



## KENGEN 1H21 EARNINGS UPDATE

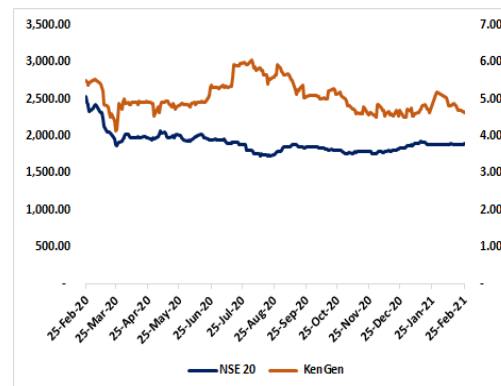
Dear all,

KenGen Plc released its 1H21 results recording a 38.1% y-o-y decrease in PAT to KES 5.1 BN despite a 9.5% y-o-y increase in PBT to KES 6.9 BN. This was on account of a KES 1.8 BN tax expense reported for the half year in contrast to a KES 1.9 BN tax credit recorded in 1H20 in which period, Olkaria V was commissioned. EPS for the period stood at KES 0.77, 37.8% lower y-o-y.

### Key Highlights:

- Gross revenue dropped 2.5% y-o-y to KES 21.8 BN** on account of reduced fuel revenue following the displacement of thermal generation. This was despite a 4.6% y-o-y increase in unit sales for the period to 4,274 GWhs that was occasioned by gradual growth in national demand that saw peak demand rise 5.0% y-o-y to 1,976 MW.
- Revenue from geothermal operations rose 14.4% y-o-y to KES 14.1 BN** on account of additional capacity from Olkaria V which was commissioned in 2020. Revenue from hydro rose 7.4% y-o-y to KES 4.8 BN on the back of favourable hydrology conditions that saw KenGen's main dams record full reservoir capacity. This increased hydro production resulted to the displacement of the more expensive thermal power seeing thermal revenue drop 49.4% y-o-y to KES 2.7 BN. Wind revenue rose 2.5% y-o-y to KES 202.0 MN.
- The displacement of thermal generation saw reimbursable expenses drop by 64.2% y-o-y to KES 1.2 BN** resulting in an 8.7% y-o-y increase in net revenue (Revenue less reimbursable expenses) to KES 20.6 BN.
- Other income dropped 62.4% y-o-y to KES 180.0 MN** ascribable to the impact of COVID-19 on KenGen's auxiliary businesses i.e. consultancy, the geothermal spa at Olkaria and its carbon credits.

KENGEN: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

Price	Absolute	Excess
Return	Return	Return
3 months (%)	0.0	(6.0)
6 months (%)	(18.2)	(24.8)
12 months (%)	(14.9)	7.4

### KEY METRICS

Recommendation	BUY
Trailing EPS (KES)	2.31
Trailing NAV (KES)	32.81
Trailing P/E (x)	2.0
Trailing P/B (x)	0.1
Trailing Div Yld (%)	6.5
Market Cap (KES BN)	30.5

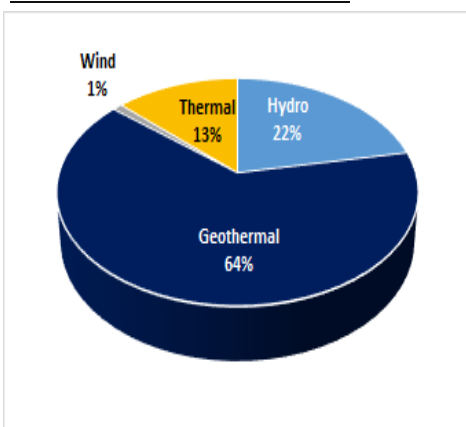
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#### ELECTRICITY REVENUE BY SOURCE



(Source: NSE, DBIB Research)

- **The company recorded KES 382.0 MN in other net losses** in contrast to KES 246.0 MN in other net gains in 1H20 owing to the weakening of the KES against major currencies.
- **Total expenses remained fairly constant at KES 13.1 BN (+1.2% y-o-y)** despite increased operations associated with the new Olkaria V plant pointing to the company's efforts to optimize operational efficiency by leveraging digital transformation across its business operations. Operating profits rose 8.6% y-o-y to KES 7.3 BN placing operating profit margin for the period at 33.4%, 341 bps higher y-o-y.
- **Finance income rose 14.7% y-o-y to KES 829.0 MN** largely on account of interest on delayed electricity receivables while finance costs rose by 7.6% y-o-y to KES 1.2 BN on the back of the impact of the depreciation of the KES on its predominantly foreign currency denominated loans.
- **Total assets rose by 6.6% y-o-y to KES 427.1 BN** while total liabilities declined by 6.7% y-o-y to KES 210.7 BN. Total equity rose by 6.5% y-o-y to KES 216.4 BN.
- **Cash generated from operations rose 56.5% y-o-y to KES 13.8 BN** while cash used in investing activities dropped 20.0% y-o-y to KES 6.9 BN. Cash used in financing activities dropped 65.3% y-o-y to KES 1.5 BN.
- **On a trailing basis**, KenGen is trading at a P/E multiple of 2.0x against a sector median of 2.1x and a P/B multiple of 0.1x against a sector median of 0.3x. Its ROA and ROE stand at 3.6% and 7.1% against sector medians of 3.7% and 8.7% respectively.
- **Going forward:** Given that management aims to deliver the Olkaria I unit 6 power plant which will add 83.3 MW to the national grid by September 2021, we expect that KenGen will report stellar results in FY22, like FY20 on the back of increased capacity and energy revenue as well as tax credits from commissioning outside the major cities. However, we reiterate our concern on the ability of these earnings to translate into cash flows and ultimately tangible returns to investors in the form of dividends as the off taker continues to grapple with profitability given the magnitude of its obligations, most notably its finance costs that rose 110.1% y-o-y to KES 8.1 BN as at 1H21, vis a vis its earnings. We remain concerned about Kenya Power's ability to cover additional capacity payments given that growth in demand continues to lag behind growth in capacity. Of consolation however is that the government has significant holding in both entities and would therefore likely step in where Kenya Power is unable to cover its commitments.

