

Guinness Nigeria Plc

BUY

Resilient earnings recovery supports dividend resumption in FY'26

Target Price: N204.63

Ref Price: N167.00

In our previous update on Guinness Nigeria Plc ("GUINNESS"), we discussed the company's transition to a new calendar-year reporting structure and outlined our expectations for earnings. In this report, we revisit the assumptions made and provide revised forecasts. We also adjust valuation metrics such as risk-free rate (16.4% from 18.0%) and equity risk premium (13.8% from 14.3%) to arrive at our new 12-month Target Price ("TP") of N204.63 (vs. N181.38 previously), which suggests an unchanged BUY recommendation on the ticker.

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Resilient earnings momentum expected to persist in FY'26

To begin, we present our expectations for Q4'25, benchmarked against Q2'23/24 results. This comparison aligns with the company's transition to a December year-end, making Q2'23/24 the most relevant historical equivalent for assessing Q4 performance under the new reporting calendar. As a result, Q2'23/24 will be referred to as Q4'24 for clarity in period-on-period analysis.

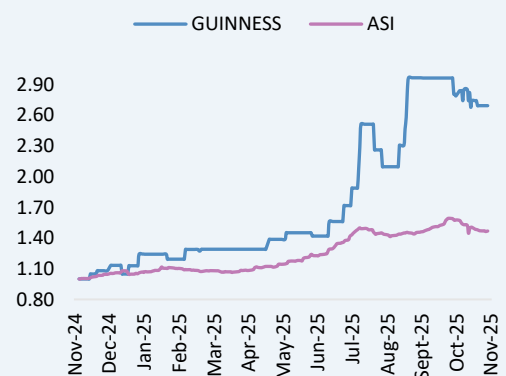
In Q4'25, we expect gross, EBIT, and net profit margins to grow to 37.5%, 17.6% and 10.5% (vs 33.5%, 13.6% and 8.9% in Q4'24), respectively. Our expectations are driven by revenue growth buoyed by festive-induced volume growth, expanded market reach, materially lower sorghum prices (c.-25.9% YoY), and c.10.0% appreciation of the Naira.

However, we have revised our 18M'24/25 revenue forecast downward to N741.8 billion (from N876.2 billion previously) to reflect the greater-than-expected quarter-on-quarter decline in revenue between July and September 2025. As a result, our gross and EBIT margin projections were adjusted lower to 32.3% and 12.0% (from 33.0% and 13.1%, respectively). Elsewhere, the one-off nature of the deferred income tax charge booked in Q4 last year and the normalisation since then have informed an update to our effective tax rate assumption to 35.0% (vs 41.0% previously). This adjustment, and the knock-on effect of favourable operating performance, leaves our net income margin projection at 5.7% (vs 5.0% in our prior publication).

Despite lowering our revenue forecast in FY'26 to N593.5 billion (from N632.7 billion prior), we maintain our positive outlook for revenue growth and cost optimisation, supported by a stabilising macroeconomic environment, continued management focus on operational efficiency, and moderation in sorghum prices. We have also revised our EBIT and net profit margins forecasts slightly downward to 14.4% and 6.4%, respectively (from 17.7% and 7.4% in our prior forecast), to reflect a more conservative stance. We maintain our gross margin assumption at 34.0%.

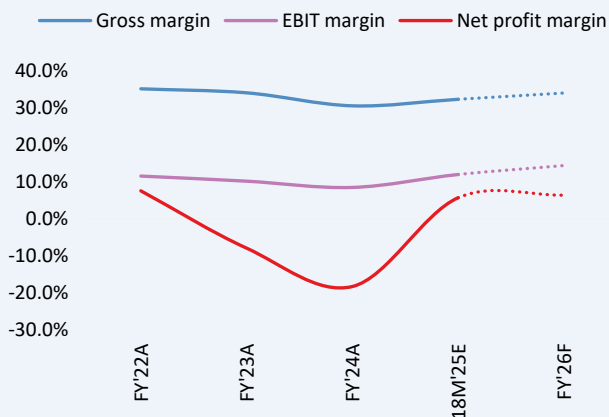
Market Data	GUINNESS
Market Cap (N'mn)	365.79
Last close price (N)	167.00
52-week high-low price (N)	183.90/62.00
Avg 3M daily volume (mn)	1.47

1-year price performance (rebased)



