No toast for Debra Crew at Diageo

IT WAS never going to be easy for the new CEO of Diageo to follow Ivan Menezes's decade-long reign to June 2023. While his record had been mixed, Menezes nevertheless increased the market value of Diageo from £42bn in 2013 to £100bn in June 2023. The preceding CEO, Paul Walsh, also had an exceptional record over 13 years to 2013, tripling earnings. The ex-CEO of the Reynolds US tobacco group, Debra Crew, clearly has a lot to live up to and her unimpressive initial record does not bode well, with eyebrows also raised by her surprise replacement of the group CFO last month. Will Crew end up following her out the door?

Debra Crew

The first six months of Crew's management covered the first half of the current fiscal year to December 2023. Volume sales fell by a hefty 9% although, on foot of price increases of 8%, this restricted the fall in net sales to just over 1%.

The operating profit, however, was impacted more significantly, dropping 11% to $3.3bn. More importantly, earnings per share fell 17% to $1.19.

Crew seems to believe that the best approach is to blame the group's poor results on a disastrous performance in Latin America, where organic net sales fell a whopping 23% to $1.3bn and operating profits in this division collapsed by 41% to $538m. Maybe the new CEO thinks that this gets her off the hook.

Crew went out of her way to point out: "Excluding Latin America, our group organic net sales grew 2.5%."

Even here, however, she is being selective in picking "group organic net sales", whereas the actual reported net sales grew only 0.7% when Latin America is excluded.

Rather than stop digging, Crew goes on to advise that the poor Latin American performance was "driven by fast-changing consumer sentiment and high inventory levels".

No doubt this is the case but it must be remembered that, prior to her appointment as CEO in June 2023, Crew was group chief operating officer, having joined Diageo in July 2020. She would, therefore, have had a key role in identifying and controlling the build up of any unusual excess inventories. Likewise, the COO should have had a key role in identifying the "fast-changing consumer sentiment".

Crew now says that "we have taken action and have further plans to reduce inventory", which is, apparently, "a key priority".

None of this is a good look for Crew and, in any case, ignoring Latin America still leaves the rest of Diageo reporting net sales up an exceptionally poor 0.7% to the end of last year.

It is hard to know where to start but what is most surprising is that Guinness stout has stood out as the best performer of Diageo's top brands, with reported net sales up 6% in the half year to December 2023.

This stands in contrast to net sales of the group's biggest brand, Johnnie Walker, down 3%, while Smirnoff was down 1% worldwide.

While beer is a category that accounts for only 15% of total group sales, it outperformed virtually all the other Diageo categories, with net sales up 14%. Crew identified that "growth was led by strong performances of Guinness in Europe, Africa and North America, as well as Malta".

She added that, as a category within the group, in Europe "beer net sales grew 20%", while "Guinness net sales grew 24%, gaining share in the on-trade in both Ireland and Great Britain".

Moreover, while British net sales grew 9%, this was "primarily driven by strong performance in Guinness".

Likewise, while Irish net sales grew 10%, this was "primarily driven by double-digit growth in Guinness and strong share gains in on-trade".

In 2022, Menezes had confirmed that while Johnnie Walker is Diageo's leading brand, selling 21 million 9-litre cases, "Guinness is our second-biggest brand", with growth in the year to June 2022 up to 32%, most of which represented recovery in this post-Covid period.

He was clearly committed to Guinness being part of the long-term vision for the group. The Guinness Storehouse operation in Dublin has proved a huge success, with admissions up 18% last year to 1.5 million – twice the number of visitors to the Book of Kells in Trinity College.

With a €30-a-head entry fee, this delivers Diageo a very nice chunk of change annually, as well as hugely promoting the Guinness brand.

Menezes was so impressed

Continued on page 25

"And just when I was starting to understand Crypto."

Reference the Market Abuse Regulations 2005, nothing published by Moneybags in this section is to be taken as a recommendation, either implicit or explicit, to buy or sell any of the shares mentioned.

