

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

1ST NOVEMBER 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

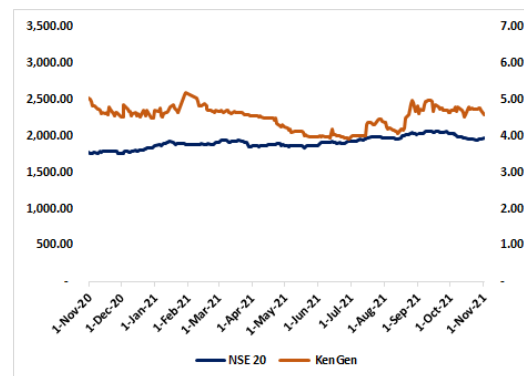
KENGEN FY21 EARNINGS UPDATE

Dear all,

KenGen released its FY21 results reporting a 93.5% y-o-y decline in PAT to KES 1.2 BN despite a 7.1% y-o-y increase in PBT to KES 14.8 BN. The decline in profitability was attributable to a KES 13.6 BN income tax expense realized in FY21 in comparison to a KES 4.6 BN tax credit recorded in FY20. According to the company, the income tax expense was as a result of the reversal of COVID-19 tax relief measures (corporate tax rate was reversed back to 30.0% from 25.0%) which led to a tax expense of KES 8.8 BN on deferred tax compared with a credit of KES 8.1 BN in FY20. EPS for the period stood at KES 0.18, 93.5% lower y-o-y. The board announced a first and final dividend per share of KES 0.30 (2020; KES 0.30). Subject to approval, the dividend is to be paid on Thursday, 10th February 2022 to shareholders on register at the close of 16th December 2021.

Key Highlights:

- Gross revenue rose by 4.1% y-o-y to KES 45.9 BN** mainly supported by a 305.5% y-o-y rise in diversification revenue to KES 1.8 BN (specifically the diversification venture at Tulu Moyo in Ethiopia) and 3.6% y-o-y jump in electricity revenues to KES 35.0 BN. Electricity revenues were enhanced by a 2.3% y-o-y rise in electricity sales to 8,443 GWh. Owing to a 3.0% y-o-y decline in reimbursable expenses to KES 4.2 BN, **net revenues climbed by 4.8% y-o-y to KES 41.7 BN.**
- Total other income eased by 76.4% y-o-y to KES 1.6 BN** – weighed down by other gains-net forex and fair valuation which declined by 82.4% y-o-y to KES 1.1 BN which the company attributed to fair value gain on financial asset through profit or loss as a result of stability of the Shilling against other major currencies. Other income rose by 4.7% y-o-y to KES 495.0 MN due to insurance compensation.
- Operating income settled at KES 43.4 BN (-7.6% y-o-y), and given the 5.2% y-o-y rise in operating expenses to KES 27.4 BN, operating profits eased by 22.7% y-o-y to KES 15.9 BN. **Operating profit margin for the period stood at 34.7%, lower than the 46.7% realized in FY20.**



(Source: NSE, DBIB Research)

Price	Absolute	Excess
Return	Return	Return
3 months (%)	4.8	4.8
6 months (%)	8.6	2.4
12 months (%)	(9.7)	(20.2)

KEY METRICS

Current Price (KES)	4.57
52 week Range (KES)	3.91-6.12
YTD Return (%)	(3.0)
Issued Shares (Mn)	6,594.5
Market Cap (KES BN)	30.1

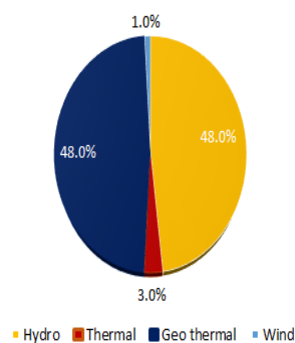
Research Analyst

John Jumwa

Email: jjumwa@dyerandblair.com

Telephone: +254 709 930 127

UNIT SALES BY SOURCE



(Source: NSE, DBIB Research)