## INCOME STATEMENT

Year End: DECEMBER (KES MN)	1H21	1H20	y-y % ch	2H20	h-h% ch
Gross revenue	21,801	22,361	(2.5)	21,749	0.2
Reimbursable Expenses	(1,234)	(3,447)	(64.2)	(841)	46.7
Revenue net reimbursable expenses	20,567	18,914	8.7	20,908	(1.6)
Other income	180	479	(62.4)	(6)	(2,880.4)
Other net gains	(382)	246	(255.3)	6,137	(106.2)
Total Gross Income	20,365	19,639	3.7	27,039	(24.7)
Steam costs	(1,527)	(1,661)	(8.1)	(1,500)	1.8
Operating expenses	(5,825)	(5,569)	4.6	(5,315)	9.6
EBITDA	13,013	12,409	4.9	20,224	(35.7)
Depreciation and Amortization	(5,738)	(5,708)	0.5	(6,322)	(9.2)
Operating Profit	7,275	6,700	8.6	13,903	(47.7)
Finance income	829	723	14.7	708	17.1
Finance costs	(1,232)	(1,145)	7.6	(7,099)	(82.6)
Profit before tax	6,872	6,278	9.5	7,512	(8.5)
Income tax expense	(1,817)	1,892	(196.0)	2,695	(167.4)
Profit after tax	5,055	8,170	(38.1)	10,207	(50.5)
Fair value and revaluation gains	(4)	(3)	33.3	(372)	(98.9)
Comprehensive income	5,051	8,167	(38.2)	9,835	(48.6)
EPS	0.77	1	(37.8)	2	(50.4)

Source: Company, DBIB Research

## BALANCE SHEET (KES MN)

Year End: DECEMBER (KES MN)	1H21	1H20	FY20	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	177,731	164,492	172,680	8.0	2.9
Shareholders' Funds	216,370	203,131	211,319	6.5	2.4
Non Current Liabilities	182,614	177,836	184,552	2.7	(1.1)
Current Liabilities	28,124	19,626	17,056	43.3	64.9
Total Liabilities	210,738	197,462	201,608	6.7	4.5
PPE	353,686	349,722	352,430	1.1	0.4
Other NCA	31,875	19,475	26,459	63.7	20.5
Current Assets	41,547	31,396	34,038	32.3	22.1
Total Assets	427,108	400,593	412,927	6.6	3.4
Working Capital	13,423	11,770	16,982	14.0	(21.0)
Net Assets	216,370	203,131	211,319	6.5	2.4

Source: Company, DBIB Research

## CASH FLOW STATEMENT

Year End: DECEMBER (KES MN)	1H21	1H20	FY20	y-y % ch	h-h% ch
Cash generated from operations	13,818	8,827	17,857	56.5	(22.6)
Cash generated from investing activities	(6,852)	(8,564)	(17,528)	(20.0)	(60.9)
Cash from financing activities	(1,483)	(4,275)	(4,373)	(65.3)	(66.1)
Change in ex rates	(62)	(83)	94	(25.3)	(166.0)
Change in cash & equivalents	5,421	(4,095)	(3,950)	(232.4)	(237.2)
Cash at the start	5,374	9,324	9,324	(42.4)	(42.4)
Cash at the end	10,795	5,229	5,374	106.4	100.9

Source: Company, DBIB Research

## OPERATING PERFORMANCE

	1H21	1H20	FY20	y-y bps ch
Gross Profit margin (%)	93.4	87.8	105.8	559
Operating Profit margin (%)	33.4	30.0	46.7	341
Pretax margin (%)	31.5	28.1	31.3	345
PAT margin (%)	23.2	17.2	41.7	604
	1H21	1H20	FY20	y-y bps ch
Fixed Assets Turnover (x)	0.1	0.1	0.1	(0)
Current Assets Turnover (x)	1.0	1.4	1.3	(25)
Current Liabilities Turnover (x)	1.6	2.3	2.6	(104)
Working capital turnover (x)	3.2	3.8	2.6	65
Current ratio (x)	0.5	0.6	1.0	(52)

\*Annualized ratios

Source: Company, DBIB Research

## FINANCIAL PERFORMANCE

	1H21	1H20	FY20	y-y bps ch
Net debt (KES MN)**	171,819	172,607	179,178	(4.1)
Enterprise value/share (KES)**	31.55	31.6	32.7	(3.4)
Net debt/equity (%)	79.4	85.0	84.8	(538)
Net debt/EV (%)	82.6	82.8	83.2	(60)
EV/EBIT (x)	15.5	15.7	7.0	848
Current ratio (x)	1.5	1.6	2.0	(52)
Interest cover (x)	5.9	5.9	2.5	341
CFO/share (KES)	2.1	1.3	2.7	(61)
Book value/share (KES)	32.8	30.8	32.0	77

\*\*changes in %

Source: Company, DBIB Research

## INVESTMENT RETURN

	1H21	1H20	FY20	y-y bps ch
Return on Assets (RoA)*	2.4	4.1	4.5	(208)
Return on Equity (RoE)*	4.7	8.0	8.7	(402)

\*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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