



KENGEN FY20 EARNINGS UPDATE

Dear all,

KenGen Plc released its FY20 results recording a 133.1% y-o-y increase in PAT to KES 18.4 BN largely on the back of growth in electricity revenue and the recognition of a tax credit during the year following the commissioning and operationalization of Olkaria V (165 MW) in November 2019. EPS for the period stood at KES 2.79, 132.5% higher y-o-y. The board announced a **first and final dividend per share of KES 0.30** (+20.0% y-o-y). Subject to approval, the dividend is to be paid on 22nd July 2021 to shareholders on register at the close of 29th April 2021.

Key Highlights:

- **Net revenue (Revenue less reimbursable expenses) rose by 11.3% y-o-y to KES 39.8 BN** primarily owing to a 13.4% y-o-y increase in electricity revenue to KES 33.8 BN following the operationalization of Olkaria V that boosted geothermal production by 14.0% y-o-y. This was despite subdued energy demand in the second half of the year owing to COVID-19 related disruptions. KenGen however notes that with the gradual reopening of the economy, demand has continued to grow recording a peak demand of 1,976 MW as at December 10 2020, surpassing the pre-COVID peak demand of 1,926 MW and is expected to continue to grow driven by investments in transmission networks.
- **Reimbursable expenses, comprising largely of fuel charges, decreased by 58.9% y-o-y to KES 4.3 BN** owing to reduced dispatch from thermal plants given increased capacity in geothermal power.
- **Total gross income edged up 18.0% y-o-y to KES 46.7 BN** on account of a 100.8% y-o-y growth in other net gains to KES 6.4 BN. This was attributable to the gain on fair value of financial assets following the weakening of the Kenyan Shilling against other major currencies. Other income declined by 23.7% y-o-y to KES 473.0 MN. As a result, gross profit margins grew 1,973 bps y-o-y to 105.8%

KENGEN: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

Price	Absolute	Excess
Return	Return	Return
3 months (%)	0.8	(4.2)
6 months (%)	(13.8)	(18.5)
12 months (%)	(8.2)	19.2

KEY METRICS

Recommendation	BUY
Current Price (KES)	5.12
52 week Range (KES)	4.14-6.12
YTD Return (%)	9.6
Issued Shares (Mn)	6,594.5
Market Cap (KES BN)	33.8

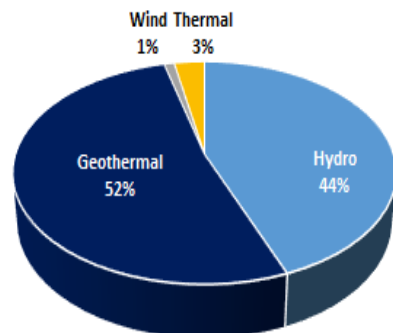
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ELECTRICITY REVENUE BY SOURCE



(Source: NSE, DBIB Research)

- **Total expenses grew 7.4% y-o-y to KES 26.1 BN** primarily owing to a 16.1% y-o-y upswing in depreciation and amortization costs to KES 12.0 BN arising from depreciation expenses on Olkaria V. Operating expenses rose by 3.0% y-o-y to KES 10.9 BN while steam costs shed 5.8% y-o-y to KES 3.2 BN. As such, operating profits increased by 34.8% y-o-y to KES 10.9 BN placing operating profit margin at 46.7%, 1,346 bps higher y-o-y.
- **Finance costs rose 63.1% y-o-y to KES 8.2 BN** largely owing to a 137.9% increase in foreign exchange losses to KES 6.0 BN on the company's foreign denominated borrowings and lease payments following the adoption of IFRS 16. Profit before tax grew 18.3% y-o-y to 13.8 BN.
- **The company recorded a tax credit of KES 4.6 BN in contrast to an expense of KES 3.8 BN reported in FY19.** This was the result of capital allowances received following the commissioning of Olkaria V (165 MW).
- **Despite the growth in profits,** the company recorded a KES 4.0 BN decrease in cash and cash equivalents in contrast to an increase of KES 5.9 BN reported in FY19 largely due to a 41.6% y-o-y decrease in cash from operating activities to KES 17.9 BN. This placed cash balance at the end of the period at KES 5.4 BN, 42.4% lower y-o-y.
- **On a trailing basis,** KenGen is trading at a P/E multiple of 1.8x against a sector median of 4.1x and a P/B multiple of 0.2x at par with the sector median. Its ROA and ROE stand at 4.5% and 8.7% against sector medians of 4.5% and 10.4% respectively. Dividend yield currently stands at 5.8% against a sector median of 5.4%.
- **Going forward:** While we continue to see value in the stock given the company's strong financial performance, we remain concerned about its ability to convert its sales to cash, with trade receivables having grown 24.1% y-o-y to KES 23.4 BN. We remain cautious about the ability of Kenya Power, the sole energy off taker, to withstand the financial strain occasioned by its obligation to pay for additional capacity given the commissioning of Olkaria V and the upcoming Olkaria I unit 6. While we do not foresee a case of default, we are of the view that the delay in payments may not only lag project completion timelines but also continue to hinder KenGen from paying out more lucrative dividends. Nonetheless, we maintain our **BUY** recommendation.