Source: Bloomberg, CardinalStone Research

Figure 1: Margins expansion expected to persist into FY'26

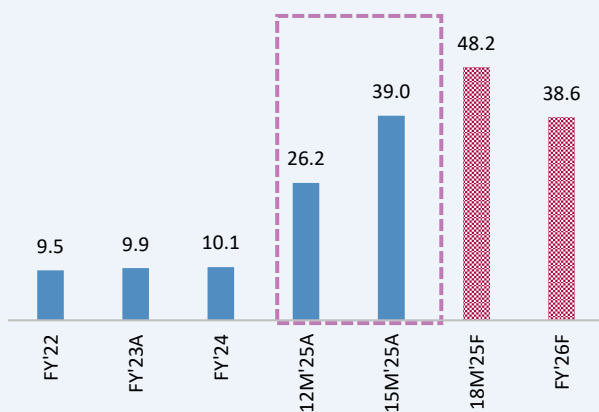


Source: Company Financials, CardinalStone Research

Sustained capital investments to drive efficiency gains

Following the Tolaram acquisition, recent cash flow trends have shown a sustained increase in property, plant, and equipment (PPE) acquisitions. Management indicated that this elevated Capex is focused on efficiency improvements and capacity enhancement initiatives, designed to unlock production potential and support long-term operational resilience. While no specific guidance on future Capex levels was provided, management reaffirmed its commitment to ongoing investment over the coming quarters, thus highlighting confidence in the business turnaround strategy and the sustainability of medium-term growth prospects. Thus, we have left our CAPEX intensity flat at 6.5% (vs 6.5% as at 15'M).

Figure 2: CAPEX spend trend pre- and post-Tolaram acquisition (N'billion)



Source: Company Financials, CardinalStone Research

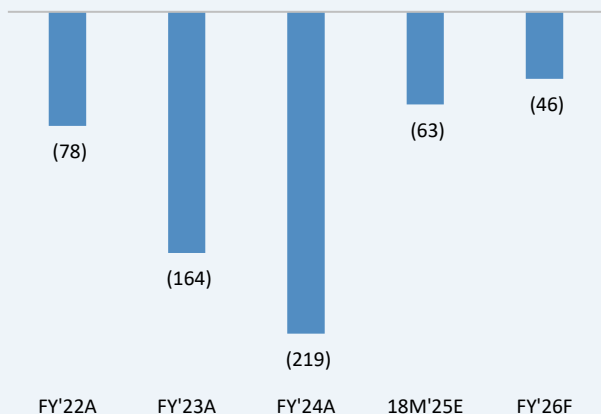
Note: Highlighted dotted lines indicate post-Tolaram acquisition
 18M'25 forecast is higher than FY'26 due to the extended 6-month period added to the reporting period.

Supplier financing should persist into FY'26

Over the past five years, GUINNESS relied heavily on its former parent company (Diageo Plc) to support its working capital needs, particularly during periods of weak dollar liquidity in the Nigerian FX market. This dependence drove trade payables to a multi-year high of N175.0 billion in FY'23/24, with payable days at 309 days over the period. However, following the recent Tolaram acquisition, as well as improved FX liquidity conditions, management has indicated a shift in strategy. With the former related-party relationship no longer in place, the company now intends to reduce its payables balance and minimise FCY exposure systematically. Reflecting this, we forecast payable days to average 124 days over the next five years.

While this moderation in payables suggests some softening in the company's cash conversion cycle (CCC), we remain positive on the company's overall working-capital management, as the company's CCC is expected to remain negative, with our model projecting an average CCC of -45 days over the forecast horizon. This implies the business will continue to benefit from supplier financing, even as payable days normalise.

Figure 3: Supplier financing should persist into FY'26 (days)



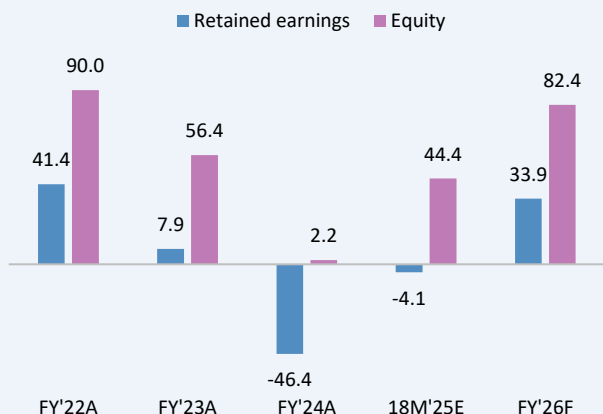
Source: Company Financials, CardinalStone Research

Dividend payment may commence in FY'26

GUINNESS halted dividend distributions since FY'23 as prolonged macroeconomic headwinds pressured profitability and pushed retained earnings into negative territory in FY'24. However, with earnings recovering and the operating environment stabilising, we expect retained earnings to return to positive territory in FY'26, reinstating the company's capacity to resume dividend payments.

