

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

22ND FEBRUARY 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

BRITISH AMERICAN TOBACCO KENYA LIMITED:

FY20 EARNINGS UPDATE

Dear All,

BAT Kenya released its FY20 results reporting a **42.0% y-o-y increase in PAT to KES 5.5 BN largely** on account of reduced operating costs and tax expenses in light of the company's pro-active cost saving initiatives and favorable tax policies i.e. the reduction in VAT from 16.0% to 14.0% and the downward revision of corporate tax rate from 30.0% to 25.0% effected in April 2020. EPS for the period stands at KES 55.18 per share.

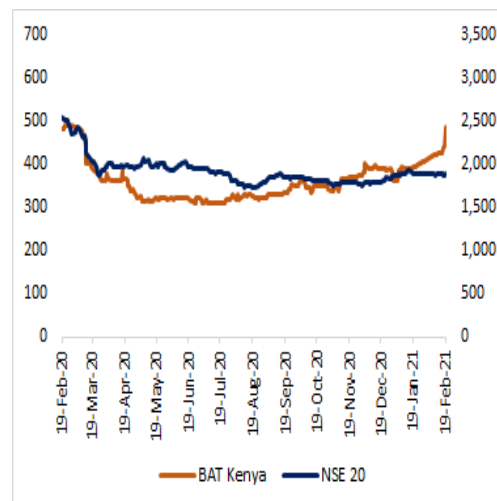
Below please find key highlights:

The board of directors proposed a final dividend of **KES 41.50 per share** to be paid on 12th May 2021 to shareholders on the register at the close of 16th April 2021; bringing the total dividend per share for the year to KES 45.00. At current prices, this translates to a **dividend yield of 9.1% against a nil NSE sector median.**

Net revenue rose 5.4% y-o-y to KES 25.3 BN. This was despite a 2.5% y-o-y drop in gross revenue to KES 38.8 BN that was driven by a 24.0% y-o-y decline in domestic sales reflecting the extent of the impact of the COVID-19 pandemic on consumer affordability. The drop in local sales was however sufficiently buffered by continued improvement in export sales as the company continued to benefit from its entry into the Egyptian market and improved cut rag sales to Nigeria and South Sudan.

Cost of operations decreased by 3.1% y-o-y to KES 17.8 BN attributable to lower volumes of production, high productivity savings and the impact of the cost management measures set in place during the year. As a result, operating profit margin rose 613 bps y-o-y to 30.0%.

BAT KENYA: 52 WEEK PRICE PERFORMANCE



(Source: Company, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	31.0	25.3
6 months (%)	51.6	42.1
12 months (%)	1.0	26.6

KEY METRICS

Current Price (KES)	492.25
52 week Range (KES)	309.50-545.00
YTD Return (%)	(3.1)
Issued Shares (Mn)	100.0
Market Cap KES BN)	48.5

Recommendation	BUY
Target Price (KES)	521.58
EPS (KES)	55.18
NAV (KES)	118.56
P/E (x)	8.8
P/B (x)	4.1
Div Yld (%)	9.1

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Income tax expense rose 15.2% y-o-y to KES 1.9 BN despite a significant (34.0% y-o-y) increase in profits before tax to KES 7.4 BN. We attribute the disproportional change to the reduction in corporate tax rate from 30.0% to 25.0% in Kenya.

Cash generated from operating activities edged down 38.2% y-o-y to KES 4.7 BN on the back of a 28.6% y-o-y drop in cash generated from operations. Net cash used in investing activities dropped by 18.2% y-o-y to KES 1.3 BN while net cash used in financing activities dropped 25.0% y-o-y to KES 3.4 BN.

On a trailing basis, BATK is trading at a P/E multiple of 8.8x against a sector median of 9.0x and a P/B multiple of 4.1x against a sector median of 0.9x. Its ROE stands at 46.5%, against a sector median of 6.8% whereas ROA stands at 25.4%, against a sector median of 3.2%. We maintain our **BUY** recommendation.

