Bamburi Cement 1H17 Earnings Update
'Turnover Tumbles'

Bloomberg Ticker	BMBC KN
Reuters Ticker	BAMB.NR

Share Statistics	
Price	199.00
Market Cap (KES B)	72.2
Market Cap (USD M)	700.2
Year end	Dec
Float (%)	10.7
Foreign ownership (%)	11.3
1 yr Avg Trading Vol (USD)	153,575

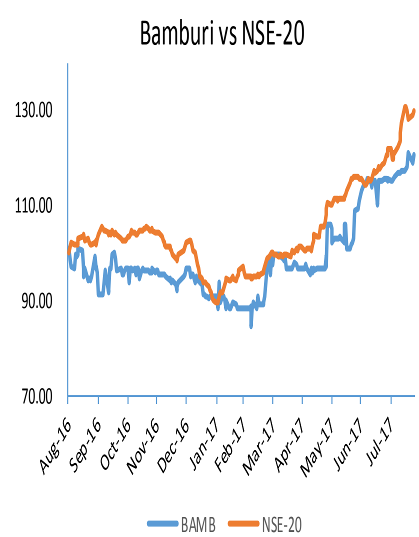
Bamburi's **1H17 net earnings plunged 35.2% y/y to KES 1.8B** mainly attributable to an **8.2% y/y decline in top-line.** Cost saving measures saw the firm record a **mild 0.6% y/y dip in operating costs**; but the improvement was not enough to help Bamburi save face. The firm has declared an **interim dividend of KES 2.50 (-58.3% y/y)** with books closure slated for **22nd September 2017.**

Economic slowdown leaves top-line in the red: Bamburi saw an 8.2% y/y dent in turnover to KES 17.5B which management attributed to a difficult business environment in Kenya. This included a contracting market coupled with low private sector investment which was driven by a slow down in credit availability. Low private sector investment led to reduced cement consumption in the Individual Home Builder Segment (IHB). Some government infrastructure projects experienced funding delays which could have been caused by the government focusing resources on the general elections held on 8th August this year. Data from KNBS shows that cement consumption in the first five months of the year fell 2.4% y/y to 2.5M tonnes. The dip in cement consumption was more pronounced in April (-7.6% y/y) and May (-17.0% y/y) given that 1Q17 consumption grew 4.9% y/y.
Unfazed by the challenges facing Kenya, Uganda's cement consumption recorded impressive performance (according to management) with both the domestic and export markets recording improvements over the period. With a bulk of Bamburi's revenue being sourced from Kenya (55.9% in FY16), good tidings from Uganda were not enough to support the top-line.

A silver lining in operating costs: The cement maker has, in the recent past, embarked on cost saving measures which have borne fruit resulting in a mild 0.6% y/y dip in operating costs to KES 14.9B. Of key concern was the rally in international coal prices with coal averaging USD 73 per short tonne (+62.7% y/y) in 1H17. In addition, the drought facing the country in 1H17 saw the country inject more of expensive thermal power (+118.6% y/y to 1,329kWh in 1H17) to meet the deficit left by hydro-power generation.
With some of the firm's operating costs remaining fixed, the minute decline in operating costs coupled with the decline in turnover saw the group's operating profit margin slump 660bps y/y to 15.1%. Consequently, operating profit plunged 36.0% y/y to KES 2.7B

Investment income takes a nosedive on lower interest rates and lower cash balances: Investment income (interest income earned from term deposits) fell 55.5% y/y to KES 97M. This was triggered by low cash balances as well as lower interest rates in the market. Cash and cash equivalents contracted 29.2% y/y to KES 7.4B driven by lower cash from operations (-45.9% y/y) and higher cash used in investing activities. Though the average saving rate among commercial banks has grown (6.0% in 1H17 from 1.5% in 1H16), deposit rates earned by the large corporate bodies (which were astronomically above the average rates) are seen to have taken a hit as banks moved to lower their cost of funds.

Price Trend



Source: (NSE)

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Lower earnings brings down dividend payments: Mirroring operating profit, PBT plummeted 37.5% y/y to KES 2.7B. In light of this, the firm has brought down its interim dividend payment to KES 2.50 (-58.3% y/y) from the KES 6.00 that the market was accustomed to. In addition, the cement maker lowered its dividend pay-out ratio to 56.9% from elevated levels of 83.1% in FY16. This could be attributed to the huge capital outlay anticipated by Bamburi in its phase 1 of capacity expansion. The expansion will see the firm raise its production capacity in both Uganda and Kenya by 1.8M tonnes by mid next year.