While management has not provided formal guidance, our base case assumes a 50.0% payout ratio (vs the 5-year average of 62.8%), reflecting a more cautious posture as the company continues to rebuild its balance sheet. Even under this moderated payout assumption, retained earnings is projected to close FY'26 at N33.9 billion, supporting an estimated dividend per share (DPS) of N8.7 for the year

Figure 4: Positive retained earnings and equity position should bolster dividend in FY'26 (N'billion)



Source: Company Financials, CardinalStone Research

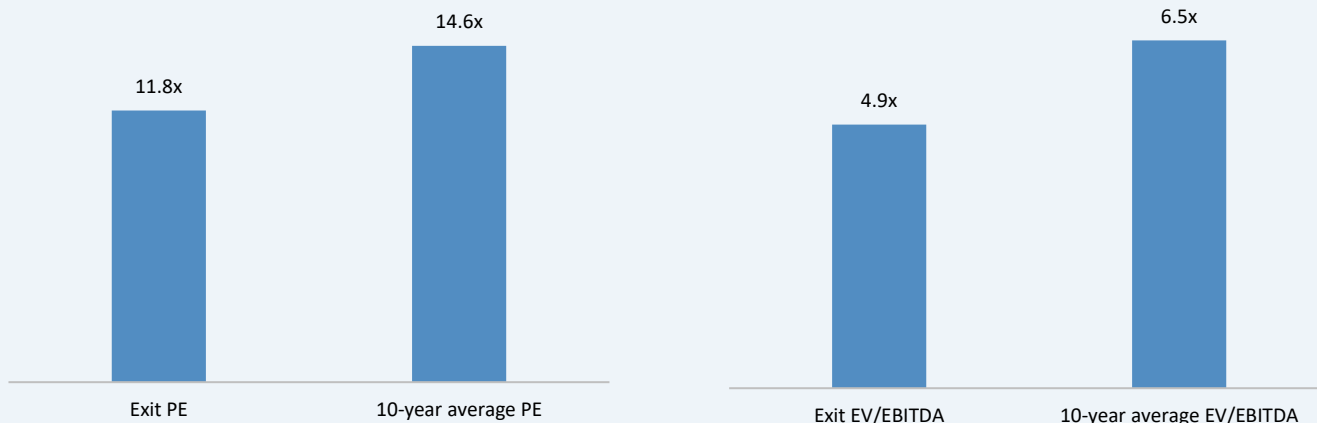
Valuation

Following adjustments to our model and a refreshed outlook for FY'26 and beyond, we have raised our 12-month TP for GUINNESS to N204.63, implying a 22.54% upside and supporting a **BUY** recommendation. The upward revision reflects changes to key valuation inputs, including a lower risk-free rate (revised from 18.0% to 16.4%) and a reduced equity risk premium (from 14.3% to 13.8%), aligned with moderating yields on FGN instruments and an improving macroeconomic backdrop.

Our new valuation also factors in an upward revision of our revenue growth CAGR over the forecast period, from 12.9% to 18.2%. This adjustment captures the positive impact of the strengthening macroeconomic environment on projected volumes.

We also updated our earnings weightings to place greater emphasis on FY'26 expectations, given the anticipated recovery in profitability and balance sheet strength. Our TP corresponds to an 11.8x exit P/E, below GUINNESS's normalised 10-year average of 14.6x, while the implied 4.9x exit EV/EBITDA compares favourably with the long-term historical mean of 6.5x, reinforcing the valuation attractiveness at current levels.

Figure 5: GUINNESS's exit PE and EV/EBITDA shows potential upside against its 10-year averages



