

ARM Cement FY17 Earnings Update

‘Gasping for air’

After a long wait, ARM Cement released its FY17 earnings posting a staggering KES 6.5B loss (+133.9% y/y). The cement maker recorded a pronounced 32.2% y/y dip in revenue with rising operating costs resulting in a net loss margin of 75.3%.

Misfiring on all cylinders:

The group recorded a 32.2% y/y plunge in revenue to KES 8.7B attributed to challenges both in the Kenyan and Tanzanian market.

In Kenya, the country recorded an 8.2% y/y slump in cement consumption attributed to a heightened political environment, drought and a credit squeeze to the private sector.

In Tanzania, the double-whammy of falling cement prices and heightened operational challenges further contributed to the decline in the top-line. Increased production capacity by its competitors raised the cement in supply. Consequently, market price reduction ensued resulting in a c.30.0% y/y dip in cement prices. In addition, the ban on imported coal in the country saw the firm rely on the Songea coal plant which is c.1,400Km from the Tanga plant; denting raising logistical challenges.

Falling top-line coupled with elevated operating costs saw the cement maker’s loss after tax surge 133.9% y/y to KES 6.5B.

Liquidity challenges persist: ARM Cement’s current ratio stands at 0.2; falling from 0.6 in FY16. This was attributed to rising current liabilities (+21.4% y/y) coupled with falling current assets (-55.1% y/y). We infer the high current liabilities to be as a result of the group relying on short-term credit facilities to finance its operations. Lower current assets could be as a result of decreased inventory due to lower production during the year.

The group’s negative cash and cash equivalents surged 107.5% y/y to KES 4.4B, with the huge increase being attributed to cash used in financing activities of KES 1.9B (from a positive of KES 3.4B).

What next: To deal with the apparent uphill task ahead, the firm has announced changes in its board composition to add its mettle in finance and the sourcing for a strategic investor. The firm is set to complete the exit from its non-cement business during the course of the year which may see it finance its operations. In addition, the group plans to replace its expensive short-term debt with cheaper long-term debt.

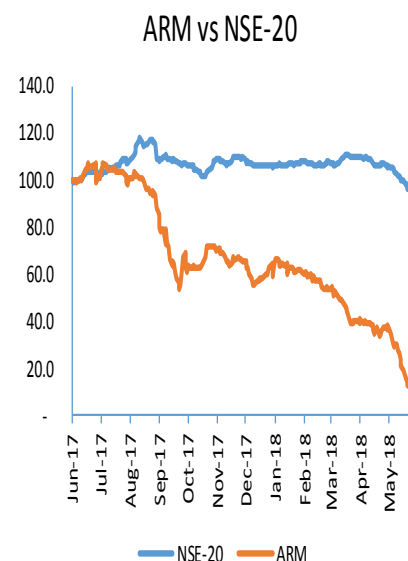
Though the firm is looking for a strategic investor, we opine that the cement maker should cut its losses in Tanzania and focus on the stable Kenyan business. Management however remains optimistic of a turnaround in the fortunes in Tanzania given that coal availability has been resolved. In addition, the cement prices in the country have stabilized and ARM Cement has commenced selling clinker to several cement makers in the country. Despite this, we are of the opinion that these steps will take time to make a significant impact on its

Bloomberg Ticker	ARML KN
Reuters Ticker	ARM.NR

Share Statistics

Price	2.90
Market Cap (KES B)	2.8
Market Cap (USD M)	27.6
Year end	Dec
Float (%)	9.7
Foreign ownership (%)	46.8
3-month Avg Trading Vol (USD)	54,770

Price Trend



Source: (NSE)

Senior Research Analyst

Harrison Gitau

hgitau@apexafrica.com

+254 (20) 760 2545

books; time that the company apparently does not have. ARM Cement's announcement deviates largely from our estimates of a loss of KES 2.2B. The auditors have raised concerns on the ability of the firm to continue as a going concern. This when combined with the loss recorded is anticipated to pile pressure on the counter going forward. Trading at a P/B of 0.1x is anticipated to raise the interest of risk averse investors looking to make a killing at the bourse. We expect this to curtail the race to the bottom of the share price that we've seen in recent days.

FY17 Financials

Income Statement	FY16	FY17	y/y
	KES B	KES B	% change
Revenue	12.8	8.7	-32.2
Loss/Profit Before Tax	(4.0)	(7.5)	89.0
Taxation credit/ (charge)	1.2	1.0	-17.6
Loss/Profit After Tax	(2.8)	(6.5)	133.9
Loss per share (KES)	(2.92)	(6.83)	133.9

Statement of Financial Position	FY16	FY17	y/y
Assets			
Non-Current Assets	42.8	39.0	-8.9
Current Assets	8.3	3.7	-55.1
Total Assets	51.1	42.7	-16.4
Equity			
Share Capital	1.0	1.0	-
Share Premium	14.1	14.1	-
Capital and Other Reserves	12.8	5.7	-55.3
Equity to Holders of the Parent Company	27.9	20.8	-25.5
Non-Controlling Interest	0.01	0.02	177.1
Total Equity	27.9	20.8	-25.4
Liabilities			
Non-Current Liabilities	9.1	4.7	-48.5
Current Liabilities	14.2	17.2	21.4
Total Liabilities	23.3	21.9	-5.9
Total Equity and Liabilities	51.1	42.7	-16.4

Statement of Cash Flows	FY16	FY17	y/y
Cash before Working Capital Changes	1.4	(2.6)	-
Working Capital Changes	0.2	3.0	0.0
Cash Generated From Operations	1.6	0.5	-70.6
Net Interest	(2.8)	(1.0)	-64.5
Tax Paid	0.08	0.0004	-99.5
Net Cash From Operating Activities	(1.1)	(0.5)	-53.1
Net Cash Used in Investing Activities	(0.2)	(0.2)	-7.6
Net Cash From/(Used) in Financing Activities	3.4	(1.9)	-
Increase/(Decrease) in C&CE	1.8	(2.6)	-
C&CE at the Beginning of the Period	(3.4)	(2.1)	-37.2
Exchange Adjustment	(0.6)	0.3	-
C&CE at the End of the Period	(2.1)	(4.4)	107.5

Ratios and Margins	FY16	FY17	y/y
Net Loss Margin (%)	-21.8	-75.3	
NAV/Share (KES)	29.06	21.67	
Current Ratio (x)	0.6	0.2	
P/B (x)		0.1	

Source: ARM Cement & 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