

Bamburi Cement FY17 Earnings Update 'Below Expectations'

Bamburi's **1H17 net earnings plummeted 66.5% y/y to KES 2.0B**, lower than our FY17 estimate of KES 4.0B. The huge decline was largely attributed to **rising operating costs (+4.8% y/y)** (despite the **top-line** registering a **6.0% y/y dip**). A **high effective tax rate of 52.1%** exacerbated the situation leading to a rather pronounced drop in earnings.

The firm has declared a **final dividend of KES 1.50** bringing the **total dividend pay-out** for the year to **KES 4.00** (-66.7% y/y). **Books closure** has been slated for **27th April 2018**.

The tough economic environment claims another: The 6.0% y/y decline in top-line to KES 36.0B has been largely blamed on the tough economic environment in Kenya that saw cement consumption drop 8.2% y/y to 5.8M tonnes. Increased competition in Uganda and other export markets saw Bamburi record largely unchanged revenues from these markets.

Higher energy prices raise operating costs: Despite cost control measures taken, operating costs rose 4.8% y/y to KES 4.2B with the increase being attributed to heightened coal (+27.8% y/y) and fuel prices (+23.3% y/y). With the operating costs outpacing the top-line growth, the operating profit margin dipped 910bps y/y to 11.8% resulting in a 47.1% y/y plunge in operating profit to KES 4.2B.

Finance costs return whilst investment income declines: With the cement maker steering clear of debt in the previous two financial years, Bamburi cement incurred finance costs of KES 263M in FY17; indicating that the firm may have taken up some debt to finance its capex. During the year, the cement maker recorded a 70.7% y/y decline in its cash balances which when combined with the lower interest rates on deposits resulted in a 59.3% y/y dip in investment income. In addition, lower forex gains and asset impairment of KES 243M further ate into its bottom-line.

Tax provisions raise effective tax rate: Bamburi cement made some tax provisions in line with a disputed tax assessment in Uganda which raised its effective tax rate to 52.1%. This dented its net earnings with the PAT declining 66.5% y/y to KES 2.0B though the PBT fell 50.2% y/y to KES 4.1B.

Is the storm over?: We remain bullish on Bamburi Cement despite the rather disappointing results announced. The top-line is anticipated to pick-up with the general pick-up in economic activity in Kenya while the regional markets are anticipated to record growths given the political stability in Kenya and the region at large. Crude oil prices are forecasted to register increases of between 5%-15% in 2018 while coal prices are projected to retreat to USD 70/mt (as a result of cooling demand from China where an environmentally motivated initiative is underway to reduce coal consumption—World Bank). The resultant effect is projected to be a decline in operating costs and enhanced profit margins. The group intends to commission a total of 1.8M tonnes additional capacity in Kenya and Uganda by 2H18 which will enable the cement maker to tackle mounting competition as well as enhance operating costs. Despite the announced decline in earnings and dividends, the counter may dip in price albeit marginally given that we expect the sound fundamentals to support the price from sharp declines. At a current price of KES 182.00, Bamburi is trading at a P/E of 40.1x and a P/B of 2.0x with an unusually low dividend yield of 2.2%.

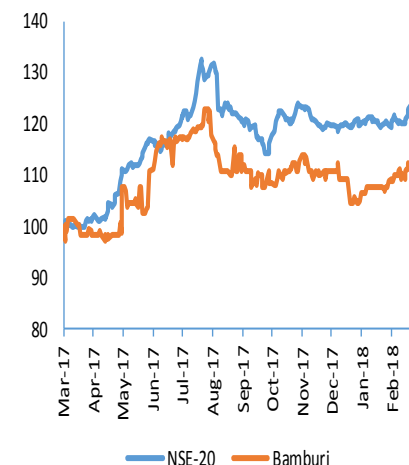
Bloomberg Ticker	BMBC KN
Reuters Ticker	BAMB.NR

