

EABL – FY18 Earnings Update

‘Sweet and Sour’

EABL announced a 4.6% y/y growth in net revenues to KES 73.5B which was largely offset by the steep rise in operational costs (KES 20.7B, 15.9% y/y) to post a 14.8% y/y decline in net earnings to KES 7.3B. The rather dismal performance was attributed to a difficult 1H18 coupled with a one-off tax provision of KES 2.0B. The board announced a final dividend of KES 5.50 per share; combined with an interim dividend of KES 2.00 brings the total dividend to KES 7.50 (unch).

Top line grows 5.0% y/y on the back of a strong product mix

EABL’s gross revenues edged up 5.0% y/y on the back of increased sales volumes in bottled beer and mainstream spirits across the region. The Tanzanian market stole the show by contributing 41.0% y/y to growth in net sales compared to Kenya and Uganda’s 1.0% y/y and 4.0% y/y respectively. The robust growth recorded in Tanzania was attributed to new innovations, growing popularity of the Serengeti Lite and premium Serengeti Lager brands combined with an intensive marketing campaign following the 20th birthday celebrations of the brand’s presence in Tanzania. Growth in Kenya was mainly subdued by the political instability witnessed in 1H18.

Cost of sales edges up while operating costs balloon; denting the bottom-line

Cost of goods improved by 2.0% y/y in FY18 driven by increased operational efficiency. Selling and distribution costs grew 19.0% y/y as the beer maker strived to rejuvenate bottled beer consumption in 2H18 while driving innovation through foreign brands such as the Captain Morgan Gold. The need to ramp up bottled beer sales was necessitated by contracted volumes in Senator KEG given lower disposable income of the brand’s consumers as a result of low public and private investment during the electioneering period. This resulted in an 11.8% y/y decline in PBT to KES 11.7B. The bottom-line poor standings were further exacerbated by a 3.0% y/y rise in administrative expenses propelled by inflationary pressure coupled with negative foreign exchange positions occasioned by the weakening of the UGX in 2H18.

Net borrowings burgeon on intensified capital expenditures

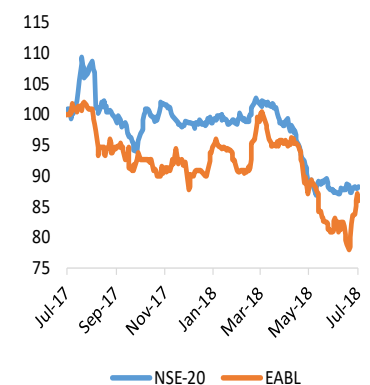
EABL’s net borrowings grew 13.0% y/y to KES 27.5B on the back of higher capex) bringing net debt to EBITDA to 1.34x which deviates from the company’s target of 1.25x. The company invested 7.8B in the Kisumu Brewery (which is anticipated to begin commercial operations before the end of 1H19), 0.6B in new spirit lines, 0.3B in KEG trackers, 1.4B in returnables to bring the total capex in FY18 to KES 13.0B (+140.7% y/y).

Bloomberg Ticker :	EABL KN
Reuters Ticker:	EABL.NR

Share Statistics	
Current Price (KES)	227.00
Issued shares (M)	790.8
Market cap (USD B)	1.9
Year end	June
Foreign ownership (%)	31.9
Free float (%)	54.6
Av daily trading vol (USDk)	635.0

Price Trend

EABL vs NSE-20



Source: Bloomberg

Research Analyst

Gift Kori

Kgift@apexafrica.com

+254 (20) 760 2533

www.apexafrica.com

price to remain depressed despite trading cum-dividend.

Dividend remains unchanged despite lower EPS

EABL's EPS took a 26.0% y/y hammering in FY18 as the non-controlling interest took a bigger piece of the pie given the impressive performance of the Tanzanian subsidiary. Nonetheless, the board upheld the total dividend payout of KES 7.50 (unch) citing the company's strong cash performance and a general positive trajectory of the business.

