

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### BAT KENYA LIMITED

#### 1H21 EARNINGS UPDATE

Dear All,

BAT Kenya has released its 1H21 results reporting a marginal 0.7% y-o-y increase in PAT to KES 2.7 BN on the back of 21.8% y-o-y increase in gross revenue to KES 20.2 BN coupled with a 27.2% y-o-y increase in cost of operations to KES 8.6 BN. The increase in cost of operations was attributed to the base period effect of 1H20 during which the company undertook spend cuts in order to cushion itself from the effects of COVID-19 pandemic.

Below please find key highlights:

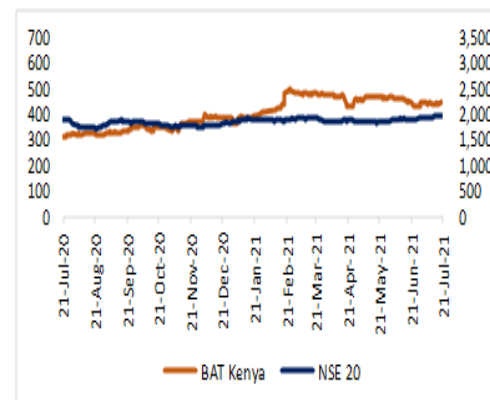
**EPS for the period stands at KES 26.98 compared to 1H20's KES 26.79 (+0.7% y-o-y).** The board of directors have proposed an interim dividend of KES 3.50 per share to be paid on 16th September 2021 to shareholders on the register at the close of 12th August 2021.

**Net revenue edged up 19.0% y-o-y to KES 12.5 BN.** This was on account of a 21.9% y-o-y increase in gross revenue to KES 20.2 BN, recovering from a 2.5% y-o-y drop in FY20. The company attributed the performance in gross revenue to recovery of domestic sales volumes (as retail outlets gradually reopened and COVID-19 related restrictions relaxed), excise-led price increases and increase in export sales.

**Excise duty and VAT edged up 26.7% y-o-y to KES 7.7 BN** following a 5.0% increase in excise duty in October 2020. The proportion of excise duty and VAT to gross revenue increased by 147 bps y-o-y to 38.0%. Excise remains to be adjusted annually for inflation in spite of attempts to have parliament review the adjustments every 2-3 years.

**Cost of operations increased by 27.2% y-o-y to KES 8.6 BN** attributed to the base period impact of COVID-19 driven spend cuts in 1H20. As a result, operating profit margin deteriorated 443 bps y-o-y to 31.1%.

#### BAT KENYA: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	2.4	(3.4)
6 months (%)	13.5	8.4
12 months (%)	43.5	39.4

#### KEY METRICS

Current Price (KES)	445.00
52 week Range (KES)	310.00-445.00
YTD Return (%)	23.3
Issued Shares (MN)	100.0
Market Cap (USD MN)	411.31

EPS (KES)*	55.37
NAV (KES)*	105.19
P/E (x)*	8.0
P/B (x)*	4.2
Div Yld (%)*	10.1

\*Trailing ratios

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**Income tax expense increased 17.2% y-o-y to KES 1.2 BN** in line with 5.2% y-o-y increase in profit before tax to KES 3.8 BN and the re-adjustment of the corporate tax rate back to 30.0% from 25.0%. The company also attributed the increased tax to higher VAT rates, re-adjusted on account of the easing of COVID-19 related tax measures.

**Total assets dropped 10.9% h-o-h (compared to FY20 numbers) to KES 19.3 BN** on the back of a 0.5% h-o-h decrease in non-current assets to KES 10.9 BN and a 21.5% h-o-h decrease in current assets to KES 8.5 BN. Total liabilities on the other hand dropped by 10.4% h-o-h to KES 8.8 BN as a result of a 12.8% h-o-h decrease in current liabilities to KES 7.2 BN and a 1.9% h-o-h decrease in non-current liabilities to 1.6 BN. Total shareholders' equity edged down 11.3% in the half year period to KES 10.5 BN.

**Illicit trade:** The incidence of illicit cigarettes was estimated at 23.0%, edging up from c.12.0% reported in 1H20 on the back of excise-based price increments which in turn generate pressure on consumer affordability. This came following the 5.0% excise increase in October 2020.

**Down trading remains a key concern for the company,** implying margin erosion. This may however be cushioned by BATK's well balanced portfolio of cigarettes that allows it to cover the major price points, allowing its consumers to down trade within the same brand therefore mitigating the risk of market share erosion. The annual inflation-based excise adjustment also remains to impact consumption growth negatively while fueling down trading.