Source: Company Financials, CardinalStone Research

Figure 6: Summary of financials

Income Statement (Nm)						Cash Flow Statement (Nm)					
	FY'23A	FY'24A	18M'25E	FY'26F	FY'27F		FY'23A	FY'24A	18M'25E	FY'26F	FY'27F
Revenue	229,441	299,490	741,836	593,469	658,751	Cash flow from operating activities	34,380	80,140	(29,545)	88,829	100,481
COGS	(151,308)	(208,031)	(502,223)	(391,689)	(429,835)	o/w Depreciation & amortization	9,482	10,080	19,440	16,868	19,133
Gross profit	78,133	91,459	239,613	201,779	228,916	o/w Changes in working capital	22,225	66,299	(86,499)	(8,667)	1,145
Other Income	3,531	3,177	579	593	1,318	Cash flow from investing activities	(6,317)	(6,222)	(39,058)	(37,572)	(32,826)
OPEX	(58,306)	(69,229)	(151,335)	(116,913)	(126,809)	o/w Capital expenditure	(9,789)	(10,074)	(48,219)	(38,575)	(39,525)
EBIT	23,358	25,407	88,857	85,460	103,424	as % of sales	4.3%	3.4%	6.5%	6.5%	6.0%
Net Interest	(45,496)	(99,087)	(23,875)	(27,006)	(27,724)	Cash flow from financing activities	(8,885)	(123,799)	23,078	(22,439)	(44,939)
PBT	(22,139)	(73,680)	64,982	58,453	75,700	o/w Dividends paid	(6,565)	-	-	-	(18,997)
Tax	3,971	18,913	(22,744)	(20,459)	(24,981)	o/w Debt issued/(repaid)	2,537	(45,954)	23,078	22,125	10,241
PAT	(18,168)	(54,767)	42,238	37,995	50,719	Net change in cash	19,178	(49,881)	(45,526)	28,818	22,716
EPS	(8.29)	(25.00)	19.28	17.35	23.16	Cash & cash equivalents at beginning of year (incl FX diff)	72,947	95,686	50,542	5,016	33,834
DPS (NGN)	0.00	0.00	0.00	8.67	13.89	Cash & cash equivalents at end of the year	92,125	45,804	5,016	33,834	56,551
Payout ratio	0.0%	0.0%	0.0%	50.0%	60.0%						
Shares outstanding (million)	2,190	2,190	2,190	2,190	2,190						
Balance Sheet (Nm)						Ratio Analysis					
	FY'23A	FY'24A	18M'25E	FY'26F	FY'27F		FY'23A	FY'24A	18M'25E	FY'26F	FY'27F
Cash and cash equivalents	92,125	45,804	5,016	33,834	56,551	Gross Margin	34.1%	30.5%	32.3%	34.0%	34.8%
Accounts receivable	13,213	13,226	48,219	38,575	46,113	EBITDA Margin	14.3%	11.8%	14.6%	17.2%	18.6%
Inventories	34,470	41,857	82,867	60,712	62,326	EBIT Margin	10.2%	8.5%	12.0%	14.4%	15.7%
Other current assets	1,995	2,668	10,519	12,851	13,565	Net Profit Margin	-7.9%	-18.3%	5.7%	6.4%	7.7%
Current assets	141,803	103,556	146,622	145,972	178,554	ROE	NM	NM	95.1%	46.1%	44.4%
PP&E	99,178	101,321	130,100	151,808	172,200	ROA	NM	NM	14.3%	12.0%	13.7%
Other non-current assets	768	21,253	18,384	18,384	18,384	ROIC	24.9%	43.0%	88.9%	64.5%	70.1%
Non-current assets	99,945	122,575	148,484	170,192	190,584	ROCE	-32.2%	NM	95.1%	45.5%	44.0%
Total assets	241,748	226,130	295,106	316,165	369,138	OPEX/Sales	25.4%	23.1%	20.4%	19.7%	19.3%
Short-term borrowings	63,756	40,133	67,941	90,066	100,307	Net debt/Equity (x)	-0.5	-2.6	1.4	0.7	0.4
Payables	111,236	175,905	173,267	135,133	146,144	Net debt/EBITDA (x)	-0.9	-0.2	0.6	0.5	0.4
Other short-term liabilities	8,679	6,647	8,450	7,523	7,523	Sales/Assets (x)	0.9	1.3	2.5	1.9	1.8
Current liabilities	183,671	222,685	249,658	232,722	253,974	Assets/Equity (x)	4.3	104.6	6.6	3.8	3.2
Deferred tax liabilities	479	0	0	0	0	Interest cover (x)	5.6	3.0	2.9	0.0	2.4
Other long-term liabilities	1,173	1,284	1,048	1,048	1,048	Tax Rate	NM	NM	35.0%	35.0%	33.0%
Non-current liabilities	1,652	1,284	1,048	1,048	1,048	Revenue YoY growth	10.9%	30.5%	147.7%	-20.0%	11.0%
Total liabilities	185,324	223,969	250,706	233,770	255,022	EPS YoY growth	NM	NM	NM	-10.0%	33.5%
Shareholders' equity	56,425	2,161	44,400	82,395	114,116						
Total liabilities & equity	241,748	226,130	295,106	316,165	369,138						
BVPS	25.76	0.99	20.27	37.62	52.10	Valuation					
Net debt/(cash)	(28,369)	(5,671)	62,925	56,232	43,756		FY'23A	FY'24A	18M'25E	FY'26F	FY'27F
						P/E (x)	NM	NM	10.6	11.8	8.8
						EV/EBITDA (x)	10.3	10.1	4.0	4.1	3.3
						Dividend Yield	0.0%	0.0%	0.0%	5.2%	8.3%

Source: Company Financials; CardinalStone Research

Fiscal year ends in June for FY'23 and FY'24. 18M'25E indicates the change in accounting year-end. FY'26 fiscal year ends in December. 18M'25 = June 2024 to December 2025

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% with investment banking relationships	0%	0%	0%	0%

CardinalStone Research distribution of ratings/Investment banking relationships as of December 02, 2025

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