Key priorities in FY19

- ◆ The company is keen on commencing commercial operations at the KES 7.8B Kisumu Brewery in a bid to ramp up its production capacity. In addition to raising its revenues, the proximity of the firm to the farmers as well as the market may ease operational costs.
- ◆ EABL's management seeks to drive margin enhancement on its already existing brands while maintaining a steady growth in sales volumes.
- ◆ The beer manufacturer is anticipated to mount active campaigns that will ensure effective recruitment of bottled-beer consumers as it gears towards double-digit growth in net sales.
- ◆ Rebound in economic activity as well as investment by both the public and private sector is expected to raise the disposable income of the lower income earners, the target market of the Senator KEG brand; consequently boosting the overall volumes.
- ◆ 50% of East Africa's population is below the age of 18 years, with about 1M people hitting the minimum drinking age-limit every year in Kenya. As such, EABL is looking to leverage on this niche through product innovation.

The counter has seen its share price fall 4.6% YTD to trade at KES 227.0 at the local bourse on the back of a poor 1H18 performance. The full year results are unlikely to drive demand on the counter in the short-term which is deemed pricey given the above market average P/E of 30.2x and a low dividend yield of 3.3%. As such, we expect the counter's

Financials

	FY17	1H18	2H18	FY18	Chng h/h	Chng y/y
	KES M	KES M	KES M	KES M	%	%
Income Statement						
Revenue	70,247	31,156	42,301	73,457	35.8	4.6
Cost of Sales	(39,117)	(18,556)	(22,496)	(41,052)	21.2	4.9
Gross Profit	31,130	16,600	15,804	32,404	-4.8	4.1
Total Costs	(17,823)	(8,567)	(12,096)	(20,663)	41.2	15.9
Profit before tax	13,307	8,033	3,709	11,742	-53.8	-11.8
Income Expenses	(4,793)	(2,448)	(2,038)	(4,486)	-16.7	-6.4
Profit after tax for the year	8,515	5,585	1,671	7,256	-70.1	-14.8
EPS (KES)	9.71	6.28	0.91	7.19	-85.5	-26.0
DPS (KES)	7.50	2.00	5.50	7.50	175.0	-
Statement of Financial Position						
	FY17	1H17	1H18	FY18	Chng h/h	Chng y/y
Total equity	11,988	11,988	12,682	11,652	5.8	-2.80
Non-current liabilities	32,694	32,695	34,999	33,811	7.0	3.42
Total equity and non-current liabilities	44,683	44,683	47,681	45,463	6.7	1.75
Non-current assets	44,532	44,532	47,119	49,721	5.8	11.65
Current assets	22,135	22,135	32,828	21,526	48.3	-2.75
Current liabilities	(21,984)	(21,984)	(32,266)	(25,784)	46.8	17.29
Net assets	44,683	44,683	47,681	45,463	6.7	1.75
Statement of Financial Cashflows						
	FY17	1H17	1H18	FY18	Chng h/h	Chng y/y
Cash generated from operations	21,524	10,588	13,005	21,717	22.8	0.90
Net interest paid	(3,174)	(1,516)	(1,954)	(3,347)	28.9	5.45
Tax paid	(4,435)	(3,025)	(3,864)	(4,811)	27.7	8.48
Net cash from operating activities	13,914	6,047	7,187	13,559	18.9	-2.55
Net cash used in investing activities	(4,668)	(1,738)	(5,002)	(10,492)	187.8	124.76
Net cash generated from/(used) in financing activities	(992)	(4,449)	(1,312)	(3,493)	-70.5	252.12
Net increase / (decrease) in cash & cash equivalents	8,255	(140)	873	(426)	-723.6	-105.16
At start of year	(3,954)	(3,954)	(3,318)	3,318	-16.1	-183.92
Foreign exchange impact of translation	(983)	727	394	295	-45.8	-130.01
Net increase / (decrease) in cash & cash equivalents	(8,255)	(140)	873	(426)	-723.6	-94.84
Cash and cash equivalents at end of the year	3,318	(3,367)	4,585	3,187	-236.17	-3.95
Ratios(%)						
	FY17	1H17	1H18	FY18	Chng h/h	Chng y/y
Operating profit margin (%)	42.7	48.4	23.5	36.2	-24.9	-6.5
Net margin (%)	27.4	33.6	10.6	22.4	-23.1	-5.0
Payout ratio (%)	77.2	31.8	604.4	104.3	572.5	27.1
Return on assets (%)	26.5	17.4	4.6	10.5	-12.8	-16.0
Return on Equity (%)	74.5	46.6	13.5	61.4	-33.0	-13.1
Current ratio	1.0	1.0	1.0	0.8		
P/E (x)				31.6		
P/B (x)				3.9		
Dividend yield (%)				3.3		

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