- **Finance income rose 31.4% y-o-y to KES 1.9BN** (attributable to interest on delayed payment of receivables and interest earned by investing funds) while **finance costs decreased by 63.0% y-o-y to KES 3.1 BN** (owing to the stable Kenya Shilling resulting in lower forex loss on foreign currency borrowings).
- **Total assets rose by 3.1% y-o-y to KES 425.7 BN while total liabilities increased by 6.8% y-o-y to KES 215.3 BN.** Total equity eased by 4.2% y-o-y to KES 210.3 BN.
- **Cash generated from operations rose 53.7% y-o-y to KES 27.4 BN** while cash used in investing activities dropped 14.3% y-o-y to KES 15.0 BN. Cash used in financing activities dropped 7.3% y-o-y to KES 4.1 BN. **Cash and cash equivalents surged by 157.9% y-o-y to KES 13.9 BN.**
- **On a trailing basis,** KenGen is trading at a P/E multiple of 25.4x against a sector median of 3.9x and a P/B multiple of 0.1x against the sector median of 0.1x. Its ROA and ROE stand at 0.3% and 0.6% against sector medians of 1.6% and 5.6% respectively.
- Despite the decline in earnings, we note positively on the significant jump in cash and cash equivalents, which was predominantly bolstered by an increase in cash generated from operations.
- KenGen plans to commission Okaria I Unit 6 geothermal plant 83.3 MW in the coming year. We don't expect significant this should provide some uplift to electricity sales (both capacity and energy). However, given the review of tax allowances from a minimum of 150.0% to 50.0% of capital investments, going forward we don't expect to see tax credits significantly boosting earnings upon the commissioning of plants.
- With the ongoing reforms in the energy sector (such as the renegotiation of PPAs), we note with some concern on the impact this may have on KenGen. While we do not expect these changes to materialize in the short term, there is some medium term risk that these changes could weigh down on KenGen's electricity revenues. But, with the impressive growth realized in diversification revenue, if this serves as some indication of expected future performance, we believe that the company stands a fair chance to mitigate against the potential decline in electricity revenues.

INCOME STATEMENT

Year End: DECEMBER (KES MN)	FY21	FY20	y-y % ch	2H21	1H21	2H20	y-y% ch	h-h% ch
Gross revenue	45,901	44,110	4.1	24,100	21,801	21,749	10.8	10.5
Reimbursable Expenses	(4,160)	(4,288)	(3.0)	(2,926)	(1,234)	(841)	247.8	137.1
Revenue net reimbursable expenses	41,741	39,822	4.8	21,174	20,567	20,908	1.3	3.0
Other income	495	473	4.8	315	180	(6)	(4,965.6)	75.0
Other net gains	1,125	6,383	(82.4)	1,507	(382)	6,137	(75.4)	(494.5)
Total Gross Income	43,361	46,678	(7.1)	22,996	20,365	27,039	(15.0)	12.9
Gross margin						-		
Steam costs	(3,029)	(3,161)	(4.2)	(1,502)	(1,527)	(1,500)	0.1	(1.6)
Operating expenses	(12,877)	(10,884)	18.3	(7,052)	(5,825)	(5,315)	32.7	21.1
EBITDA	26,330	26,250	0.3	12,935	13,395	14,087	(8.2)	(3.4)
Depreciation and Amortisation	(11,520)	(12,030)	(4.2)	(5,782)	(5,738)	(6,322)	(8.5)	0.8
Operating Profit	15,935	20,603	(22.7)	8,660	7,275	13,902	(37.7)	19.0
Finance income	1,881	1,431	31.4	1,052	829	708	48.6	26.9
Finance costs	(3,053)	(8,244)	(63.0)	(1,821)	(1,232)	(7,099)	(74.3)	47.8
Profit before tax	14,763	13,790	7.1	7,891	6,872	7,511	5.1	14.8
Income tax expense	(13,574)	4,587		(11,757)	(1,817)	2,695	(536.3)	547.1
Profit after tax	1,189	18,377	(93.5)	(3,866)	5,055	10,206	(137.9)	(176.5)
Fair value and revaluation gains	(205)	(375)	(45.3)	(201)	(4)	(372)	(46.0)	4,925.0
Comprehensive income	984	18,002	(94.5)	(4,067)	5,051	9,834	(141.4)	(180.5)
EPS	0.18	2.79	(93.5)	-0.59	0.77	2	(138.0)	(176.6)
DPS	0.30	0.30	-	0.30	-	-	-	-

