

KenolKobil - 1H17 Earnings Update 'Stellar'

KenolKobil Group Plc posted a 19.5% y/y jump in net earnings to KES 1.4B in 1H17 on the back of an 80% y/y growth in volume. Total shareholder's funds grew 17.2% y/y to KES 10.8B for the period. The group declared an interim dividend of KES 0.30 (+100.0% y/y). Books closure is slated for 25th August 2017.

Solid volume growth boosts top line: Sales surged 96.6% y/y to KES 72.6B, driven by an 80.0% y/y growth in volume and an increase in global crude prices. Volume growth was spread across the group's business segments. Cost of sales growth outpaced the rise in revenue at 104.8% y/y to KES 68.6B. Gross profit was up 17.7% y/y to KES 4.1B. However, gross margin deteriorated to 5.6% for the period, down from 9.4% in 1H16, attributable to increased trading (OTS) volume. Consequently, net margin dipped 120 bps y/y to 2.0%.

Working capital management contains finance costs: Finance costs dipped 16.2% y/y to KES 82.0M, despite a significant increase in volume. The decline was attributed to better inventory management and a decline in the level of borrowings. Total borrowings stood at 4.9B in 1H17, down from KES 7.4B in FY16. However, depreciation of local currencies in Kenya and Burundi led to the group recording a forex loss of KES 25.6M for the period, down from a gain of KES 39.3M in 1H16. Settlement of legal disputes, inflationary pressure and growth in business activity saw administrative costs jump 41.1% y/y to KES 1.4B. The group's current ratio remained largely unchanged y/y at 1.3x.

Interim dividend payout doubles on stronger earnings: Profit for the year increased 19.5% y/y to KES 1.4B, driven by volume growth across all business segments. The improvement resulted in the group increasing interim dividend by 100% y/y to KES 0.30 per share. Pay-out ratio increased to 31.0% from 18.5% in 1H16, pointing towards a more generous dividend policy going forward.

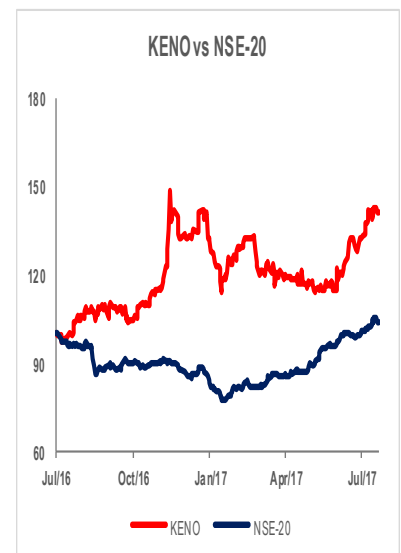
Looking ahead: The stellar performance by the oil marketer comes amidst substantial headwinds. Foreign exchange volatility in the region, unstable crude prices and macroeconomic challenges in key markets continue to threaten growth. Going forward, we expect the group to continue expanding its retail network in an effort to boost volume. While 1H17 saw a deterioration in gross and net margins, we anticipate margin normalization as the group shifts focus to its high-margin product segments and effects of one-off cost items are eliminated. After a surge at the start of 2017, crude prices have begun stabilizing and we expect prices to remain stable throughout the year. In our view, the group will likely maintain its current growth trajectory for the rest of the year, with volume growth partially offsetting weaker margins, boosting the bottom line. KenolKobil currently trades at 9.1 times trailing FY16 earnings and 2.2 times trailing FY16 book value.

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

Share Statistics

Current Price (KES)	14.95
Issued Shares (M)	1,471.2
Market Cap (USD M)	211.5
Year End	31-Dec
Foreign Ownership	55.7%
Free Float	51.3%
Avg. Trading Vol. (USD k.)	57.9