Cash balances take a hit though liquidity improves: Cash from operating activities plunged 45.9% to KES 1.2B attributed largely to the decline in profitability. Implementation of phase 1 of the capacity expansion saw the firm record a leap in cash used in investing activities to KES 841M (1H16 KES 86M). As a result, net changes in cash and cash equivalents contracted to KES 386M (-81.0% y/y) bringing down cash balances to KES 7.4B (-29.2% y/y).

Despite the dip in cash balances, Bamburi remains cash rich with a current ratio of 2.0x and a cash ratio of 1.2x. This was as a result of the 10.6% y/y decline in current liabilities to KES 6.2B.

In the cards

FY17 dented top-line but anticipated to revert: 3Q17 is expected to remain challenging in terms of cement consumption in the country informed by a slowdown in the implementation of government projects as a result of the elections. Credit availability remains a challenge to the private sector in Kenya and as such, we foresee a further dip in sales from the Individual Home Builder Segment. The Kenyan market is however expected to rebound in 4Q17 after the election realignment has fully been factored into.

Uganda is anticipated to fair better with the country's political tension remaining subdued. In addition, successive lowering of the CBR in the year from 12% in January 2017 to 10% in June 2017 points to lower cost of credit in the country. The lower cost of finance is anticipated to bolster cement consumption by the private sector. As such, turnover from Uganda is projected to provide a buffer to dwindling fortunes in Kenya.

In the long-run, cement consumption in both Kenya and Uganda is projected to grow by c.10% annually driven by Government investment in infrastructure as well as the private sector in the pursuit of alluring returns in the real estate sector. We remain optimistic that the reduction in credit availability in Kenya will be resolved which would spur activity in the private sector. Informed by this, we expect Bamburi to leverage on the growth in cement consumption, boosting its top-line.

Mixed fortunes in operating costs: Bamburi is expected to continue benefitting from the cost saving measures implemented, consequently shielding its bottom-line. In line with the drought facing the country, we expect thermal power generation to remain elevated in the country pointing to higher power costs for the firm. Coal prices are expected to remain elevated during the year at current levels of USD 85 per short tonne. The high energy costs may water down efforts made to bring down operating costs. The scenario is however not expected to hold in the long-run with the country easing reliance on the erratic hydro-power to other more stable power sources. In addition, coal prices are projected to fall from FY18 onwards. The lower energy costs are anticipated to compliment the cost saving measures put in place.

The capacity expansion program implemented by the group is expected to (in addition to dealing with cement competition) enhance operational efficiency and bring down costs. Phase 2 of the capacity expansion focuses on augmenting the group's clinker capacity which would see the firm maintain its cost leadership position in the East African region.

Dividend payment expected to be a thorny issue: 1H17 has seen Bamburi slash its dividend pay-out ratio to 56.9% from 83.1% in FY16. The cut could be seen as Bamburi seeking to use its cash rich position to finance its capex programs, bypassing the need to take up debt. Phase 1 of the capex program is anticipated to be finalized by mid next year with the timelines for phase 2 yet to be published. As such, we could see the current pay-out ratio hold in the medium-term. This points to lower dividends paid out to investors which would see Bamburi lose its sparkle as a high-dividend yielding counter.

Bamburi has experienced an impressive rally from 2Q17 which has seen the counter rise to KES 199.00 (+24.4% YTD). However, we expect the counter to take a beating in light of 1H17 earnings and the possibility of lower dividend payments for FY17. With a P/E of 17.0x (1H17 annualized earnings) and a P/B of 2.4x, the counter appears pricy compared to industry average multiples of 15.3x earnings and 1.4x book value. The cement maker remains fundamentally sound and would be a viable option for investors at lower multiples.

