ApexAfrica CAPITAL LTD
Part of AXYS Group

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Centum Investment Co PLC FY18 Earnings Update "Wavered"

A challenging FY18 saw Centum's net earnings plunge 66.4% y/y to KES 2.8B. The rather pronounced dip in earnings was attributed to lower realized gains on disposal and dented profitability from financial and investing services. Nonetheless, management has maintained dividend unchanged at KES 1.20 with books closure slated for 2nd October 2018.

Breakdown of the firm's financials

- The firm's top-line rose marginally by 1.0% y/y to KES 13.7B. The slight improvement was as a result of sustained growth in beverage (+4.6% y/y) and publishing business (3.1% y/y) though income from interest, fees and commissions slumped 22.6% y/y, resulting in a marginal uptick in the top-line. The increase in beverages business was attributed to increased volumes contribution, and new product mix despite the challenging environment.
  The rate cap had a significant impact on Sidian bank's operations which saw the bank record lower interest income (-33.3% y/y) resulting in the decline in the group's interest, fees and commissions income. We however take cognizance of the gains from increased focus on non-funded income for the bank (+30.4% y/y), mitigating a worse outcome for the line item.
- Investment income closed in the red, plunging 32.4% y/y to KES 5.7B. The decline was brought about by lower unrealised gains on revaluation of investment property (-35.2% y/y) given the slowdown in real estate capital appreciation in FY18. The gains on disposal also took a hit (-24.9% y/y) seeing that the exit from GenAfrica was not concluded by the end of the year and the fact that FY18 was a sluggish year in terms of deal making. The gains made on disposal of GenAfrica are to be recognized in 1H19 pointing to pronounced upswings in the group's net earnings.
- The group's trading business profit margin (-220 bps y/y) ebbed with the operating costs (+10.9% y/y to KES 9.1B) outpacing the segment's revenue growth. The dip in efficiency was attributed to a challenging business environment with the beverage business facing distribution channel disruptions resulting in lower gross margins (-200bps y/y). The publishing business experienced regulatory changes, though it managed to navigate the same resulting in an improved gross margin (+400bps y/y).
  Reclassification of interest bearing deposits saw Sidian lower its interest expenses by 15.9% aiding the group's 7.1% y/y decline in funding and other costs to KES 3.4B. Nonetheless, financial services recorded an operating loss of KES 540.6M (FY17 loss of KES 17.3M).
- The group's operating and administrative costs surged 80.8% y/y to KES 2.0B with the surge being attributed to cost increments in its subsidiaries given a decline in the company's costs (15.2% y/y).
- Finance costs surged 68.0% y/y to KES 1.8B in line with the 16.6% y/y increase in borrowings to KES 24.5B. The faster growth in finance costs vis a vis borrowings points to more expensive debt taken up. This could be as a result of change in strategy to allow its subsidiaries to hunt for their own capital, necessitating higher returns for the provid-

Bloomberg Ticker :	CENTUM KN
Reuters Ticker:	ICDC.NR

Share Statistics	
Current Price (KES)	37.75
Issued shares (M)	665.4
Market cap (USD M)	252.9
Year end	31 March
Free float (%)	44.7
Av daily trading vol (USD)	81,287

Price Trend

Source: Bloomberg

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ers of capital.

- The challenging environment witnessed in FY18 saw the group's share of associate profits plummet 48.4% y/y to KES 694.9M. This further exacerbated the decline in profitability resulting in a 66.4% y/y decline in net earnings to KES 2.8B.
- Despite the lower profitability, cashflow from operating activities grew to KES 2.7B (FY17 cash used in operating activities at KES 47M). This could be attributed to enhanced working capital management.
  The sluggish environment saw the group cut its investment resulting in a 65.4% y/y slump in cash used in investing activities to KES 1.5B. Repayment of the KES 4.4B bond coupled with the settlement of the USD 30M RMB facility saw the group's cash used in financing activities soar 52.0% y/y to KES 1.8B.

Outlook

- With Almasi beverages recording a 10.0% y/y growth in sales volume, we project a continuation of the same which translates to additional growth for Centum's topline. Continued territory rationalization and efficiencies optimization is anticipated to enable the firm to realize an increased EBITDA to c.KES 0.4B in FY19E.
  Realized operational efficiencies in Longhorn Publishers are anticipated to rally the group's bottom-line going forward.
- Given the rate cap environment, Sidian's interest income is anticipated to decline though the growth in non-funded income is projected to hold. We anticipate a review/ repeal of the rate cap which may widen the bank's NIMs and the recent investment in ICT is anticipated to ease its costs, burgeoning its bottom-line.
- At Two Rivers, the group plans to break ground on the Riverbank apartments in FY19E. The plan is to offer the units at affordable pricing to the target market, encouraging faster uptake. In addition, the group targets plot sales of KES 2B and further engagement with third party developers to unlock additional projects within the precinct. These are anticipated to rack up the realized gains on disposal in FY19E.
- At Pearl Marina in Uganda, the firm plans to sell c.165 acres of land generating USD 69.5M in net cashflow while the sale of c.600 residential units targeted to raise USD 36M in the next 5 years. The Uganda National Roads Authority is on site to develop the access road from the project to the Entebbe-Kampala Highway.
- The investment of General Electric (GE) into Amu Power is projected to see the Lamu coal plant employ GE's ultra-supercritical clean coal technology aimed at lowering carbon emissions. This is anticipated to cool the issues raised surrounding the impact of the plant on the environment. The plant is now awaiting the resettlement action plan of the neighbouring community and targeted achievement of financial close by end of FY19E.
- The group has identified the near term priority of narrowing the gap between its NAV and market price at the bourse. To achieve this, management intends to successively raise dividend paid out to shareholders to achieve a dividend yield of c.5.0% on its NAV. The strategy will see the firm expedite the exit of a number of mature assets to optimize gross returns. Proceeds of the same are to be directed to cash generative assets rather than the capital appreciation assets.