**On a trailing basis, BATK is trading at a P/E multiple of 8.0x against a sector median of 5.6x** and a P/B multiple of 3.8x against a sector median of 0.8x. Its ROE stands at 52.6%, against a sector median of 8.3% whereas ROA stands at 28.6%, against a sector median of 1.9%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: DECEMBER (KES MN)	1H21	1H20	y-y % chg	2H20	h-h% chg	FY20
Gross Revenue	20,245	16,615	21.8	22,230	(8.9)	38,845
Excise duty and VAT	(7,703)	(6,078)	26.7	(7,428)	3.7	(13,506)
Net revenue	12,542	10,537	19.0	14,802	(15.3)	25,339
Cost of operations	(8,638)	(6,790)	27.2	(10,960)	(21.2)	(17,750)
Operating profit	3,904	3,747	4.2	3,842	1.6	7,589
Finance costs	(49)	(81)	(39.5)	(92)	(46.7)	(173)
Profit before tax	3,855	3,666	5.2	3,750	2.8	7,416
Income tax expense	(1,157)	(987)	17.2	(911)	27.0	(1,898)
Profit after tax	2,698	2,679	0.7	2,839	(5.0)	5,518
Fair value and revaluation gains	-	(71)	-	44	(100.0)	(27)
Comprehensive income	2,698	2,608	3.5	2,883	(6.4)	5,491
EPS	26.98	26.79	0.7	28.39	(5.0)	55.18
DPS	3.50	3.50	-	41.50	(91.6)	45.00

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

KES MN	1H21	FY20	1H20	y-y % ch	h-h % ch
Share capital	1,000	1,000	1,000	-	-
Revaluation & Hedging Reserve	1,842	1,727	1,756	4.9	6.7
Retained Earnings	7,677	9,129	6,567	16.9	(15.9)
Shareholders' Funds	10,519	11,856	9,323	12.8	(11.3)
Non Current Liabilities	1,606	1,576	1,861	(13.7)	1.9
	12,125	13,432	11,184	8.4	(9.7)
Non-current assets	10,864	10,914	10,867	(0.0)	(0.5)
Current Assets	8,477	10,792	10,353	(18.1)	(21.5)
Current Liabilities	-7,216	-8,274	-10,036	(28.1)	(12.8)
Working Capital	1,261	2,518	317	297.8	(49.9)
	12,125	13,432	11,184	8.4	(9.7)

(Source: Company, DBIB Research)

## CASHFLOW SUMMARY (KES MN)

KES MN	1H21	FY20	1H20	y-y % ch	h-h % ch
Cash generated from operations	3,616	7,418	465	677.6	(51.3)
Net interest paid	(65)	(175)	(94)	(30.9)	(62.9)
Tax paid	(1,434)	(2,497)	(1,867)	(23.2)	(42.6)
Net cash from/(used in) operating activities	2,117	4,746	(1,496)	(241.5)	(55.4)
Net cash from/(used in) investment activities	(192)	(1,279)	(449)	(57.2)	(85.0)
Net cash from/(used in) financing activities	(4,151)	(3,374)	(2)	-	23.0
Change in cash & equivalents	(2,226)	93	(1,947)	14.3	-
Cash at the start	1,884	1,811	1,811	4.0	4.0
Cash at the end	(342)	1,904	(136)	151.5	(118.0)

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	1H21	FY20	1H20	y-y bps ch	h-h bps ch
Gross Profit margin (%)	19.3	19.5	22.6	(327)	(25)
Excise duty & VAT (%)	38.0	34.8	36.6	147	328
Operating margin	31.1	29.9	35.6	(443)	118
Pretax margin (%)	19.0	19.1	22.1	(302)	(5)
PAT margin (%)	13.3	14.2	16.1	(280)	(88)
Fixed Assets Turnover (x)	3.7	3.6	3.1	67	17
Current Assets Turnover (x)	4.8	3.6	3.2	157	118
Current Liabilities Turnover (x)	5.6	4.7	3.3	230	92
Working capital turnover (x)	32.1	15.4	104.8	(7,272)	1,668
Current ratio (x)	(1.2)	1.3	(1.0)	(14)	(248)

\*Annualized ratios

(Source: DBIB Research)

## FINANCIAL STABILITY & LIQUIDITY

	1H21	FY20	1H20	y-y bps ch	h-h bps ch
Net debt (KES MN)*	1,948.0	(328.0)	1,997.0	98	(594)
Enterprise value/share (KES)*	504.23	476.7	504.7	100	106
EV/EBIT (x)	12.9	6.3	13.5	96	206
Current ratio (x)	1.2	1.3	1.0	114	90
Interest cover (x)	79.7	43.9	46.3	172	182
CFO/share (KES)	36.16	74.2	4.7	778	49
NTA/share (KES)	105.19	118.6	93.2	113	89
Book value/share (KES)	105.19	118.6	93.2	113	89
	1H20	FY19	1H19	y-y bps ch	h-h bps ch
Net debt/equity (%)	18.5	13.3	21.4	(290)	523
Net debt/EV (%)	3.9	(0.7)	4.0	(9)	455
Payout ratio (%)	12.97	81.6	13.1	(9)	N/A

(Source: DBIB Research)

## INVESTMENT RETURN

	1H21	FY20	1H20	y-y bps ch	h-h bps ch
RoA*	23.5	25.4	24.3	(83)	(195)
RoE*	51.3	46.5	57.5	(617)	476
RoIC*	44.5	41.1	47.9	(340)	342

\*Annualized ratio

(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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