

KenolKobil– 1H18 Earnings Update

“Shinning in Black Gold”

KenolKobil posted an impressive 1H18 performance highlighted by a 24.2% y/y growth in revenues to KES 90.2B along with a 16.1% y/y jump in net earnings to KES 1.65B. This commendable performance was realized on the back of rising international oil prices in 1H18 coupled with growth in sales volumes. The Board of Directors declared an interim dividend of KES 0.36 per share to be paid on 15th October 2018 following the book closure slated for 24th August 2018.

Significant topline growth weighed down by ballooning cost of sales:

KenolKobil’s net sales posted a stupendous 24.2% y/y jump to KES 90.2B. The topline growth was fueled by a 10.7% h/h increase in international oil prices (Murban Crude Oil) to USD 77.20/barrel combined with a 8.0% y/y rise in group volume. Gross profit fell 11.2% y/y to KES 3.6B, weighed down by pressure on product margins in the various markets where the group operates.

Stringent management of operating costs bears positive EBITDA growth

Administration and operating costs declined 34.7% y/y, following management’s efforts to streamline its procurement processes, employ efficient cost management and partly due to the absence of the provisions done in 1H17 with regard to the ESOP compensation made to the former CEO. The company also ran a tight ship in managing the group’s forex exposure which yielded a net forex gain of KES 27.7M in 1H18 compared to a KES 25.6M loss in 1H17. As a result, the Group’s EBITDA recorded an impressive 13.9% y/y jump to KES 3.0B.

Increased volume, high oil prices push financing costs towards the ceiling:

Kenol’s net financing cost sky-rocketed 61.8% y/y to KES 132.8M on the back of volume growth and increased international oil prices. The significant increase in LIBOR rates further exacerbated the situation forcing the oil marketer to increase its local borrowing levels, in addition to raising the cost of its dollar denominated loans during the period.

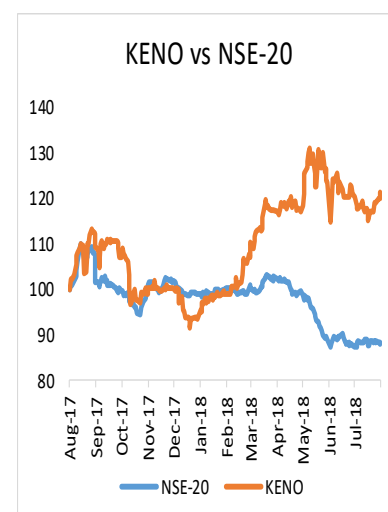
Looking ahead: While we anticipate global oil prices to stabilize in 2H18, the Group will seek to leverage on its ability to deal with extreme volatility in international oil prices and the expected improvement in the general business environment in 2H18 to hit its revenue targets and sustain profitability. KenolKobil currently trades at KES 18.10 (+29.3% YTD), 7.2x P/E, 1.1x P/B, and a dividend yield of 3.3%. In light of these fundamentals, we reiterate a BUY recommendation on the counter as we anticipate a good 2H18 performance to fuel its price rally.

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

Share Statistics

Current Price (KES)	18.10
Issued shares (M)	1471.8
Market cap (USD M)	265.6
Year end	Dec
Foreign ownership (%)	55.7
Free float (%)	50.7
Av daily trading vol (USDk)	59.1

Price Trend



Source: Bloomberg

Research Analyst

Gift Kori

Kgift@apexafrica.com

020-7602533

www.apexafrica.com

Financials

	1H17	2H17	FY17	1H18	% chg y/y
	KES '000	KES '000	KES '000		
Income Statement					
Net Sales	72,637,710	86,072,475	158,710,185	90,192,351	24.2
Cost of Sales	(68,570,962)	(82,227,675)	(150,798,637)	(86,581,853)	26.3
Gross Profit	4,066,748	3,844,800	7,911,548	3,610,498	-11.2
Other Income	282,175	300,380	582,555	278,874	-1.2
Administrative and Operating Cost	(1,368,955)	(1,713,674)	(3,082,629)	(893,937)	-34.7
Impairment provision of KPRL Yield Shift Receivable	(300,000)	(270,212)	(570,212)	-	-100.0
Exchange gain/ (losses)	(25,606)	(21,841)	(47,447)	27,717	-208.2
EBITDA	2,654,362	2,144,277	4,798,639	3,022,652	13.9
Finance cost	(82,102)	(258,601)	(340,703)	(132,826)	61.8
Finance income	-	192,967	192,967	-	
Depreciation and amortization	(491,902)	(478,535)	(970,437)	(516,344)	5.0
Profit before income tax	2,080,358	1,600,108	3,680,466	2,373,482	14.1
Income tax expense	(657,989)	(557,774)	(1,215,763)	(722,440)	9.8
Profit for the year	1,422,369	1,042,334	2,464,703	1,651,042	16.1
EPS (KES)	1.93	0.57	2.50	2.24	16.1
DPS (KES)	0.30	0.30	0.60	0.36	20.0
Statement of financial position					
	1H17	2H17	FY17	1H18	% chg y/y
Total shareholder funds	10,841,157	11,214,835	11,214,835	12,228,350	12.8
Total non-current liabilities	277,758	271,012	271,012	266,186	-4.2
Total current liabilities	15,233,244	12,613,183	12,613,183	15,349,195	0.8
Total equity and liabilities	26,352,159	24,099,030	24,099,030	27,843,731	5.7
Total non-current assets	6,204,764	5,931,196	5,931,196	5,787,418	-6.7
Total current assets	20,147,395	18,167,834	18,167,834	22,056,313	9.5
Total assets	26,352,159	24,099,030	24,099,030	27,843,731	5.7
Statement of financial cash flows					
	1H17	2H17	FY17	1H18	% chg y/y
Net cash generated from operating activities	2,052,653	(1,339,714)	712,939	(1,262,261)	-161.5
Net cash (used in)/ generated from investing activities	(548,645)	(592,908)	(1,141,553)	(434,965)	-20.7
Net cash generated from / (used in) financing activities	(2,684,950)	1,763,423	(921,527)	3,408,549	-227.0
Net increase/ (decrease) in cash and cash equivalents	(1,180,942)	(169,199)	(1,350,141)	1,142,516	-196.7
Cash and cash equivalents at the end of the year	2,715,795	2,476,247	2,476,247	3,506,582	29.1
Ratios					
	1H17	2H17	FY17	1H18	
Gross margin (%)	5.6	4.5	5.0	4.0	
Net margin (%)	2.0	1.2	1.6	1.8	
EBITDA Margin (%)	3.7	2.5	3.0	3.4	
Return on equity (ROE) (%)	26.2	18.6	22.0	28.6	
Return on assets (ROA) (%)	10.8	8.7	10.2	5.9	
Current ratio	1.3	1.4	1.4	1.4	
Pay out ratio (%)			24.0		
Dividend yield (%)			3.3		
P/E (x)			7.2		
P/B (x)			1.1		

Source: Company Filings, 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