We opined that a recovery of market activity at the bourse would eventually bridge the gap between its NAV and the market price. The renewed change in focus by the group targeting this is anticipated to rally the price at the bourse in the long-term. The FY18 earnings are a true test of investors' confidence in the firm whose business model has proved complex.
The announcement has seen the share price dip 0.7% today to KES 37.75 with a sharper decline in price being cushioned by the KES 1.20 DPS announced. Market overreaction may kick in after the counter goes ex-dividend. However, with FY19E projected to be better than FY18, we expect Centum to fire on all cylinders; registering a significant growth in net earnings in FY19E.
Centum is currently trading at KES 37.75 with P/B at 0.5x, P/E at 9.5x and an ROE of 5.6%.

FY18 Financials

Income statement KES B	FY17	1H18	2H18	FY18	h/h (%)	y/y (%)
Trading Business						
Sales	**9.4**	**4.8**	**5.4**	**10.2**	**13.1**	**8.2**
Operating costs	(8.2)	(4.2)	(4.9)	(9.1)	15.5	10.9
Trading Profit	**1.2**	**0.5**	**0.5**	**1.1**	**-5.3**	**-10.7**
Financial services						
Income from financial services	**3.6**	**1.6**	**1.3**	**2.8**	**-20.6**	**-21.6**
Funding and other costs	(3.6)	(1.7)	(1.7)	(3.4)	-0.5	-7.1
Operating profit from financial services	**(0.0)**	**(0.1)**	**(0.4)**	**(0.5)**		
Investment operations						
Investment and other income	8.4	2.2	3.5	5.7	56.0	-31.8
Operating and administrative costs	(1.1)	(0.5)	(1.5)	(2.0)	186.6	80.8
Finance costs	(1.0)	(0.6)	(1.2)	(1.8)	116.1	68.0
Share of associate profits	1.3	0.6	0.1	0.7	-77.7	-48.4
PBT	**8.7**	**2.2**	**1.0**	**3.1**	**-54.0**	**-64.0**
PAT	**8.3**	**1.6**	**1.2**	**2.8**	**-28.9**	**-66.4**
EPS (KES)	**10.93**	**2.07**	**1.89**	**3.96**	**-8.7**	**-63.8**
DPS (KES)	**1.20**	**-**	**1.20**	**1.20**		**-**

Statement of financial position	FY17	1H18[a]	2H18	FY18	y/y (%)
Portfolio investments	22.0	68.3	22.7	22.7	3.2
Cash and cash equivalents	5.6	4.9	5.8	5.8	3.2
Other assets	60.8	18.7	67.8	67.8	11.5
Total Assets	**88.4**	**91.9**	**96.3**	**96.3**	**8.9**
Customer deposits	9.8	11.1	12.8	12.8	31.0
Borrowings	21.0	22.4	24.5	24.5	16.6
Other liabilities	8.1	7.7	8.1	8.1	-0.4
Total liabilities	**38.9**	**41.3**	**45.4**	**45.4**	**16.7**
Total equity	**49.5**	**50.6**	**50.9**	**50.9**	**2.9**
Total Equity and liabilities	**88.4**	**91.9**	**96.3**	**96.3**	**8.9**

Statement of cash flows	FY17	1H18	2H18	FY18	h/h (%)	y/y (%)
Net cash from operations	**(0.05)**	**0.5**	**2.2**	**2.7**	**303.0**	**-5846.8**
Net cash used in investing activities	(4.3)	(2.6)	1.1	(1.5)	-142.3	-65.4
Net cash used in financing activities	(1.2)	2.3	(4.1)	(1.8)	-277.5	52.0
Net changes in cash and cash equivalents	**(5.5)**	**0.3**	**(0.8)**	**(0.6)**	**-420.8**	**-89.5**
Opening cash and cash equivalents	10.2	4.7	4.9	4.7	5.7	-54.3
Closing cash and cash equivalents	**4.7**	**4.9**	**4.1**	**4.1**	**-17.2**	**-12.5**

Ratios and margins	FY17	1H18	2H18	FY18	h/h (%)	y/y (%)
Trading business profit margin (%)	12.7	11.5	9.6	10.5	-1.9	-2.2
Financial services profit margin (%)	(0.5)	(7.0)	(34.1)	(19.0)	-27.0	-18.5
Group net profit margin (%)	38.8	19.0	11.4	14.9	-7.5	-23.9
ROaE (%)	10.0	3.3	4.6	5.6	1.3	-4.5
Total debt to equity (%)	35.2	44.3	48.1	48.1	3.7	12.9
Net debt to equity (%)	33.0	34.6	40.1	40.1	5.4	7.1
NAV per share (KES)	67.3	69.7	73.2	73.2		
P/B (x)				0.5		
P/E (x)				9.5		

Source: Centum, ApexAfrica Estimates

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.

Disclaimer

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