

## WPP Scangroup- FY16 Earnings Update

The largest marketing and communication group in Sub Saharan Africa, **WPP Scangroup** posted a **3.8% y/y decline** in **PAT** to **KES 460.4M**. The dip in PAT was due to a challenging trading environment in **Kenya**. The board has recommended a **final DPS** of **KES 0.50 per share** (unchanged from FY15); though subject to approval.

### Revenue falls but growth remains optimistic:

Revenue dipped 3.7% y/y to KES 4.8B as the company booked slightly lower sales in advertisements from corporate clients since 2016 was a tough year for the Kenyan economy. Gross margin in turn tumbled 2.4% y/y to 15.0% in FY16. Nevertheless, Kenya accounted for 60% of the total revenue. Greatest growth was seen in the telecommunication sector and Public Relations. In addition, the firm had seen impressive growth in betting agencies in the past year and has the opportunity to unlock potential in the industry provided that the proposed taxes on Kenyan betting institutions in the finance budget 2017, will not be approved.

### Greater efficiencies on cutback of operating expense:

Operating profit marginally improved by 2.1% y/y to KES 359.9M on back of reduced operating and administrative expenses which declined 4.2% y/y to KES 4.5B. The firm has directed staff cost management to drive efficiencies without losing the quality which as seen a rise in its FY16 operating margin by 0.4% y/y to 7.4%.

### Net interest income and foreign exchange spiral down:

Net interest income remained strong for most of the year but dropped 6.8% y/y to KES 406.25 towards the end in the wake of the rate cap. The company made a Foreign exchange loss of KES 63.2M from a gain of KES 47.2M in FY15, due to currency devaluation of the Naira. This was primarily attributed to the impact of lower oil production due to militancy in Niger Delta and the reduction of low global oil prices. As a result, PBT deteriorated by 17.1% to KES 725.9M on the back of a KES 110M FX swing and KES 30M reduction in interest income.

### Looking ahead

The stock currently trades at 0.82x FY16 book value and 2.24x FY16 earnings, with an ROE of 5.2%. Looking ahead, the company may face competition from social media platforms in terms of digital and retail marketing. This is due to the fact that uploading content on these platforms are inexpensive which is a significant advantage for SMEs in emerging and frontier markets. On the bright side, TV, radio and outdoor advertising still have their presence among blue chip clients. Moreover, East Africa is still seen as the easiest region to operate in with Kenya being the main hub. It is also the country where the firm extracts more than half

Bloomberg Ticker:	SCAN KN
Reuters Ticker:	SCAN.NR

Share Statistics	
Current Price (KES)	19.00
Issued shares (M)	378.7
Market cap (USD M)	367.1
Year end	Dec
Foreign ownership (%)	69.5
Free float (%)	34.0
Av daily trading vol (USD k)	18.4

### Price Trend



Source: Bloomberg

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of its revenue from. As the group continues to expand and strengthen its operations outside of Kenya, dependence on Kenya will continue to decrease. Therefore, the company must constantly update its multi agency model in line with digital trends and new product innovations. It must also develop strategies to remain ahead of the competition from social media networks going forward.

## FY16 Financials

Income Statement	FY15	1H16	2H16	FY16	y/y % chg	h/h %chg
	KES M	KES M	KES M	KES M	%	%
Billings	16,791	8,076	8,231	16,306	-2.9%	1.9%
<b>Revenue</b>	5,022	2,571	2,265	4,835	<b>-3.7%</b>	-11.9%
<b>Operating and administrative expenses</b>	<b>(4,670)</b>	<b>(2,398)</b>	<b>(2,078)</b>	<b>(4,475)</b>	<b>-4.2%</b>	-13.3%
<b>Operating Profit</b>	353	173	187	360	<b>2.1%</b>	8.1%
Net interest income	436	238	169	407	-6.8%	-29.1%
<b>Other income</b>	39	18	5	23	<b>-42.4%</b>	-72.4%
Foreign exchange (loss)/gain	47	(34)	(30)	(63)	-233.8%	-11.5%
Profit before tax	875	395	331	726	-17.1%	-16.3%
Tax charge	(397)	(145)	(120)	(266)	-33.0%	-17.3%
<b>Profit for the year</b>	479	250	211	460	<b>-3.8%</b>	-15.6%
Other comprehensive income:	-	-	-	-		
Exchange difference on translating foreign operations	(203)	7	(57)	(50)	-75.6%	-896.4%
<b>Total comprehensive income</b>	275	257	174	411	<b>49.2%</b>	-32.1%
EPS (KES)	1.12	-	-	1.12	0.0%	
DPS (KES)	0.50	-	-	0.50	0.0%	

