently at a three year low.</i>	<b>Rwanda macro data</b>							
	GDP growth (IMF)	6.2%	7.2%	8.2%	8.0%	5.0%	7.5%	
	GDP per capita - US\$ (IMF)	\$536	\$562	\$622	\$681	\$698	\$741	
	Govt. budget surplus/(deficit) to GDP	0.3%	0.4%	-1.9%	-1.7%	-2.5%	-3.1%	
	Current account deficit/(surplus)	-7.3%	-5.4%	-7.2%	-11.4%	-7.3%	-11.5%	
	Inflation rate	5.7%	0.2%	8.3%	4.6%	4.6%	4.6%	
<i>CAGR over five years to 2013: Sales: 13%.</i>	Sales, net of taxes (RfW million)	45,486	52,799	64,958	76,978	78,503	88,708	
	% increase	6.5%	16.1%	23.0%	18.5%	2.0%	13.0%	
<i>Operating income: 18%.</i>	EBITDA	13,817	17,800	23,939	29,732	27,159	31,225	
	Depreciation & amortisation	2,590	3,270	3,761	4,467	5,165	5,500	
	Operating income	11,226	14,530	20,178	25,265	21,994	25,725	
	Exchange loss/(gain)	92	8	47	214	179	0	
	Interest expense/(income)	313	120	37	139	195	220	
	Exceptional charge/(credit)	1,143	0	0	0	0	0	
	Joint venture	0	0	(89)	(51)	(300)	(250)	
	Income before tax	9,678	14,402	20,005	24,861	21,320	25,255	
	Taxation	3,090	4,071	5,347	5,834	5,862	6,819	
	Effective tax rate	31.9%	28.3%	26.7%	23.5%	27.5%	27.0%	
<i>Tax stable at 27%.</i>	Minorities	(0)	0	0	0	0	0	
<i>Attributable income up 19% compound over 5 years to 2013.</i>	Attributable to shareholders	6,589	10,331	14,658	19,027	15,459	18,436	
	Dividend	6,346	10,332	12,446	10,286	7,714	9,218	
<i>Shareholders' equity up 130% in the four years to 2013.</i>	Shareholders equity	15,212	16,094	19,678	30,013	35,186	44,404	
	Long-term debt	23	0	0	2,548	4,364	4,364	
	Fixed assets	17,640	18,160	21,979	40,452	54,688	60,000	
	Intangibles	1	259	87	0	0	0	
	Investments	9	137	60	9	9	9	
	Working capital	(1,000)	(1,622)	(1,532)	(7,099)	1,653		
	Total assets	37,192	38,684	49,890	74,526	91,536	100,000	
<i>2013 P/E at 28.1 and 2014F of 24.0. 2014 forecast EPS growth of 19%.</i>	Period end P/E	10.6	6.8	11.7	17.0	28.1	24.0	
	Earnings per share - published	64,061	20,09	28,50	37,00	30,06		
	- adjusted	12,81	20,09	28,50	37,00	30,06	35,85	
	EPS growth	2.8%	56.8%	41.9%	29.8%	-18.8%	19.3%	
<i>2014 dividend growth of 19% and cover maintained at 2.0 times.</i>	Dividend per share - declared	61,700	20,09	24,20	20,00	15,00		
	- adjusted	12,34	20,09	24,20	20,00	15,00	17,92	
	Dividend growth	24.3%	62.8%	20.5%	-17.4%	-25.0%	19.5%	
	Dividend yield	9.1%	14.8%	7.3%	3.2%	1.8%	2.1%	
	Dividend cover	1.04	1.00	1.18	1.85	2.00	2.00	
	Long-term debt/equity	0.1%	0.0%	0.0%	8.5%	12.4%	9.8%	
<i>Return on assets falling. Leverage stable.</i>	Book value per share	29.58	31.29	38.26	58.36	68.42	86.34	
	Share price to book value	4.60	4.35	8.70	10.80	12.34	9.97	
	Return on total assets	17.7%	26.7%	29.4%	25.5%	16.9%	18.4%	
	Leverage (equity/total assets)	2.4	2.4	2.5	2.5	2.6	2.3	
	Return on net worth	43.3%	64.2%	74.5%	63.4%	43.9%	41.5%	
<i>EBITDA margins fell 4pp in 2013 to 35%. Operating margins fell 5pp in 2013.</i>	EBITDA margin	30.4%	33.7%	36.9%	38.6%	34.6%	35.2%	
	Operating margin	24.7%	27.5%	31.1%	32.8%	28.0%	29.0%	
	Pre-tax margin	21.3%	27.3%	30.8%	32.3%	27.2%	28.5%	
	After-tax margin	14.5%	19.6%	22.6%	24.7%	19.7%	20.8%	
	Sales/total assets ratio	2.58	2.91	2.96	1.90	1.44	1.48	
<i>Sales/total assets ratio has declined 50% since 2011 to 0.86 in 2013.</i>	Sales/total assets	1.22	1.36	1.30	1.03	0.86	0.89	
	Working capital ratio	0.95	0.93	0.95	0.83	1.05		
	Quick asset ratio	0.36	0.40	0.39	0.43	0.43		
	Interest coverage	31.9	120.6	537.3	179.9	110.6	115.8	
<i>H2 2013 earnings fell 30%.</i>	<b>EARNINGS</b>							
	First half		3,820	5,462	7,937	7,746		
	Second half	6,589	6,511	9,196	11,090	7,713		
		6,589	10,331	14,658	19,027	15,459		
	<b>EARNINGS PER SHARE</b>							
	First half	0.00	7.43	10.62	15.43	15.06		
	Second half	12.81	12.66	17.88	21.56	15.00		
		12.81	20.09	28.50	37.00	30.06		
<i>US\$ earnings forecast to rise 19% in 2014 to US\$27m on sales up 12% at US\$139m.</i>	<b>Attributable income (US\$ million)</b>							
	US\$ million	\$11.5	\$17.4	\$24.3	\$30.1	\$22.9	\$27.1	
		0.4%	50.8%	39.5%	24.2%	-24.1%	18.6%	
	Sales revenue (US\$ million)	\$79.6	\$88.9	\$107.5	\$121.9	\$116.1	\$130.5	
		4.1%	11.6%	21.0%	13.4%	-4.7%	12.3%	

