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Bamburi Cement 1H18 Earnings Update
'Shocker'

Bamburi's **1H18 net earnings plummeted 78.4% y/y to KES 399.0M,** largely attributed to **rallying operating costs (16.9% y/y)** amidst a **flattening top-line (-0.2% y/y).** The lower earnings impeded on the firm's ability to maintain dividend payments resulting in a **60.0% y/y plunge in DPS to KES 1.00**. **Books closure** has been slated for **28th September 2018.**

Resilience keeps top-line flat amidst falling consumption: Bamburi's key markets faced headwinds in 1H18 with Kenya's cement consumption contracting 8.0% y/y while in Uganda, Bamburi had to contend with production and pricing challenges. The challenges in Uganda saw the cement maker record lower sales. Despite the contraction in consumption in Kenya, Bamburi managed to grow its volumes; which we infer to be from government infrastructure projects. The contraction in volumes in Uganda wiped out the gains recorded in Kenya resulting in a tepid 0.2% y/y contraction in the top-line to KES 18.6B. We note that the 1H18 top-line performance was better than that observed in 2H17; at the height of political temperatures during last year's general and repeat presidential elections.

Higher energy costs deal the knockout blow: Surging coal (+32.2% y/y), fuel (+34.5% y/y) and electricity (+18.7% y/y) costs saw the firm's operating costs gallop 16.9% y/y to KES 17.4B. In addition, Bamburi wrote off KES 315.0M in Uganda following an internal audit; with the write-off further raising the operating costs. The surging operating costs coupled with flat top-line resulted in an 800bps y/y contraction in the operating profit margin to 6.3%.

Capex brings in debt: The KES 8.0B investment in capacity expansion (Kenya 0.9M and Uganda 0.9M tonnes) saw the firm take up a KES 1.4B debt (received in Uganda). This, we believe, resulted in a 75.0% y/y rally in finance costs to KES 49.0M. Consequently, PBT fell 72.9% y/y to KES 722.0M.

The storm is still brewing: Notwithstanding the positive expectations at the beginning of the year, the firm's net earnings are still hurting. We applaud the firm's resilience in keeping the top-line flat despite dwindling consumption. The bulk of new growth will be sourced from the quiet real estate sector; which is facing effects of the credit crunch in Kenya. Cement consumption from Kenyan government infrastructure may sustain the volume, though the budgeted 2.4% y/y decline in development expenditure throws a spanner in the works. In Uganda, management anticipates continued headwinds despite the growing African Inland markets. The 1.8M tonnes capacity expansion gives the cement maker muscle to grow volumes once demand picks up. Phase 2 of the capacity expansion is anticipated to solidify Bamburi as the least cost producer which may protect its margins and/or lower cement prices in a bid to protect/grow market share.

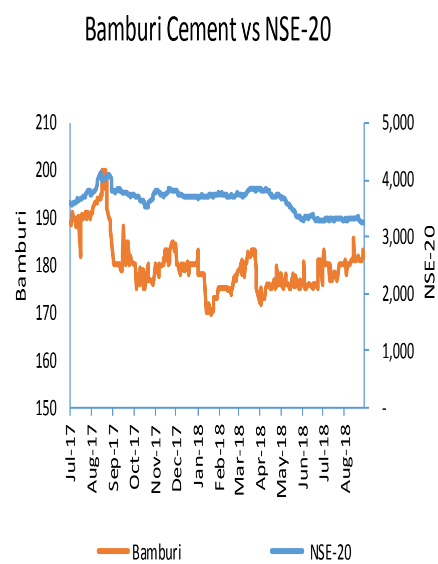
Oil prices are projected to remain fairly unchanged at current levels though the world bank forecasts coal prices to come-off marginally going forward. With power costs likely to remain unchanged, the firm's operating margins may come under pressure in the short-term.

With the general market coming under intense foreign pressure, Bamburi's drop in earnings may see its price ease from current levels. However, the initial market reactions (-0.6% d/d) point to a market belief in the firm's long-term strategy with the region projected to grow cement consumption in the long-run.