1H17 Financials

Condensed statement of comprehensive income	1H16 KES million	2H16 KES million	FY16 KES million	1H17 KES million	y/y %	h/h %
Turnover	19,111	18,923	38,034	17,535	-8.2	-7.3
Total operating costs	(14,962)	(15,203)	(30,165)	(14,879)	-0.6	-2.1
Operating profit	4,149	3,720	7,869	2,656	-36.0	-28.6
Investment income	218	151	369	97	-55.5	-35.8
Other gains and losses	(95)	128	33	(81)	-14.7	
PBT	4,272	3,999	8,271	2,672	-37.5	-33.2
Taxation	(1,419)	(962)	(2,381)	(824)	-41.9	-14.3
PAT	2,853	3,037	5,890	1,848	-35.2	-39.2
EPS	7.15	7.29	14.44	4.39	-38.6	-39.8
DPS	**6.00**	**6.00**	**12.00**	**2.50**	**-58.3**	**-58.3**

Condensed statement of financial position	1H16	2H16	FY16	1H17	y/y	h/h
Assets						
Non-current assets						
PPE and intangibles	**22,088**	**21,316**	**21,316**	**21,797**	**-1.3**	**2.3**
Other equity investments	425	278	278	359	-15.5	29.1
Goodwill	217	217	217	217	0.0	0.0
Total non-current assets	**22,730**	**21,811**	**21,811**	**22,373**	**-1.6**	**2.6**
Working capital						
Current assets	10,465	11,860	11,860	12,143	16.0	2.4
Current liabilities	(6,937)	(6,872)	(6,872)	(6,201)	-10.6	-9.8
Working capital	**3,528**	**4,988**	**4,988**	**5,942**	**68.4**	**19.1**
Dividend payable	(2,547)	(6)	(6)	(2,183)	-14.3	
Cash and bank balances	**10,456**	**6,972**	**6,972**	**7,405**	**-29.2**	**6.2**
Total net assets	**34,167**	**33,765**	**33,765**	**33,537**	**-1.8**	**-0.7**
Capital and reserves						
Share capital	1,815	1,815	1,815	1,815	0.0	0.0
Reserves	24,782	24,590	24,590	24,342	-1.8	-1.0
Equity attributable to owners of the company	26,597	26,405	26,405	26,157	-1.7	-0.9
Non controlling interests	3,055	3,414	3,414	3,666	20.0	7.4
Non current liabilities	4,515	3,946	3,946	3,714	-17.7	-5.9
Total net assets	**34,167**	**33,765**	**33,765**	**33,537**	**-1.8**	**-0.7**

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1H17 Financials Cont'd

Condensed statement of cash flows	1H16	2H16	FY16	1H17	y/y	h/h
Cash generated from operations	4,101	2,713	6,814	2,275	-44.5	-16.1
Interest received	206	163	369	88	-57.3	-46.0
Net forex gains/(losses)	(27)	217	190	53		-75.6
Tax paid	(2,010)	(1,414)	(3,424)	(1,189)	-40.8	-15.9
Net cash generated from operating activities	**2,270**	**1,679**	**3,949**	**1,227**	**-45.9**	**-26.9**
Net cash used in investing activities	(86)	(362)	(448)	(841)		
Net cash used in financing activities	(151)	(4,613)	(4,764)	-		
Net increase in cash and cash equivalents	**2,033**	**(3,296)**	**(1,263)**	**386**	**-81.0**	
At beginning of the year	8,453	10,456	8,453	6,972	-17.5	-33.3
Translation (loss)/gain	(30)	(188)	(218)	433		
At the end of the period	**10,456**	**6,972**	**6,972**	**7,405**	**-29.2**	**6.2**

Ratios and margins	1H16	2H16	FY16	1H17	y/y	h/h
Operating margin (%)	21.7	19.7	20.7	15.1	-6.6	-4.5
Effective tax rate (%)	33.2	24.1	28.8	30.8	-2.4	6.8
Earnings margin (%)	14.9	16.0	15.5	10.5	-4.4	-5.5
Dividend pay-out ratio	83.9	82.3	83.1	56.9	-27.0	-25.4
ROE (%)	19.2	20.4	19.8	16.4	-2.9	-4.0
NAV per share	81.70	82.16	82.16	82.17		
Current ratio	1.5	1.7	1.7	2.0		
Cash ratio	1.5	1.0	1.0	1.2		
P/E (x)				17.0		
P/B (x)				2.4		
Dividend yield (%)				4.3		

Source: Bamburi, ApexAfrica Estimates

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