Sources: Company annual reports.

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The following Tables and Charts set out Bralirwa's position relative to listed SSA ex SA brewers.

<b>SSA EX SA BREWERY &amp; BEVERAGE SECTOR - SUMMARY AND ANALYSIS</b>														
Share prices as of 29-May-14	Share price (L/C)	Production (000 hl)	Breweries bottling plants	Main Products	Market cap US\$ m	P/E Historic	Dividend Yield Cover		Price/book	Year end				
<b>KENYA</b>														
East African Breweries	274.00	8,584	5	Lager, Guinness	2,468	30.2	2.0%	1.65	8.47	Jun-13				
<b>ZIMBABWE</b>														
Delta Corporation	\$1.17	2,400 3,080 1,615	2 14 2	Lager Sorghum beer Coca-Cola	1,445	13.7	3.0%	2.41	3.56	Mar-14				
<b>MAURITIUS</b>														
Phoenix Beverages	188.00	650	1	Lager Coca-Cola	102	32.2	1.6%	1.94	1.36	Jun-13				
<b>BOTSWANA</b>														
Sechaba Brewery	21.80	443 1,176 658	1 2 1	Lager Sorghum beer Coca-Cola	334	13.9	4.5%	1.59	10.26	Mar-13				
<b>TANZANIA</b>														
Tanzanian Breweries	8,400	3,147	4 1	Lager Wines & spirits	1,490	14.2	3.6%	1.97	5.19	Mar-13				
<b>NAMIBIA</b>														
Namibia Breweries	16.31	2,140	1 1	Lager Pepsi-Cola	327	46.2	3.6%	0.61	3.92	Jun-13				
<b>ZAMBIA</b>														
Zambia Breweries	5.30	1,188 1,033	2 3	Lager Coca-Cola	459	22.3	0.0%	n.a.	3.48	Mar-13				
National Breweries	12.00	2,321	5	Sorghum beer	120	22.2	0.0%	n.a.	9.93	Mar-13				
<b>RWANDA</b>														
Bralirwa	861	1,191 459	1 1	Lager Coca-Cola	651	28.6	1.7%	2.00	12.58	Dec-13				
<b>MOZAMBIQUE</b>														
Cervejas de Mocambique	113.60	2,118	3 2	Lager Sorghum beer	410	8.4	7.0%	1.70	2.48	Mar-13				
<b>GHANA</b>														
Guinness Ghana	5.58	500	3	Guinness/Lager	399	64.6	0.3%	4.99	7.71	Jun-13				
<b>NIGERIA</b>														
Nigerian Breweries	174.00	13,796	7	Lager	8,105	30.5	2.6%	1.27	11.71	Dec-13				
Guinness Nigeria	179.00	5,700	4	Guinness	1,626	33.3	3.9%	0.77	5.73	Jun-13				
International Breweries	25.61	1,396	1	Beer & SAB prods	515	32.7	1.0%	3.13	8.16	Mar-13				
7 Up Bottling	85.50	n.a.	8	Pepsi, 7 Up	337	10.5	2.6%	3.71	4.35	Mar-13				
Consol. Breweries	85.00		3		260	39.5	1.3%	1.96	3.46	Dec-12				