Bloomberg Ticker	BMBC KN
Reuters Ticker	BAMB.NR

Share Statistics	
Price	181.00
Fair Value	194.00
Recommendation	**BUY**
Market Cap (KES B)	66.4
Market Cap (USD M)	659
Year end	Dec
Float (%)	38.8
Foreign ownership (%)	63.7
3-month Avg Trading Vol (USD)	48,375

Price Trend



Source: (NSE)

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1H18 Financials

Condensed statement of comprehensive income	1H17	2H17	FY17	1H18	h/h	y/y
	KES M	KES M	KES B	KES M	%	%
Turnover	**18,589**	**17,385**	**35,974**	**18,556**	**6.7**	**-0.2**
Total operating costs	(14,879)	(16,866)	(31,745)	(17,392)	3.1	16.9
Operating profit	**2,656**	**1,573**	**4,229**	**1,164**	**-26.0**	**-56.2**
Investment income	97	53	150	65	22.6	-33.0
Other gains and losses	(62)	62		(458)		
Finance costs	(28)	(235)	(263)	(49)	-79.1	75.0
PBT	**2,663**	**1,453**	**4,116**	**722**	**-50.3**	**-72.9**
Taxation	(824)	(1,319)	(2,143)	(323)	-75.5	-60.8
PAT	**1,848**	**125**	**1,973**	**399.0**	**219.2**	**-78.4**
EPS (KES)	**4.39**	**0.15**	**4.54**	**1.47**	**-**	**-66.5**
DPS (KES)	**2.50**	**1.50**	**4.00**	**1.00**	**-33.3**	**-60.0**

Condensed statement of financial position	1H17	2H17	FY17	1H18	h/h	y/y
PPE and intangibles	**21,797**	**32,502**	**32,502**	**32,667**	**0.5**	**49.9**
Other equity investments	359	506	506	357	-29.4	-0.6
Goodwill	217	217	217	217	0.0	0.0
Total non-current assets	22,373	33,225	33,225	33,241	0.0	48.6
Current assets	12,143	10,488	10,488	10,913	4.1	-10.1
Current liabilities	(6,201)	(6,677)	(6,677)	(7,794)	16.7	25.7
	5,942	**3,811**	**3,811**	**3,119**	**-18.2**	**-47.5**
Dividend payable	(2,183)	(6)	(6)	(551)	-	-74.8
Cash and bank balances	7,405	3,490	3,490	3,611	3.5	-51.2
Short-term borrowings		**(1,450)**	**(1,450)**	**(750)**	**-48.3**	**-**
	33,537	**39,070**	**39,070**	**38,670**	**-1.0**	**15.3**
Share capital	1,815	1,815	1,815	1,815	0.0	0.0
Reserves	24,342	27,557	27,557	26,497	-3.8	8.9
Equity attributable to owners of the company	26,157	29,372	29,372	28,312	-3.6	8.2
Non controlling interests	3,666	3,828	3,828	3,695	-3.5	0.8
Long-term borrowings		**-**	**-**	**1,473**	**-**	**-**
Non current liabilities	3,714	5,870	5,870	5,190	-11.6	39.7
Total Equity and non-current liabilities	**33,537**	**39,070**	**39,070**	**38,670**	**-1.0**	**15.3**

Condensed statement of cash flows	1H17	2H17	FY17	1H18	h/h	y/y
Net cash generated from operating activities	**1,227**	**3,724**	**4,951**	**1,667**	**-55.2**	**35.9**
Net cash used in investing activities	(841)	(6,000)	(6,841)	(1,820)	-69.7	116.4
Net cash used in financing activities	-	(3,085)	(3,085)	1,396	-145.3	-
Net decrease in cash and cash equivalents	**386**	**(5,361)**	**(4,975)**	**1,243**	**-123.2**	**222.0**
At beginning of the year	6,972	7,405	6,972	2,040	-72.5	-70.7
Translation (loss)/gain	47	(4)	43	(423)	-	-
At the end of the period	**7,405**	**2,040**	**2,040**	**2,860**	**40.2**	**-61.4**

Ratios and margins	1H17	2H17	FY17	1H18	h/h	y/y
Operating margin (%)	14.3	9.0	11.8	6.3	-2.8	-8.0
Earnings margin (%)	9.9	0.7	5.5	2.2	1.4	-7.8
ROE (%)	16.1	0.8	6.3	2.4	1.7	-13.7
Debt to Equity (%)	-	4.9	4.9	7.9	2.9	7.9
Current ratio (x)	2.0	1.6	1.6	1.4	-0.2	-0.6
P/E (x)				**113.0**		
P/B (x)				**2.3**		
Dividend yield (%)				**2.2**		

Source: Company Filings, ApexAfrica Research

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