Source; Company filings, ApexAfrica Research

Balance Sheet	KES M	KES M	KES M	KES M	%	%
<b>ASSETS</b>						
Equipment	492	471	399	399	-19.0%	-15.3%
Investments in associates and other equity investments	4	4	4	4	12.9%	8.4%
Deferred tax asset	1,612	326	1,612	1,612	0.0%	395.3%
Goodwill	1,612	1,612	1,612	1,612	0.0%	0.0%
	<b>2,332</b>	<b>2,412</b>	<b>2,374</b>	<b>2,374</b>	<b>1.8%</b>	<b>-1.6%</b>
Trade and other receivables	5,470	7,246	6,326	6,326	15.7%	-12.7%
Receivable from related parties	80	74	135	135	68.6%	83.5%
work-in progress	15	12	82	82	438.9%	601.9%
Tax recoverable	410	458	586	586	42.9%	27.9%
Cash and bank balances	4,161	3,838	3,982	3,982	-4.3%	3.7%
	<b>10,137</b>	<b>11,628</b>	<b>11,112</b>	<b>11,112</b>	<b>9.6%</b>	<b>-4.4%</b>
<b>Total Assets</b>	<b>12,468</b>	<b>14,040</b>	<b>13,486</b>	<b>13,486</b>	<b>8.2%</b>	<b>-3.9%</b>
<b>Capital and reserves</b>	-	-	-	-		
Share capital	379	379	379	379	0.0%	0.0%
share premium	8,282	8,282	8,282	8,282	0.0%	0.0%
Revenue (deficit)/ reserve	87	147	320	320	269.7%	118.5%
Translation deficit	(303)	(296)	(353)	(353)	16.7%	19.5%
<b>Equity attributable to share holders of the holding company</b>	<b>8,444</b>	<b>8,511</b>	<b>8,627</b>	<b>8,627</b>	<b>2.2%</b>	<b>1.4%</b>
Non-controlling interests (NCI)	160	160	181	181	13.4%	13.1%
<b>Total equity</b>	<b>8,604</b>	<b>8,672</b>	<b>8,809</b>	<b>8,809</b>	<b>2.4%</b>	<b>1.6%</b>
<b>Non-current liabilities</b>	-	-	-	-		
Deferred tax liability	9	6	5	5	-50.2%	-27.8%
Loan payable to related parties	176	176	-	-		
	<b>186</b>	<b>183</b>	<b>5</b>	<b>5</b>	<b>-97.5%</b>	<b>-97.5%</b>
<b>Current liabilities</b>	-	-	-	-		
Trade and other payable	3,559	4,859	4,271	4,271	20.0%	-12.1%
Payable to related parties	29	94	178	178	505.5%	89.9%
Tax payable	78	98	212	212	173.8%	116.7%
Dividends payable	12	135	12	12	-1.6%	-91.2%
	<b>3,678</b>	<b>5,186</b>	<b>4,673</b>	<b>4,673</b>	<b>27.0%</b>	<b>-9.9%</b>
<b>Total Equity and Liabilities</b>	<b>12,468</b>	<b>14,040</b>	<b>13,486</b>	<b>13,486</b>	<b>8.2%</b>	<b>-3.9%</b>
<b>Cashflow Statement</b>	<b>KES M</b>	<b>KES M</b>	<b>KES M</b>	<b>KES M</b>	<b>%</b>	<b>%</b>
<b>Cash generated from operating activities</b>	<b>639</b>	<b>(294)</b>	<b>297</b>	<b>3</b>	<b>-99.5%</b>	<b>-201.0%</b>
<b>Cash generated from investing activities</b>	<b>202</b>	<b>49</b>	<b>243</b>	<b>292</b>	<b>44.2%</b>	<b>390.5%</b>
<b>Cash used in financing activities</b>	<b>(397)</b>	<b>(67)</b>	<b>(331)</b>	<b>(397)</b>	<b>0.1%</b>	<b>396.8%</b>
Cash and cash equivalent at the beginning of the year	3,763	4,161	(99)	4,062	7.9%	-102.4%
Net increase/(decrease) in cash and cash equivalent	472	(311)	209	(102)	-121.6%	-167.2%
Effect of fluctuation in exchange rate	(173)	(11)	(39)	(51)	-70.8%	243.4%
<b>Cash and cash equivalent at the end of the period</b>	<b>4,062</b>	<b>3,838</b>	<b>3,909</b>	<b>3,909</b>	<b>-3.8%</b>	<b>1.9%</b>
<b>Ratios</b>						
Operating margin	7.0%	6.7%	8.3%	7.4%	0.4%	1.5%
Gross margin	17.4%	15.4%	14.6%	15.0%	-2.4%	-0.8%
Net margin	9.5%	9.7%	9.3%	9.5%	0.0%	-0.4%
Current ratio	2.8	2.2	2.4	2.4		
ROA	3.8%	1.8%	1.6%	3.4%	-0.4%	-0.2%
ROE	5.6%	2.9%	2.4%	5.2%	-0.3%	-0.5%
<b>P/E</b>				<b>2.24</b>		
<b>P/B</b>				<b>817.20</b>		
<b>Div Yield (%)</b>				<b>2.6%</b>		

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