

EABL – 1H18 Earnings Update

EABL announced a 11.3% y/y decline in net earnings to KES 4.9B attributed to a tough electioneering period. Net revenue grew by 18.1% y/y to KES 36.8B, driven by higher sales volume in Kenya and Tanzania. EABL declared an interim dividend of KES 2.00, unchanged y/y.

Top line grows on the back of higher volume.

Sales volume accelerated 4.0% y/y driven by robust performance in mainstream spirits and bottled beer recovery with enhanced innovation across markets, with the mainstream spirits segments achieving double digit growth. Growth was dampened by weak sales in the group’s reserve and premium spirits as well as negative impact from higher excise tax in the region. Despite the relative demand inelasticity of alcoholic products, the prolonged electioneering period witnessed in Kenya impacted consumers’ disposable income, resulting in a marked decrease in consumption. Growth in net sales was impacted by a negative revenue mix, as excise duty increases continue to drive downtrading across the region.

Regional Update: Sales in Tanzania Soar as Kenya and Uganda fluctuates.

The group posted a 28.0% y/y growth in net sales in Tanzania, with Uganda posting a 3.0% y/y decline while Kenya saw a 4.0% y/y uptick. Growth in Tanzania was propelled by a 130.0% y/y net sales growth in the Serengeti brand despite price reduction. Growth in Kenya was dampened by the prolonged electioneering period that caused stringent cash movement in the country, leading to a decline in the sales volume of Senator Keg. The implementation of additional excise duties on imported beer in Uganda, localization of production and slow growth in sachet spirits in a saturated market also saw sales volume dip.

Productivity savings reinvested in advertising, promotions and sales force.

The negative mix from a 2.0% y/y increase in cost of sales and volume growth of 4.0% y/y is attributed to a decline in sales of Senator Keg (the cheapest brand to produce). Production savings of KES 900.0M were derived from increased operational efficiencies and local raw materials. Selling and distribution costs were up 18.0% y/y while administration costs dipped 21.0% over two years due to zero based budgeting and organizational efficiencies. Stable currencies and disposal of non-strategic property in Mombasa also had a hand in savings.

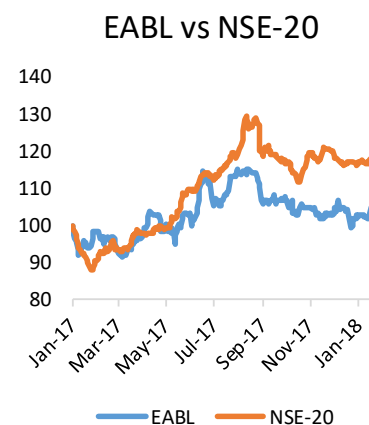
Net borrowings and interests edge up

Net borrowings rose by 4.0% y/y while finance charges were 29.0% higher due to new funding acquired at competitive market rates. Debt was inclusive of KES 15.0B (60.0% EU-RO and 40.0% KES dominated) to fund the construction of a new brewery in Kisumu.

Bloomberg Ticker :	EABL KN
Reuters Ticker:	EABL.NR

Share Statistics	
Current Price (KES)	249.00
Issued shares (M)	790.8
Market cap (USD B)	1.9
Year end	June
Foreign ownership (%)	31.9
Free float (%)	54.6
Av daily trading vol (USDk)	635.0

Price Trend



Source: Bloomberg

Research Analyst

Linda Kiraithe

LKiraithe@apexafrica.com

020-7602534

www.apexafrica.com

Net current assets turned positive and the capital restructuring of Serengeti Breweries Limited was completed giving EABL a majority interest at 75.0%. Cash performance remained strong at 126.0% against a set target of 104.0% on the back of higher inventory and increase in customer deposits.

CAPEX

Capital expenditure rode on construction of a new brewery in Kisumu at KES 2.0B, introduction of a new spirits line at the Tusker brewery for a cost of KES 900.0M, purchase of 4 new keg rackers and additional barrels in Kenya at KES 800.0M. In addition, the brewer purchased new dual purpose vessels to increase brewing and cooling expansion as well as health, safety and environmental improvements in the period under review.

Looking ahead

Looking ahead the company is seeking to grow sales volume and improve profitability by ramping up sales volume of Senator Keg and increase consumption of premium brands with the introduction of scotch. EABL aims to accelerate mainstream spirits consumption, deliver on productivity initiatives and talent goals and establishment of key innovation projects. EABL's current share price of KES 249.00, sees the group trade at a trailing one year price to earnings ratio of 29.6 and 15.5 times book value.

Consolidated Income Statement	1H17	1H18	%change
	KES M	KES M	
Revenue	31,156	36,800	18.1%
Cost of Sales	(18,556)	(20,831)	12.3
Gross Profit	16,600	15,969	-3.8
Total Costs	(8,567)	(8,686)	1.4
Profit Before Tax	8,033	7,283	-9.3
Income Expenses	(2,448)	(2,331)	-4.8
Profit after Tax for the Year	5,585	4,952	-11.3
Basic Earnings per Share	6.3	5.2	-17.0

Statement of Financial Position	1H17	1H18	%change
	KES M	KES M	
Total equity	11,988	12,682	5.8
Non-current liabilities	32,695	34,999	7.0
Total equity and non-current liabilities	44,683	47,681	6.7
Non-current assets	44,532	47,119	5.8
Working capital			
Current assets	22,135	32,828	48.3
Current liabilities	(21,984)	(32,266)	46.8
Net assets	44,683	47,681	6.7

Statement of Financial Cashflows	1H17	1H18	%change
	KES M	KES M	
Cash generated from operations	10,588	13,005	22.8
Net interest paid	(1,516)	(1,954)	28.9
Tax paid	(3,025)	(3,864)	27.7
Net cash from operating activities	6,047	7,187	18.9
Net cash used in investing activities	(1,738)	(5,002)	187.8
Net cash generated used in financing activities	(4,449)	(1,312)	-70.5
Net change in cash & cash equivalents	(140)	873	-
At start of year	(3,954)	(3,318)	-16.1
Foreign exchange impact of translation	727	394	-45.8
Net change in cash & cash equivalents	(140)	873	-
Cash and cash equivalents at end of the year	(3,367)	4,585	-

Source: Company Filings, ApexAfrica Research

Disclaimer

ApexAfrica and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of ApexAfrica or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Apex Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |
T: +254-20-2226440 | **Fax**: +254-20-2319092 | **Cell**: +254-723-420204|
W : www.apexafrica.com
Part of AXYS Group
W : www.axys-group.com