Going forward: We are of the view that BATK is well positioned to continue reporting stellar performance as we expect that its effective cost management efforts and capabilities developed to adapt to the COVID-19 crisis will bode well for the company going forward. We remain cautiously optimistic of a quick economic recovery barring follow on waves of Covid-19 which we think is key to a material improvement in disposable incomes. We further maintain our view that the company as well stands to book significant gains upon the agreement on the application of the solatium levy. That said, we remain wary of regulatory risks especially with the lapse of tax incentives introduced to cushion against the impact of the COVID-19 crisis and with the government grappling to meet revenue targets given that this sector has on numerous occasions been victim to tax hikes.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: DECEMBER (KES MN)	FY20	FY19	y-y % ch	1H20	2H20	2H19	y-y % ch	h-h % ch
Gross revenue	38,845	39,827	(2.5)	16,615	22,230	20,599	(2.5)	33.8
Excise duty & VAT	(13,506)	(15,788)	(14.5)	(6,078)	(7,428)	(7,849)	(14.5)	22.2
Net revenue	25,339	24,039	5.4	10,537	14,802	12,750	5.4	40.5
Cost of operations	(17,750)	(18,313)	(3.1)	(6,790)	(10,960)	(10,762)	(3.1)	61.4
Operating profit	7,589	5,726	32.5	3,747	3,842	1,988	32.5	2.5
Finance costs	(173)	(193)	(10.4)	(81)	(92)	(67)	(10.4)	13.6
Profit before tax	7,416	5,533	34.0	3,666	3,750	1,921	34.0	2.3
Income tax expense	(1,898)	(1,648)	15.2	(987)	(911)	(564)	15.2	(7.7)
Profit after tax	5,518	3,885	42.0	2,679	2,839	1,357	42.0	6.0
Fair value and revaluation gains	(27)	20	(235.0)	(71)	44	14	(235.0)	(162.0)
Comprehensive income	5,491	3,905	40.6	2,608	2,883	1,371	40.6	10.5
EPS	55.18	39	42.0	27	28	13.71	42.0	6.0
DPS	45.00	34	34.3	4	42	39.50	34.3	-

(Source: Company, DBIB Research)

CASHFLOW SUMMARY (KES MN)

Year End: DECEMBER (KES MN)	FY20	FY19	2H20	y-y % ch
Cash generated from operations	7,418	10,384	6,953	(28.6)
Net interest paid	(175)	(207)	(81)	(15.5)
Tax paid	(2,497)	(2,493)	(630)	0.2
Net cash from/(used in) operating activities	4,746	7,684	6,242	(38.2)
Net cash from/(used in) investment activities	(1,279)	(1,564)	(830)	(18.2)
Net cash from/(used in) financing activities	(3,374)	(4,499)	(3,372)	(25.0)
Change in cash & equivalents	93	1,621	2,040	(94.3)
Cash at the start	1,811	190	-	853.2
Cash at the end	1,904	1,811	2,040	5.1

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: DECEMBER (KES MN)	FY20	1H20	FY19	y-y % ch
Share capital	1,000	1,000	1,000	-
Revaluation Reserve	1,727	1,756	1,756	(1.7)
Retained Earnings	9,129	6,567	6,959	31.2
Shareholders' Funds	11,856	9,323	9,715	22.0
Non Current Liabilities	1,576	1,861	1,871	(15.8)
Net Assets	13,432	11,184	11,586	15.9
Non-current assets	10,914	10,867	10,685	2.1
Current Assets	10,792	10,353	11,251	(4.1)
Current Liabilities	(8,274)	(10,036)	(10,350)	(20.1)
Working Capital	2,518	317	901	179.5
Net Assets	13,432	11,184	11,586	15.9

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY20	FY19	1H20	y-y bps ch	h-h bps ch
Gross Profit margin (%)	19.5	14.4	22.6	516	(302)
Excise duty & VAT (%)	34.8	39.6	36.6	(487)	(181)
Pretax margin (%)	19.1	13.9	22.1	520	(297)
PAT margin (%)	14.2	9.8	16.1	445	(192)
Fixed Assets Turnover (x)	3.6	3.7	3.1	(17)	50
Current Assets Turnover (x)	3.6	3.5	3.2	6	39
Current Liabilities Turnover (x)	4.7	3.8	3.3	85	138
Working capital turnover (x)	15.4	44.2	104.8	(2,878)	(8,940)
Current ratio (x)	1.3	1.1	(1.0)	22	234

(Source: DBIB Research)

FINANCIAL STABILITY & LIQUIDITY

	FY20	FY19	1H20	y-y bps ch	h-h bps ch
Net debt (KES MN)*	(328.0)	60.0	1,997.0	(646.7)	(116.4)
Enterprise value/share (KES)*	476.72	480.6	410.0	(0.8)	16.3
Net debt/equity (%)	13.3	19.3	21.4	(597)	(813)
Net debt/EV (%)	(0.7)	0.1	4.9	(81)	(556)
EV/EBIT (x)	6.3	8.4	10.9	(211)	(466)
Current ratio (x)	1.3	1.1	1.0	22	27
Interest cover (x)	43.9	29.7	46.3	1,420	(239)
FCF/share (KES)	4.0	3.8	45.9	19	(4,197)
CFO/share (KES)	74.2	103.8	4.7	(2,966)	6,953
NTA/share (KES)	118.6	97.2	93.2	2,141	-
Book value/share (KES)	118.6	97.2	93.2	2,141	-
Payout ratio (%)	81.6	86.2	13.1	(468)	-

(Source: DBIB Research)

*% ch

INVESTMENT RETURN

	FY20	FY19	1H20	y-y bps ch	h-h bps ch
Return on Assets (RoA)	25.4	17.7	24.3	771	112
Return on Equity (RoE)	46.5	40.0	57.5	655	(1,093)
Return on Invested Capital (RoIC)	41.1	33.5	47.9	755	(683)

(Source: DBIB Research)

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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