INCOME STATEMENT

Year End: DECEMBER (KES MN)	FY20	FY19	y-y % ch	2H20	1H20	2H19	y-y% ch	h-h% ch
Gross revenue	44,110	45,966	(4.0)	21,749	22,361	23,781	(8.5)	(2.7)
Reimbursable Expenses	(4,288)	(10,192)	(57.9)	(841)	(3,447)	(6,047)	(86.1)	(75.6)
Rev net reimbursable expenses	39,822	35,774	11.3	20,908	18,914	17,734	17.9	10.5
Other income	473	619	(23.7)	(6)	479	408	(101.6)	(101.4)
Other net gains	6,383	3,179	100.8	6,137	246	3,021	103.1	2,394.7
Total Gross Income	46,678	39,572	18.0	27,039	19,639	21,163	27.8	37.7
Steam costs	(3,161)	(3,357)	(5.8)	(1,500)	(1,661)	(1,690)	(11.2)	(9.7)
Operating expenses	(10,884)	(10,571)	3.0	(5,315)	(5,569)	(5,591)	(4.9)	(4.6)
EBITDA	32,633	25,644	27.3	20,224	12,409	0	N/A	63.0
Depreciation & Amortization	(12,030)	(10,360)	16.1	(6,322)	(5,708)	(5,227)	20.9	10.8
Operating Profit	20,603	15,284	34.8	13,902	6,701	8,655	60.6	107.5
Finance income	1,431	1,423	0.6	708	723	690	2.6	(2.1)
Finance costs	(8,244)	(5,054)	63.1	(7,099)	(1,145)	(3,714)	91.1	520.0
Profit before tax	13,790	11,653	18.3	7,511	6,279	5,631	33.4	19.6
Income tax expense	4,587	(3,769)	(221.7)	2,695	1,892	(1,871)	(244.0)	42.4
Profit after tax	18,377	7,884	133.1	10,206	8,171	3,760	171.4	24.9
Fair value and revaluation gains	(375)	(62)	504.8	(372)	(3)	(74)	402.7	12,300.0
Comprehensive income	18,002	7,822	130.1	9,834	8,168	3,686	166.8	20.4
EPS	2.79	1	133.4	2	1	1	173.0	25.3
DPS	0.30	0	20.0	0	-	0	N/A	N/A
EPS	1.24	0.63	97.5	1.20	1.20	(0.1)	173.0	25.3

Source: Company, DBIB Research

BALANCE SHEET (KES MN)

Year End: DECEMBER (KES MN)	FY20	1H20	FY19	y-y % ch	h-h% ch
Share capital	16,488	16,488	16,488	-	-
Share premium	22,151	22,151	22,151	-	-
Reserves and retained earnings	172,680	164,492	156,326	10.5	5.0
Shareholders' Funds	211,319	203,131	194,965	8.4	4.0
Non Current Liabilities	184,552	177,836	180,860	2.0	3.8
Current Liabilities	17,056	19,626	25,597	(33.4)	(13.1)
Total Liabilities	201,608	197,462	206,457	(2.3)	2.1
Total Assets	412,927	400,593	401,422	2.9	3.1
PPE	352,430	349,722	346,737	1.6	0.8
Other NCA	26,459	19,475	21,056	25.7	35.9
Current Assets	34,038	31,396	33,629	1.2	8.4
Working Capital	16,982	11,770	8,032	111.4	44.3
Net Assets	211,319	203,131	194,965	8.4	4.0

Source: Company, DBIB Research

CASH FLOW STATEMENT

Year End: DECEMBER (KES MN)	FY20	1H20	FY19	y-y % ch	h-h % ch
Cash generated from operations	17,857	8,827	30,585	(41.6)	102.3
Cash generated from investing activities	(17,528)	(8,564)	(28,808)	(39.2)	104.7
Cash from financing activities	(4,373)	(4,275)	4,094	(206.8)	2.3
Change in ex rates	94	(83)	(70)	(234.3)	(213.3)
Change in cash & equivalents	(3,950)	(4,095)	5,801	(168.1)	(3.5)
Cash at the start	9,324	9,324	3,383	175.6	-
Cash at the end	5,374	5,229	9,184	(41.5)	2.8

Source: Company, DBIB Research

OPERATING PERFORMANCE

	FY20	1H20	FY19	y-y bps ch	h-h bps
Gross Profit margin (%)	105.8	87.8	86.1	1,973	1,799
Operating Profit margin (%)	46.7	30.0	33.3	1,346	1,674
Pretax margin (%)	31.3	28.1	25.4	591	318
PAT margin (%)	41.7	17.2	17.2	2,451	2,451
	FY20	1H20	FY19	y-y bps ch	h-h bps
Fixed Assets Turnover (x)*	0.2	0.1	0.1	11	11
Current Assets Turnover (x)*	2.6	1.4	1.4	122	117
Current Liabilities Turnover (x)*	5.2	2.3	1.8	338	289
Working capital turnover (x)*	5.2	3.8	5.7	(53)	140
Current ratio (x)	1.0	0.6	1.3	(32)	40

*Annualized ratios

Source: Company, DBIB Research

FINANCIAL PERFORMANCE

	FY20	1H20	FY19	y-y bps ch	h-h bps
Net debt (KES MN)**	179,178	172,607	171,676	4.4	3.8
Enterprise value/share (KES)**	32.67	31.6	31.5	3.8	3.3
Net debt/equity (%)	84.8	85.0	88.1	(326)	(18)
Net debt/EV (%)	83.2	82.8	82.7	45	37
EV/EBIT (x)	7.0	15.7	13.6	(653)	(868)
Current ratio (x)	2.0	1.6	1.3	68	40
Interest cover (x)	2.5	5.9	3.0	(53)	(335)
CFO/share (KES)	2.7	1.3	4.6	(193)	137
Book value/share (KES)	32.0	30.8	29.6	248	124

**changes in %

Source: Company, DBIB Research

INVESTMENT RETURN

	FY20	1H20	FY19	y-y bps ch	h-h bps
Return on Assets (RoA)*	8.9	4.1	2.0	694	482
Return on Equity (RoE)*	17.4	8.0	4.0	1,335	935

*Annualized ratios

Source: Company, 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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