Stocks & Shares

Aminex shares double as Tanzania heats up

THE LAST five years have been hugely frustrating for Aminex shareholders, who have been waiting for the company to drill its critical third step-out well in the Ntorya gas discovery block in south-eastern Tanzania. New results have now greatly increased the estimated value of the resource and those who listened to Moneybags ("Aminex finally ready for the big time", *The Phoenix* 6/10/23) will have done very nicely as the shares have almost doubled in recent weeks, with more likely to follow.

Former CEO and chairman Brian Hall farmed out the Ruvuma licence in the Ntorya field back in August 2018 to Mohammed Al Zubair's Omani entity, Zubair Corporation, through its subsidiary, ARA Petroleum Tanzania (APT). The whole $140m development programme to bring the field into production is in ATP's hands and on its dollar, so Charlie Santos, Hall's replacement as Aminex chairman, can do very little to hurry along the step-out well drill.

In Aminex's 2023 annual report, however, there is some good news out of the big 3-D seismic programme completed last year, which covered 338 sq km of the Ntorya discovery area. Before this seismic programme had been carried out, independent consultants RPS Energy estimated that there was 1.6 trillion cubic feet of gas in place in the Ntorya block.

Previously Hall drilled the first discovery here in a joint venture with Aidan Heavey's Tullow Oil, although the latter pulled out before Aminex hit pay dirt, with the well flowing at 20 million cubic feet of gas a day on test.

Hall drilled a second well, which proved there was something significant in the Ntorya licence area, flowing – even with a restricted choke – at 17 million cubic feet a day. This is what attracted the attention of al Zubair.

Significantly, last year's 3-D programme, which has now been fully processed, shows a far more interesting reservoir than had been understood, with the estimated gas in place more than double the original 1.64 trillion cubic feet (TCF) at 3.45 TCF.

This upgrade in the estimated size of the reservoir has dramatic implications for Aminex and its 25% carried interest in this discovery block. At the $3 per 1,000 cubic feet ex-well head price, which the state energy company Tanzania Petroleum Development Corporation (TPDC) has been paying, this values the new estimate resource at a gross $6bn (based on a 60% recovery rate). On the basis of a 50% operating cost, the net value is $3bn, which would value Aminex's 25% interest at $750m.

The share price has doubled on this news over the last two months, jumping from just under 1p to 1.8p, at which Aminex is capitalised at just under £80m, little more than 10% of the potential net value of its interest in Ntorya gas field.

What is very interesting is that, while the estimated gas in place is now 3.45 TCF, taking the undrilled area of the gas field into account, last year's 3-D seismic data set suggests that the total reservoir in this whole field has a "resource potential of 16.4 TCF".

Given that this would be 10 times the size of Kinsale gas field, it potentially puts the Ntorya field into the class of a world giant resource based on recoverable reserves. Admittedly the 16.4 TCF resource potential for the whole field is far from proven but it is clearly indicated from the 3-D seismic programme. If this were to prove to be the case, then on a 60% recovery rate, the 10 TCF based on the modest $3 per 1,000 cubic feet TPDC rate, this would be worth a gross $30bn.

After taking into account 50% operating costs, the net value would be $15bn, with Aminex's 25% carried interest then being worth a potential $3.75bn.

In these circumstances, it is obviously not surprising that Aminex's share price has more or less doubled over the last couple of months – at which price it still reflects just a tiny portion of the potential value here.

It has to be stated clearly that there are quite a few problems to be overcome but, with the signing of the gas sales agreement with TPDC at the beginning of this year, one of the most significant hurdles has already been navigated.

Significantly too, last month the Aminex joint venture entity (Ruvuma) was granted approval by the Ministry of Energy for the 25-year development licence for the Ntorya gas field.

Santos stated: "We are delighted to receive the development licence and thank APT and all Tanzanian agencies for working together to achieve this major milestone."

Full government sign-off is now awaited.