Source: Company, DBIB Research

BALANCE SHEET (KES MN)

Year End: DECEMBER (KES MN)	FY21	1H21	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	171,684	177,731	172,680	(3.4)	(3.4)
Shareholders' Funds	210,323	216,370	211,319	(2.8)	(2.8)
Non Current Liabilities	194,939	182,614	184,552	6.7	6.7
Current Liabilities	20,396	28,124	17,056	(27.5)	(27.5)
Total Liabilities	215,335	210,738	201,608	2.2	2.2
Total Assets	425,658	427,108	412,927	(0.3)	(0.3)
PPE	356,135	353,686	352,430	0.7	0.7
Other NCA	25,704	31,875	26,459	(19.4)	(19.4)
Current Assets	43,819	41,547	34,038	5.5	5.5
Working Capital	23,423	13,423	16,982	74.5	74.5
Net Assets	210,323	216,370	211,319	(2.8)	(2.8)

Source: Company, DBIB Research

CASH FLOW STATEMENT

Year End: DECEMBER (KES MN)	FY21	1H21	FY20	y-y % ch	h-h % ch
Cash generated from operations	27,443	13,818	17,857	53.7	98.6
Cash generated from investing activities	(15,023)	(6,852)	(17,528)	(14.3)	119.2
Cash from financing activities	(4,052)	(1,483)	(4,373)	(7.3)	173.2
Change in ex rates	117	(62)	94	24.5	(288.7)
Change in cash & equivalents	8,485	5,421	(3,950)	(314.8)	56.5
Cash at the start	5,374	5,374	9,324	(42.4)	-
Cash at the end	13,859	10,795	5,374	157.9	28.4

Source: Company, DBIB Research

OPERATING PERFORMANCE

	FY21	1H21	FY20	y-y bps ch	h-h bps
Gross Profit margin (%)	94.5	93.4	105.8	(1,135)	105
Operating Profit margin (%)	34.7	33.4	46.7	(1,199)	135
Pretax margin (%)	32.2	31.5	31.3	90	64
PAT margin (%)	2.6	23.2	41.7	(3,907)	(2,060)
	FY21	1H21	FY20	y-y bps ch	h-h bps
Fixed Assets Turnover (x)	0.1	0.1	0.1	0	7
Current Assets Turnover (x)	1.0	0.5	1.3	(25)	(25)
Current Liabilities Turnover (x)	2.3	0.8	2.6	(34)	148
Working capital turnover (x)	2.0	1.6	2.6	(64)	34
Current ratio (x)	2.1	1.5	2.0	15	67

*Annualized ratios

Source: Company, DBIB Research

FINANCIAL PERFORMANCE

	FY21	1H21	FY20	y-y bps ch	h-h bps
Net debt (KES MN)	181,080	171,819	177,240	2.2	5.4
Enterprise value/share (KES)	32.03	31.6	32.7	(2.0)	1.5
Net debt/equity (%)	86.1	79.4	84.8	1.5	8.4
Net debt/EV (%)	85.7	82.6	83.2	3.1	3.8
EV/EBIT (x)	6.6	15.5	7.0	(6.0)	(57.3)
Current ratio (x)	2.1	1.5	2.0	7.7	45.4
Interest cover (x)	5.2	5.9	2.5	108.9	(11.6)
CFO/share (KES)	4.2	2.1	2.7	53.7	98.6
Book value/share (KES)	31.9	32.8	32.0	(0.5)	(2.8)

**changes in %

Source: Company, DBIB Research

INVESTMENT RETURN

	FY21	1H21	FY20	y-y bps ch	h-h bps
Return on Assets (RoA)*	0.3	2.4	4.5	(93.7)	(88.2)
Return on Equity (RoE)*	0.6	4.7	8.7	(93.5)	(87.9)

*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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