Share prices as of 29-May-14	Share price (L/C)	Market cap US\$ m	Sales US\$m	Attrib earnings US\$m	L/T debt/equity	Interest coverage	Price/EBITDA	ROE	Leverage (times)	Sales/total assets	EBITDA margin	Operating margin actual adjusted		Year end
Adjusted = times the sales/asset ratio														
<b>KENYA</b>														
East African Breweries	274.00	2,468	\$688	\$81	77.5%	3.7	12.5	27.3%	2.3	1.01	31.0%	25.7%	25.9%	Jun-13
<b>ZIMBABWE</b>														
Delta Corporation	\$1.17	1,445	\$542	\$106	0.0%	credit	8.5	26.0%	1.5	0.87	30.5%	24.7%	21.6%	Mar-14
<b>MAURITIUS</b>														
Phoenix Beverages	188.00	102	\$106	\$3	0.0%	5.8	6.2	3.5%	1.4	0.86	15.3%	8.6%	7.5%	Jun-13
<b>BOTSWANA</b>														
Sechaba Brewery	21.80	334	\$213	\$24	4.0%	79.0	5.4	68.5%	3.1	1.99	25.6%	23.5%	46.7%	Mar-13
<b>TANZANIA</b>														
Tanzanian Breweries	8,400	1,490	\$381	\$103	0.4%	73.2	7.8	35.1%	1.5	0.84	49.3%	43.0%	35.9%	Mar-13
<b>NAMIBIA</b>														
Namibia Breweries	16.31	327	\$161	\$7	1.1%	63.5	5.5	8.5%	2.0	0.93	37.5%	31.3%	29.2%	Jun-13
<b>ZAMBIA</b>														
Zambia Breweries	5.30	459	\$211	\$19	38.0%	3.8	7.2	13.8%	2.1	0.72	27.8%	20.2%	14.6%	Mar-13
National Breweries	12.00	120	\$63	\$6	0.0%	110.4	10.1	54.3%	2.2	2.51	18.5%	15.6%	39.1%	Mar-13
<b>RWANDA</b>														
Bralirwa	861	651	\$116	\$23	12.4%	110.6	16.0	43.9%	2.6	0.86	34.6%	28.0%	24.0%	Dec-13
<b>MOZAMBIQUE</b>														
Cervejas de Mocambique	113.60	410	\$213	\$51	0.0%	32.1	4.5	29.6%	1.5	0.82	44.2%	35.4%	29.2%	Mar-13
<b>GHANA</b>														
Guinness Ghana	5.58	399	\$157	\$9	3.4%	5.5	16.6	12.0%	2.0	1.08	21.6%	12.9%	13.9%	Jun-13
<b>NIGERIA</b>														
Nigerian Breweries	174.00	8,105	\$1,679	\$269	8.0%	13.2	14.0	38.3%	2.2	1.06	33.8%	25.8%	27.4%	Dec-13
Guinness Nigeria	179.00	1,626	\$753	\$73	19.1%	6.1	10.9	25.8%	2.6	1.01	26.1%	17.7%	17.9%	Jun-13
International Breweries	25.61	515	\$87	\$13	40.4%	credit	33.5	21.4%	2.5	0.60	20.7%	13.2%	8.0%	Mar-13
7 Up Bottling	85.50	337	\$401	\$18	39.7%	2.4	3.5	22.7%	4.1	1.24	20.2%	8.8%	11.0%	Mar-13
Consol. Breweries	85.00	260	\$239	\$7	94.3%	1.1	7.6	8.8%	3.3	0.92	14.8%	5.6%	5.2%	Dec-12
Sources: Company annual reports and country stock exchanges.														
= P/E <10.0, Dividend yield >5.0%, Price/Book < 1.50, ROE > 20%, Sales/total assets > 1.10 and EBITDA margin >20%														