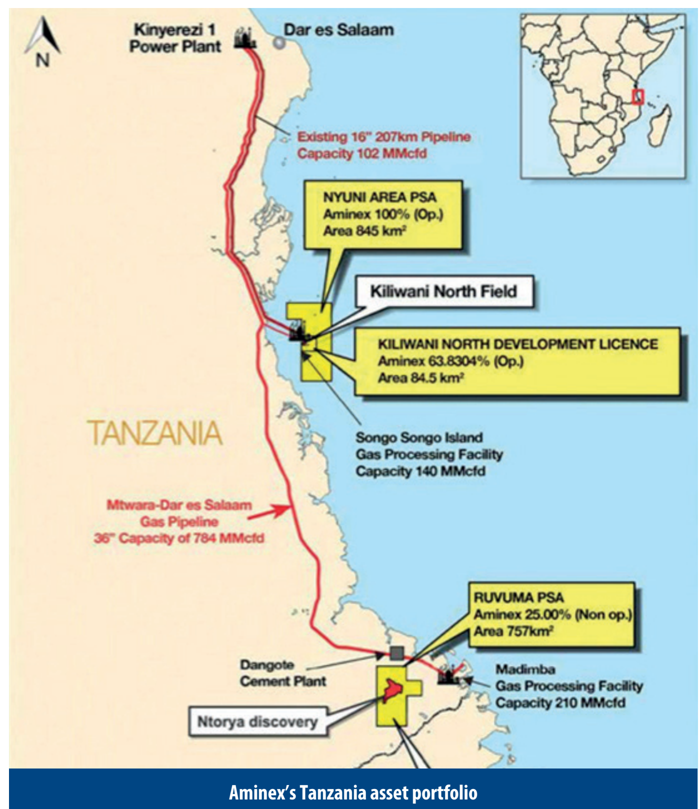
Separately, preparations are now being made for drilling the four-mile step-out Chikumbi-1 appraisal well. On the back of the 3-D seismic survey carried out last year, it is now more accurately located.

ADVANTAGES

Moreover, this Ntorya discovery has very significant infrastructural advantages.

The Chinese government funded a 300-mile, 36-inch pipeline down the coast of Tanzania from the capital, Dars es Salaam, with the capacity to carry 784 million cubic feet of gas a day.

There is also a gas processing plant at Madimba with a capacity of 210 million cubic feet a day. This plant is only 20 miles from the Ntorya gas discovery block and TPDC has committed to building a connecting pipe to the



Aminex's Tanzania asset portfolio

'MR. MARNEY, THE ALGORITHM THAT MANAGES YOUR INVESTMENT PORTFOLIO SAYS INVEST IN AI.'

discovery block to link up with the big coastal gas pipeline.

Another significant factor is that Tanzania has huge energy deficiencies and is desperate for the gas from the Ntorya field to come on stream. This will help to fuel the country's big Kinyerezi power plant just outside Dar es Salaam and will enable it to switch from imported oil.

INVESTMENT

Likewise the Dangote cement plant adjoining the coastal pipeline is ready to switch to gas, as is the Goodwill ceramics plant further north.

The timing of the third gas well at Ntorya is in the hands of APT, the operating entity. Its investment associate, Eclipse Investments, is the company that holds an effective controlling 27% shareholding in Aminex, which it acquired through a €12m placing five years ago.

Aminex has no funding requirement in relation to the $140m investment to bring the Ntorya gas field into production, with this $35m carry covered by the farm-out deal with APT.

The extent to which Aminex is dependent on Zubair and APT, however, can be seen from the fact that Eclipse has just advanced a $3m loan to pay for the Irish company's administration costs over the next two years but it is repayable only from revenues from the Ntorya gas field.

Aminex does have some other exploration interests in Tanzania, in particular its Kiliwani North licence, which had produced over six billion cubic feet of gas.

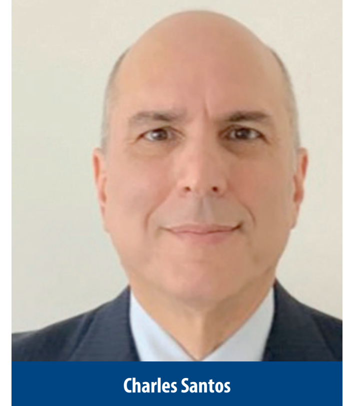
While this is now shut in, some recent seismic results suggests that there are other drilling targets around this field that could be examined once the company's main Ntorya gas field is finally in production.

