



EAST AFRICAN BREWERIES

FY21 EARNINGS UPDATE

Dear All,

East African Breweries (EABL) released its FY21 results, reporting a marginal 0.8% y-o-y decline in profit after tax to KES 7.0 BN. According to the group, the financial performance was hampered by cost inflation, adverse foreign exchange impact and tax charges. Basic earnings per share (EPS) rose by 6.6% y-o-y to KES 5.51. The higher EPS was a result of the SBL acquisition which led to higher earnings to equity holders.

Owing to the persistence in uncertainty in the current operating environment (as a consequence of restrictions brought on by the pandemic), the group's directors did not recommend a final dividend. The directors did not recommend an interim dividend for 1H21 as well, stating the need to conserve cash to support the business recovery as the sole reason.

Key Highlights:

Net revenues edged up by 14.7% y-o-y to KES 86.0 BN and the group attributed this to smart investment behind brands, focus on channels and innovations. The recovery in net sales was mostly bolstered by the **Ugandan unit which recorded a 33.0% y-o-y growth in net sales** followed by **Tanzania at 15% y-o-y** and **Kenya at 10.0% y-o-y**.

Kenya's contribution to net sales stands at 66.0% (FY20:69.0%), Uganda's at 19.0% (FY20:16.0%) and Tanzania's at 15.0% (FY20:15.0%).

According to management, the impressive performance in Uganda was supported by capacity expansion, distribution innovation (using motorcycles to deliver products), the popularity of the Guinness and Tusker Lite brands, a rise in market share and lack of stringent bar licensing regulations.

Gross profit rose by 13.3% y-o-y to KES 37.4 BN in line with the growth witnessed in net revenues, despite a 15.9% y-o-y jump in cost of sales to KES 48.5 BN; on an absolute stand-point, the rise in net revenues (+ KES 11.0 BN) outweighed the increase in cost of sales (+KES 6.7 BN). The gross profit margin dipped marginally to 43.5% (FY20: 44.0%).

EABL: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

Price	Absolute	Excess
Return	Return	Return
3 month (%)	7.9	1.8
6 month (%)	23.2	17.6
12 month (%)	19.2	9.1

KEY METRICS

Current Price (KES)	184.50
52 week High (KES)	193.75
52 week Low (KES)	148.25
YTD Return (%)	19.6
Issued Shares (MN)	790.77
Market Cap (USD MN)	1,343.57

EPS (KES)	5.51
NAV (KES)	18.78
P/E (x)	21
P/B (x)	9.8
Dividend yield (%)	-

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The total cost of operations went up by 18.7% y-o-y to KES 26.6 BN mainly on the back of a 37.0% y-o-y increase in other cost & expenses to KES 9.9 BN. According to EABL's management, the rise in other cost & expenses was partly related to legacy tax issues. Selling and distribution costs inched up by 11.7% y-o-y to KES 7.4 BN while administrative expenses rose by 8.8% y-o-y to KES 9.3 BN.

Income tax expenses advanced by 7.2% y-o-y to KES 3.9 BN -- due to the reversion of the corporate tax rate to 30.0% from 25.0% starting from January 2021.

The group's working capital position worsened further in FY21 increasing from a negative position of KES 5.1 BN in FY20 to KES 5.6 BN – reflecting a 10.5% y-o-y change. The reason for this was a faster rise in current liabilities (+KES 8.7 BN to KES 39.7 BN) vis-à-vis the growth realized in current assets (+KES 8.1 BN to KES 34.1 BN). The current ratio improved slightly to 0.86x from 0.84x in FY20.

Notably, net cash from operating activities recorded significant growth climbing by 336.7% y-o-y to KES 14.6 BN, the group credited this to the tight management of working capital as well as productivity initiatives. **Net cash used in investing activities increased by 70.4% y-o-y to KES 14.2 BN**, partly prompted by a capital investment of KES 7.8 BN. **Net cash from financing activities stood KES 3.5 BN**, higher than the KES 5.6 BN that was used in financing activities in FY20. **Consequently, the company's cash position at the end of the year improved by 155.7% y-o-y to KES 4.4 BN.**

EABL is trading at a P/E multiple of 20.96x and a P/B multiple of 9.82x. The counter's ROE stands at 46.9%.

