

KenolKobil– FY17 Earnings Update

“ Pat on the back, propelling ”

KenolKobil Group Plc posted an impressive 2.1% y/y FY17 increase in net earnings to KES 2.5B riding on a 42% y/y surge in sales volumes to 2.9B litres. This was despite a KES 1.4B one off expense which included an ESOP compensation and KES 570M for the KPRL yield shift receivable. Total shareholders funds grew 13.7% y/y to KES 11.2B. The group declared a final dividend of KES 0.30 bringing the total dividend to KES 0.60 (+33.3% y/y).

Top line leaps on the back of sales volume growth:

Net sales surged 53.4% y/y to KES 158.7B driven by a 42.0% y/y growth in sales volume to 2.9B litres. Volume growth was spread across all market segments with the company gaining market leadership in cooking gas distribution with its K-gas brand and maintaining leadership in aviation with a market share of 42.0%. Cost of sales was up 56.9% y/y to KES 150.8B with gross profit rising 7.2% y/y to KES 7.9B. In spite of the increase, gross margin was down 210bps y/y to 5.0% which also led to a dip in net margin by 80bps y/y to 1.6%. The compression of margins was attributable to rising fuel prices in 2017.

Contribution of segments to gross profits

Inland business remained the bread and butter for the oil marketer with a contribution of 62% to gross profits, which was however a decline from a 68.0% contribution in 2016. Exports, trading and aviation contributed 25% with niche business making up 12% of gross profits.

Operating costs up:

Administrative and operating costs were up 24.2% y/y to KES 3.1B with the increase mostly attributed to full payment of the former CEO’s claim on his entitlements under the employee share ownership plan (ESOP). Net borrowings dipped 0.8% y/y to KES 7.3B causing a notable improvement in finance costs which went down 3.9% y/y to KES 340.7M. A foreign exchange loss of KES 47.4M was incurred compared to a gain of 2.5M in 2016 due to currency translations. Depreciation and amortization remained almost flat with a marginal increase of 0.1%/y/y to KES 970.4M.

Stronger earnings push dividend payout ratio up:

The payout ratio surged 840bps y/y to 35.8% with the board proposing a final dividend of KES 0.30 per share bringing total dividend for the year to KES 0.60 per share (+33.3% y/y) possibly pointing towards a generous dividend policy going forward.

Looking ahead: The group is aiming at outpacing its FY17 performance going forward, given the prospect of improved macroeconomic conditions in the region in 2018. The company has now fully provided for the KES 1.8B Kenya Petroleum Refineries Ltd (KPRL) Yield Shift Receivable, the last installment of KES 570.2M having been paid in FY17. We expect the absence of that to boost earnings growth in FY18. We feel that this company still has significant value to be unlocked and we therefore recommend it as a key counter in the portfolio of any investor looking for growth and dividend stocks.

KenolKobil currently trades at KES 16.95, 10.1x P/E, 2.2x P/B, and a dividend yield of 3.5%.

Bloomberg Ticker : KNOC.KN
Reuters Ticker: KENO.NR

Share Statistics	
Current Price (KES)	16.95
Issued shares (M)	1471.8
Market cap (USD M)	245.7
Year end	Dec
Foreign ownership (%)	55.7
Free float (%)	50.7
Av daily trading vol (USDk)	59.1

Price Trend

Source: Bloomberg



Research Analyst

Linda Kiraithe

LKiraithe@apexafrica.com

020-7602534

www.apexafrica.com

Financials

	FY16	1H17	2H17	FY17	% chg y/y
	KES '000	KES '000	KES '000	KES '000	
Income Statement					
Net Sales	103,493,925	72,637,710	86,072,475	158,710,185	53.4
Cost of Sales	-96,110,370	-68,570,962	-82,227,675	-150,798,637	56.9
Gross Profit	7,383,555	4,066,748	3,844,800	7,911,548	7.2
Other Income	464,353	282,175	300,380	582,555	25.5
Administrative and Operating Cost	-2,481,277	-1,368,955	-1,713,674	-3,082,629	24.2
Impairment provision of KPRL Yield Shift Receivable	-600,000	-300,000	-270,212	-570,212	-5.0
Share of Profit/ loss in associate	1,215	0	4,824	4,824	297.0
Exchange gain/ (losses)	2,525	-25,606	-21,841	-47,447	
EBITDA	4,770,371	2,654,362	2,144,277	4,798,639	0.6
Finance cost	-354,690	-82,102	-258,601	-340,703	-3.9
Finance income	92,461	0	192,967	192,967	108.7
Depreciation and amortization	-969,886	-491,902	-478,535	-970,437	0.1
Profit before income tax	3,538,256	2,080,358	1,600,108	3,680,466	4.0
Income tax expense	-1,125,049	-657,989	-557,774	-1,215,763	8.1
Profit for the year	2,413,207	1,422,369	1,042,334	2,464,703	2.1
EPS (KES)	1.64	0.97	0.70	1.67	2.1
DPS (KES)	0.45	0.30	0.30	0.60	33.3
Balance Sheet					
Retained earnings	5,318,524	6,299,455	6,900,171	6,900,171	29.7
Total shareholder funds	9,865,151	10,841,157	11,214,835	11,214,835	13.7
Borrowings	7,366,559	4,880,638	7,304,920	7,304,920	-0.8
Total non-current liabilities	312,253	277,758	271,012	271,012	-13.2
Payables and accrued expenses	6,393,653	9,973,049	5,087,474	5,087,474	-20.4
Total current liabilities	14,024,301	15,233,244	12,613,183	12,613,183	-10.1
Total equity and liabilities	24,201,705	26,352,159	24,099,030	24,099,030	-0.4
Property, plant and equipment	3,887,525	3,991,328	3,966,894	3,966,894	2.0
Total non-current assets	6,564,485	6,204,764	5,931,196	5,931,196	-9.6
Inventories	5,828,398	8,480,952	6,914,376	6,914,376	18.6
Receivables and prepayments	7,773,875	8,798,316	8,718,072	8,718,072	12.1
Total current assets	17,637,220	20,147,395	18,167,834	18,167,834	3.0
Total assets	24,201,705	26,352,159	24,099,030	24,099,030	-0.4
Cash Flow					
Net cash generated from operating activities	2,512,141	2,052,653	-1,339,714	712,939	-71.6
Net cash (used in)/ generated from investing activities	-1,284,222	-548,645	-592,908	-1,141,553	-11.1
Net cash generated from / (used in) financing activities	2,124,571	-2,684,950	1,763,423	-921,527	
Net increase/ (decrease) in cash and cash equivalents	3,352,490	-1,180,942	-169,199	-1,350,141	
Cash and cash equivalents at the end of the year	3,886,332	2,715,795	2,467,247	2,476,247	-36.3
Ratios					
Gross margin (%)	7.1	5.6	4.5	5.0	-210bps
Net margin (%)	2.3	2.0	1.2	1.6	-80bps
EBITDA Margin (%)	4.6	3.7	2.5	3.0	-160bps
Total borrowings/ shareholder equity (%)	74.7	45.0	65.1	65.1	-950bps
Total borrowings/ total assets (%)	30.4	18.5	30.3	30.3	-10bps
Return on equity (ROE) (%)	24.5	26.2	18.6	22.0	-250bps
Return on assets (ROA) (%)	10.0	10.8	8.7	10.2	30bps
Current ratio	1.3	1.3	1.4	1.4	
Acid test ratio	0.8	0.8	0.9	0.9	
Pay out ratio (%)				35.8	
Earnings yield (%)				9.9	
Dividend yield (%)				3.5	
P/E (x)				10.1	
P/B (x)				2.2	

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