

TPS Eastern Africa - FY16 Earnings Update 'Surprise on the upside'

TPS Eastern Africa posted a net profit of KES 129.3M, for the year 2016, up from a loss of KES 280.6M in FY15. The group's revenue climbed 4.5% y/y to KES 6.5B, resulting in a 78.4% y/y increase in EBITDA to KES 983.6M. The group increased dividend pay-out by KES 0.10 (+40.0% y/y) to KES 0.35.

Top line grows as operating environment improves: An improvement in security in the region, resulting in the removal of travel advisories, and positive impacts from incentives put in place by the Kenyan government to revive the tourism sector are bearing fruit. Group turnover rose 4.5% y/y to KES 6.5B, boosting the bottom line. Additionally, the continuous efforts made by the Kenyan government to improve international relations has helped restore confidence among business and leisure travellers. The group also benefited from various international conferences and meetings held in East Africa during the year.

Pre-tax earnings surge on positive turnaround, lower interest costs: The group posted a 254.2% y/y improvement in pre-tax profit to KES 325.3M, driven by higher revenues and a 23.0% y/y decline in net interest cost to KES 172.7M. TPS saw a 181.4% y/y increase in income tax expense to KES 195.9M, resulting in a net profit of KES 129.3M for the year.

Refurbishment of Nairobi Serena, Extension of Kampala Serena on track: During the year the group commenced the refurbishment of Nairobi Serena Hotel and the extension of Kampala Serena Hotel. The upgrade of these iconic properties will help the hotelier cement its position as a leading service provider in the business hubs of Nairobi and Kampala and will help the group increase market share in a time of increased competition.

Looking Ahead: An improved operating environment saw the group reverse FY15's unprecedented loss and prevent further erosion of shareholder wealth in a difficult operating environment. However, challenges remain: TPS continues to face fierce competition from peers forced to reduce margins in order to boost cash flow. Additionally, General Elections in Kenya in 2017 has heightened political risk in the country which could potentially result in a reduction in tourist arrivals in the region around the election period.

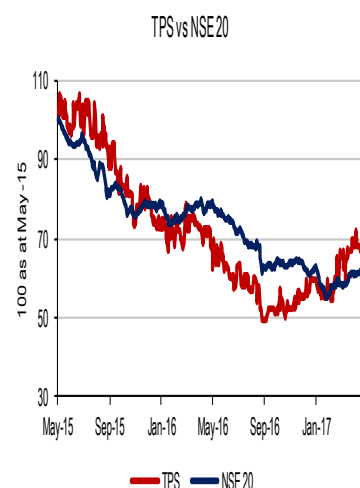
Nonetheless, the turnaround in the tourism sector in the region witnessed in 2016 remains on track and we expect the improvement to extend into the medium term. TPS's valuation metrics remain attractive and consequently, we reiterate our BUY recommendation on the stock with a potential upside of 19.0% from the current stock price of KES 23.00.

Bloomberg Ticker: TPSEA.KN
Reuters Ticker: TPS.NR

Share Statistics

Current Price (KES)	23.00
P/E (x)	42.6
P/B (x)	0.4
Dividend Yield	1.5%
Issued Shares (M)	182.2
Market Cap (USD M)	41.6
Year End	31-Dec

Price Trend



Source: Bloomberg, ApexAfrica Research

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Financials

Consolidated Income Statement	FY15	FY16	% chg y/y
	KES '000	KES '000	
Sales	6,189,360	6,468,803	4.5%
Profit before interest, depreciation and taxation	551,492	983,640	78.4%
Exchange gain/ (loss) on foreign currency loans	(121,566)	51,558	
Net interest cost	(224,232)	(172,669)	-23.0%
Depreciation of PP&E	(426,566)	(538,333)	26.2%
Share of results of associates	9,896	1,105	-88.8%
Profit/ (loss) before income tax	(210,976)	325,301	
Income tax (expense)/ credit	(69,637)	(195,973)	181.4%
Profit/ (loss) after taxation	(280,613)	129,328	
Attributable to:			
Equity holders	(296,571)	98,303	
Non-controlling interest	15,958	31,025	94.4%
EPS	(1.63)	0.54	
DPS	0.25	0.35	40.0%
Consolidated Balance Sheet	FY15	FY16	
	KES '000	KES '000	
Capital Employed			
Equity	9,685,351	9,565,621	-1.2%
Non-current liabilities	3,896,123	5,367,074	37.8%
Represented by			
Non-current assets	13,491,212	13,620,435	1.0%
Net current assets	90,262	1,312,260	
Consolidated Statement of Cash Flows	FY15	FY16	% chg y/y
	KES '000	KES '000	
Net cash generated from/ (used in) operating activities	383,984	774,005	101.6%
Net cash used in investing activities	(342,121)	(548,568)	60.3%
Net cash generated from/ (used in) financing activities	205,800	966,755	369.8%
(Decrease)/ Increase in cash and cash equivalents	247,663	1,192,192	381.4%
At start of period	(88,587)	283,382	
Effects of currency translation differences	124,306	(49,683)	
Increase in cash and cash equivalents	247,663	1,192,192	381.4%
At end of period	283,382	1,425,891	403.2%
Ratios	FY15	FY16	
EBITDA Margin	8.9%	15.2%	
Net Margin	-4.5%	2.0%	
Return on Equity (ROE)	-	1.40%	
Return on Assets (ROA)	-	0.9%	
Earnings Yield		2.3%	
Pay-out Ratio		64.8%	
P/E		42.6	
P/B		0.4	
Dividend Yield		1.5%	

Source: Company Filings, ApexAfrica Research

Appendix

Investment ratings

- ✦ **Buy:** A total return is anticipated in excess of the market's long-term historic annual rate (approximately 10%). Total return expectations should be higher for stocks that possess greater risk.
- ✦ **Hold:** Hold the shares with neither a materially positive total return nor a materially negative total return anticipated.
- ✦ **Sell:** Stock should be sold as materially negative total return is anticipated.

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