Going forward, EABL plans to focus on continuing its business recovery efforts, growing margins to pre-pandemic levels and cost efficiency.

INCOME STATEMENT (KES 'MN')

	FY17	FY18	FY19	FY20	FY21	y-o-y ch (%)
Net revenue	70,247	73,457	82,543	74,916	85,962	14.7
Cost of sales	39,117	41,052	44,426	41,896	48,548	15.9
Gross profit	31,130	32,404	38,117	33,020	37,414	13.3
Selling and distribution costs	5,375	6,424	7,209	6,591	7,362	11.7
Administrative expenses	8,249	8,535	9,398	8,565	9,320	8.8
Other costs and expenses	4,199	5,704	3,695	7,209	9,874	37.0
Operating expenses	17,823	20,663	20,302	22,365	26,556	18.7
Profit before tax	13,307	11,742	17,815	10,655	10,858	1.9
Income tax expense	4,793	4,486	6,300	3,634	3,896	7.2
Profit after tax	8,515	7,256	11,515	7,021	6,962	(0.8)
EPS (KES)	9.71	7.19	11.23	5.17	5.51	6.6

BALANCE SHEET (KES 'MN')

	FY17	FY18	FY19	FY20	FY21	y-o-y ch (%)
Total equity	11,988	11,652	16,155	13,993	14,852	6.1
Non-current liabilities	32,694	33,811	37,251	43,621	45,562	4.5
Total equity and non-current liabilities	44,683	45,463	53,406	57,614	60,414	4.9
Non-current assets	44,532	49,721	57,463	62,690	66,024	5.3
Working Capital						
Current assets	22,135	21,526	29,602	25,968	34,092	31.3
Current liabilities	21,984	25,784	33,659	31,045	39,702	27.9
Net current assets	151	(4,258)	(4,057)	(5,076)	(5,610)	10.5
Total assets	66,666	71,247	87,066	88,658	100,116	12.9
Total liabilities	54,678	59,595	70,911	74,665	85,264	14.2

Source: Company, DBIB Research

CASH FLOW STATEMENT 'KES MN'

	FY17	FY18	FY19	FY20	FY21	y-o-y ch (%)
Cash generated from operations	21,524	21,717	28,491	13,636	21,524	57.8
Net interest paid	(3,174)	(3,347)	(3,605)	(3,805)	(3,140)	(17.5)
Income tax paid	(4,435)	(4,811)	(2,321)	(6,485)	(3,772)	(41.8)
Net cash from/(used in) operating activities	13,914	13,559	22,566	3,346	14,612	336.7
Net cash from/(used in) investing activities	(4,668)	(10,492)	(11,546)	(8,330)	(14,198)	70.4
Net cash from/(used in) financing activities	(992)	(3,493)	(1,724)	(5,358)	3,464	
Net (decrease)/increase during the year	8,255	(426)	9,296	(10,342)	3,878	
At start of year	(3,954)	3,318	3,187	12,469	1,729	(86.1)
Foreign exchange impact on translation	(983)	295	(14)	(398)	(1,186)	198.3
At end of year	3,318	3,187	12,469	1,729	4,421	155.7

RATIOS: FINANCIAL STABILITY, OPERATING PERFORMANCE AND INVESTOR RETURN

	FY17	FY18	FY19	FY20	FY21	y-o-y bps ch
Return on Assets (%)	12.8	10.2	13.2	7.9	7.0	(97)
Return on Equity (%)	71.0	62.3	71.3	50.2	46.9	(330)
Gross Profit margin (%)	44.3	44.1	46.2	44.1	43.5	(55)
EBT margin (%)	18.9	16.0	21.6	14.2	12.6	(159)
Net Profit margin (%)	12.1	9.9	14.0	9.4	8.1	(127)
Operating Cash Conversion (%)	107.2	115.2	113.4	68.0	103.0	3,500
Current ratio (x)	1.0	0.8	0.9	0.8	0.9	0.0

Source: (Company, DBIB Research)

N/B: * Arithmetic change

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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