There is also a big offshore prospect, the Nyuni Area licence area, covering over 800 sq km. This has some adjoining majors, such as the Norwegian Equinor group, which is in a consortium with Exxon and has already drilled 15 exploration wells here, resulting in nine discoveries and an estimated 20 trillion cubic feet of gas in place.

POTENTIAL VALUE

While the Aminex share price has doubled over the last two months to capitalise the company at just on £80m, this only scrapes the surface of the potential value of the 25% interest in Ntorya gas field, which could be worth billions.

The potential has been obvious for years but it is nearer to fruition


Charles Santos

than ever and it looks the drilling of the third discovery well is now inevitable.

For those shareholders who have been waiting so long here, it would be a huge relief to see at least some of Aminex's potential realised. Newcomers, meanwhile, will also now be tempted to get on board given the potential for some real action next year.

Diageo continued from page 23

by this that he opened Guinness Storehouse operations in London and Chicago last year.

Paul Walsh had a plan to free up the whole of the 50-acre St James's Gate brewery site in Dublin for commercial development but failed to move on this ahead of the crash, while Menezes had a much more modest plan to develop only 12.6 acres of the St James's Gate complex, with Sean Mulryan's Ballymore outfit currently in the process of building a scheme that includes 336 apartments.

Menezes planned to keep all Guinness stout brewery operations on the original site and move out all the brewery's other beer products – including the original Smithwick's ale and Harp Lager, as well as its recently developed Hop House 13 brand – to a new €200m brewery planned for Newbridge, Co Kildare.

Also included is the new Rockshore brand, which is oddly attached to both a larger and a cider product. Not surprisingly, it has failed to set the market alight.

RED LIGHT

A significant mistake made by Menezes in Ireland was to cheese off the biggest beer company in the world, Budweiser, for which Diageo was the Irish agent, both brewing and distributing the product here. The decision to develop Hop House 13 and Rockshore as new brands proved a red light for Budweiser, which moved its brewing across the Irish Sea as part of a distribution deal with C&C.

It is difficult to know where Debra Crew goes from here. She does not appear to have any grand strategy for Diageo, other than 'don't rock the boat', while expecting the giant group's branded drinks portfolio "to benefit from international spirits continuing to gain share of total beverage alcohol and premiumisation trends".

Guinness stout clearly does not fit into this model, while it is also obvious that even the physical distribution of beer kegs involves a whole different logistics package to that of spirits.

UNINSPIRING

Crew's outlook for the rest of the fiscal year, covering the 12 months to June 2024, is hardly inspiring: "We expect our operating profits to decline compared to the previous year but we expect the rate of decline to improve compared to the first half of fiscal 2024."

In relation to next year, the best Crew can come up with is: "We expect to progress towards the delivery of our medium-term guidance… We expect organic operating profit growth in full year fiscal '25 to be broadly in line with organic net sales growth… Our portfolio is well positioned across categories, price points and regions."

The CEO does repeat Menezes's medium-term growth expectation, advising: "We expect to deliver organic net sales growth in the range of 5% to 7%."

Furthermore, she states: "We expect to deliver sustainable organic operating profit growth broadly in line with organic net sales growth."

This is not what Menezes had targeted and he was far more explicit, advising an operating profit growth target "of between 6% and 9%".

The Guinness brewery in Dublin

ASPIRATIONS

Menezes also had an overall objective, with "aspiration to grow Diageo's global market share by 50% from 4% to 6% by 2030".

Crew shows no sign of having any such vision of her own. Indeed, her aspirations appear to be those set out by Menezes.

In the second half of the current fiscal year now ending, the new CEO has to change the trajectory of Diageo and reverse the very significant 11% reduction in operating profit and the 17% reduction in earnings per share in the first half.

If Crew doesn't report a much better full-year outturn, the market will take an even more pessimistic view of the group. Most of the fall in the share price, from the £40 high at the start of 2022 to the current level of £26, has occurred under Crew's regime, with the group now capitalised at just on £60bn.

On the basis of the results for the six months to December 2023, the shares at £26 are standing on a prospective price/earnings multiple of 13.5. This compares with a p/e of 26 three years ago.

Crew needs to act fast or the CFO may not be the only suit going out the door.