Share Statistics

Price	182.00
Fair Value	194.00
Recommendation	BUY
Market Cap (KES B)	66.1
Market Cap (USD M)	655
Year end	Dec
Float (%)	38.0
Foreign ownership (%)	63.5
3-month Avg Trading Vol (USD)	180,594

Price Trend

Bamburi vs NSE-20



Source: (NSE)

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FY17 Financials

Condensed statement of comprehensive income	FY16	FY17 Estimates	FY17	Dev from estimates	y/y change
	KES B	KES B	KES B	%	%
Turnover	38.3	34.7	36.0	3.6	-6.0
Total operating costs	(30.3)	(29.4)	(31.7)	8.0	4.8
Operating profit	8.0	5.3	4.2	-20.8	-47.1
Investment income	0.4	0.5	0.2	-69.3	-59.3
Finance costs	(0.1)	-	(0.3)	-	182.8
PBT	8.3	5.8	4.1	-29.4	-50.2
Taxation	(2.4)	(1.8)	(2.1)	17.2	-10.0
PAT	5.9	4.0	2.0	-50.7	-66.5
EPS (KES)	14.44	9.80	4.54	-53.7	-68.6
DPS (KES)	12.00	5.58	4.00	-28.3	-66.7
Condensed statement of financial position	FY16	FY17 Estimates	FY17	Dev from estimates	y/y change
PPE and intangibles	21.3	24.0	32.7	35.9	53.3
Other equity investments	0.3	0.3	0.3	17.6	17.6
Goodwill	0.2	0.2	0.2	-	-
Total non-current assets	21.8	24.5	33.2	35.4	52.3
Working capital					
Current assets	12.0	9.7	10.5	7.6	-12.8
Current liabilities	(7.0)	(6.6)	(6.7)	1.2	-5.2
	5.0	3.1	3.8	21.0	-23.6
Dividend payable	0.006	0.006	0.006	-	-
Cash and bank balances	7.0	7.0	2.0	-70.7	-70.7
	33.8	34.7	39.1	12.8	15.7
Share capital	1.8	1.8	1.8	-	-
Reserves	24.6	25.1	27.6	10.0	12.1
Equity attributable to owners of the company	26.4	26.9	29.4	9.3	11.2
Non controlling interests	3.4	3.8	3.8	0.1	12.1
Non current liabilities	3.9	3.9	5.9	48.8	48.8
	33.8	34.7	39.1	12.6	15.7
Condensed statement of cash flows	FY16	FY17 Estimates	FY17	Dev from estimates	y/y change
Net cash generated from operating activities	3.9	6.9	5.0	-28.2	25.4
Net cash used in investing activities	(0.4)	(2.9)	(6.8)	137.3	1427.0
Net cash used in financing activities	(4.8)	(4.0)	(3.1)	-23.3	-35.2
Net decrease in cash and cash equivalents	(1.3)	(0.01)	(5.0)	-	293.9
At beginning of the year	8.5	7.0	7.0	-	-17.5
Translation (loss)/gain	(0.2)	-	0.04	-	-119.7
At the end of the period	7.0	7.0	2.0	-70.7	-70.7
Ratios and margins	FY16	FY17 Estimates	FY17	Dev from estimates	y/y change
Operating margin (%)	20.9	15.4	11.8	-3.6	-9.1
Effective tax rate (%)	28.8	31.4	52.1	20.7	23.3
Earnings margin (%)	15.4	11.5	5.5	-6.0	-9.9
Dividend pay-out ratio (%)	83.1	56.9	88.1	31.2	5.0
ROE (%)	19.7	12.9	6.3	-6.6	-13.4
NAV per share (KES)	82.2	84.6	91.5	8.1	11.3
Current ratio (x)	2.7	2.5	1.9		
P/E (x)			40.1		
P/B (x)			2.0		
Dividend yield (%)			2.2		

Source: Company Filings, ApexAfrica Research

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