Price Trend



Source: Bloomberg, ApexAfrica Research

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Financials

	FY15	1H16	2H16	FY16	1H17	% chg y/y
	KES '000	KES '000	KES '000	KES '000	KES '000	
Income Statement						
Net sales	86,557,936	36,937,907	66,556,018	103,493,925	72,637,710	96.6
Cost of sales	(80,720,486)	(33,481,421)	(62,628,949)	(96,110,370)	(68,570,962)	104.8
Gross profit	5,837,450	3,456,486	3,927,069	7,383,555	4,066,748	17.7
Other income	830,391	216,493	247,860	464,353	282,175	30.3
Administrative and operating cost	(2,077,117)	(969,911)	(1,511,366)	(2,481,277)	(1,368,955)	41.1
Impairment provision of KPRL Yield Shift Receivable	(146,694)	(400,000)	(200,000)	(600,000)	(300,000)	-25.0
Share of profit/ (loss) in associate	1,214	-	1,215	1,215	-	
Exchange gain/ (losses)	(232,064)	39,344	(36,819)	2,525	(25,606)	-165.1
EBITDA	4,213,180	2,342,412	2,427,959	4,770,371	2,654,362	13.3
Finance cost	(651,344)	(97,997)	(256,693)	(354,690)	(82,102)	-16.2
Finance income	83,909	-	92,461	92,461	-	
Depreciation and amortization	(863,324)	(518,941)	(450,945)	(969,886)	(491,902)	-5.2
Profit before income tax	2,782,421	1,725,474	1,812,782	3,538,256	2,080,358	20.6
Income tax expense	(884,491)	(535,537)	(589,512)	(1,125,049)	(657,989)	22.9
Profit for the year	1,897,930	1,189,937	1,223,270	2,413,207	1,422,369	19.5
Loss from discont. Operations	117,044	-	-	-	-	
Profit for the year	2,014,974	1,189,937	1,223,270	2,413,207	1,422,369	19.5
EPS (KES)	1.37	0.81	0.83	1.64	0.97	19.5
DPS (KES)	0.35	0.15		0.45	0.30	100.0
Balance Sheet						
Retained earnings	3,567,610	4,757,547	5,318,524	5,318,524	6,299,455	32.4
Total shareholder funds	8,555,639	9,252,683	9,865,151	9,865,151	10,841,157	17.2
Borrowings	4,662,431	4,725,636	7,366,559	7,366,559	4,880,638	3.3
Total non-current liabilities	210,797	321,513	312,253	312,253	277,758	-13.6
Payables and accrued expenses	3,695,586	4,067,981	6,393,653	6,393,653	9,973,049	145.2
Total current liabilities	8,610,667	9,130,639	14,024,301	14,024,301	15,233,244	66.8
Total equity and liabilities	17,377,103	18,704,835	24,201,705	24,201,705	26,352,159	40.9
Property, plant and equipment	3,544,414	3,628,640	3,887,525	3,887,525	3,991,328	10.0
Total non-current assets	6,722,294	6,599,187	6,564,485	6,564,485	6,204,764	-6.0
Inventories	3,095,900	4,936,753	5,828,398	5,828,398	8,480,952	71.8
Receivables and prepayments	6,524,544	5,904,725	7,773,875	7,773,875	8,798,316	49.0
Total current assets	10,654,809	12,105,648	17,637,220	17,637,220	20,147,395	66.4
Total assets	17,377,103	18,704,835	24,201,705	24,201,705	26,352,159	40.9
Cash Flow						
Net cash generated from operating activities	5,224,416	1,223,581	1,288,560	2,512,141	2,052,653	67.8
Net cash (used in)/ generated from investing activities	668,962	(720,000)	(564,222)	(1,284,222)	(548,645)	-23.8
Net cash generated from/ (used in) financing activities	(6,313,815)	(110,086)	2,234,657	2,124,571	(2,684,950)	
Net increase/ (decrease) in cash and cash equivalents	(420,437)	393,495	2,958,995	3,352,490	(1,180,942)	
Ratios						
Gross margin (%)	6.7	9.4	5.9	7.1	5.6	
Net margin (%)	2.2	3.2	1.8	2.3	2.0	
EBITDA Margin (%)	4.9	6.3	3.6	4.6	3.7	
Current ratio (x)	1.2	1.3	1.3	1.3	1.3	
Acid test ratio (x)	0.9	0.8	0.8	0.8	0.8	
Total borrowings/ shareholder equity (%)	54.5	51.1	74.7	74.7	45.0	
Total borrowings/ total assets (%)	26.8	25.3	30.4	30.4	18.5	
Interest coverage ratio (x)	5.1	18.6	7.7	10.7	26.3	
Return on equity (ROE) (%)	23.6	25.7	24.8	24.5	26.2	
Return on assets (ROA) (%)	11.6	12.7	10.1	10.0	10.8	
Payout ratio (%)	25.5	18.5			31.0	
Earnings yield (%)					6.5	
Dividend yield (%)					3.0	
P/E (x)					9.1	
P/B (x)					2.2	

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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