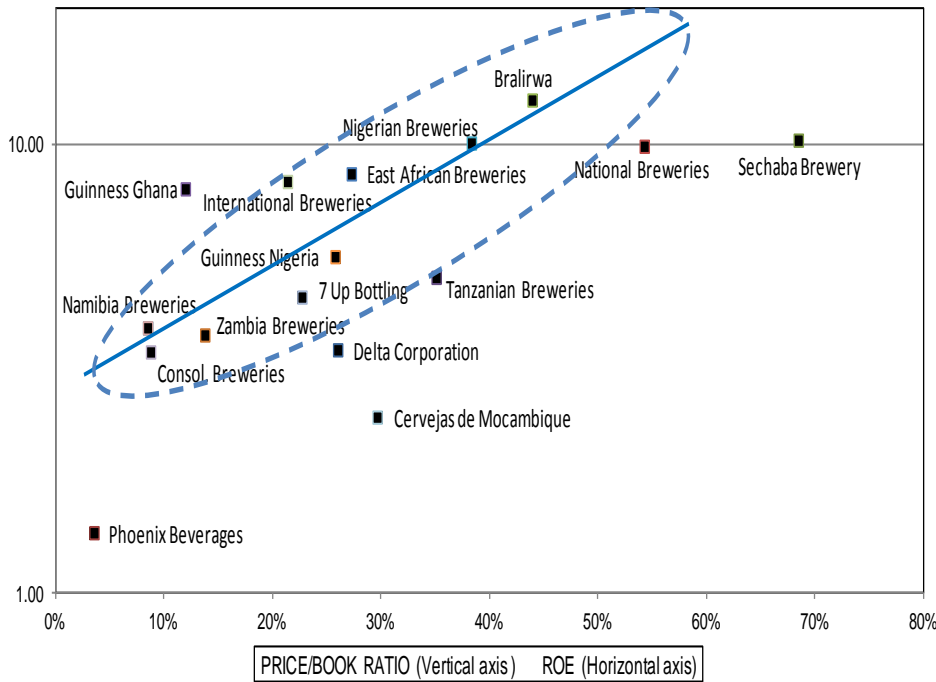


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## SSA EX SA BREWERY & BEVERAGE SECTOR ROE vs PRICE/BOOK RATIOS

**SUB-SAHARA AFRICA EX SA BREWER AND BEVERAGE COMPANY VALUATIONS  
 ROE vs PRICE/BOOK**



ROE's derived from latest company audited financials

Source: Company annual reports and country stock exchange.

**Comment:**

SSA ex SA's brewers and beverage companies have a high dispersion when ranked according to ROE and Price/Book.

For every 10% of ROE the price/book ratio rises 1.5 times.

Bralirwa is on the trend line.

However, we believe Bralirwa's share price is fairly valued but investors should take into account concerns regarding consumer demand and disposable income, pricing power, cost inflation and increasing capital intensity.

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