

# 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

#### 1H22 EARNINGS UPDATE

Dear All,

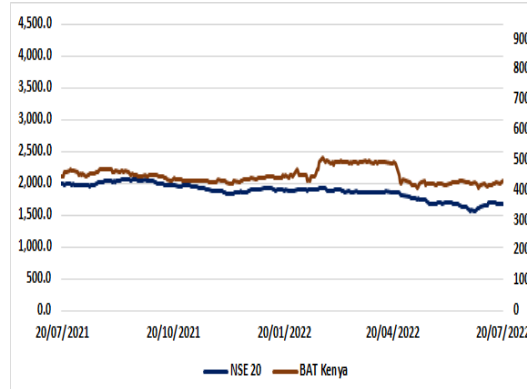
BAT Kenya has released its 1H22 results reporting an 8.4% y-o-y increase in PAT to KES 2.9 BN on the back of a 12.4% y-o-y growth in net revenue to KES 14.1 BN and a 0.9% y-o-y marginal increase in excise duty and VAT to KES 7.8 BN. Revenue performance was supported by the export business (mainly Egypt) and domestic excise-led upward price adjustments. **We anticipate further price adjustment in the short term following the July 2022 10.0% excise increase.** Operating costs edged up by 15.0% y-o-y to stand at KES 9.9 BN, leading to margin deterioration.

Below please find key highlights:

**EPS for the period stands at KES 26.25 (+8.4% y-o-y).** The board of directors has proposed an **interim dividend of KES 5.00 per share** (compared to KES 3.50 paid in 1H21) to be paid on or about 16th September 2022 to shareholders on the register at the close of business on 12th August 2022. This marks a change in the company's interim dividend amount from the traditional KES 3.50.

**Net revenue grew by 12.4% y-o-y to KES 14.1 BN.** This was on account of an 8.0% y-o-y increase in gross revenue to KES 21.9 BN. The company attributed the performance in gross revenue to domestic excise-led price increases (that however stifled volume growth in the period to +5.0% y-o-y) and an increase in export sales. Export business was notably supported by Egypt as highlighted by management during the results call, while political unrest in South Sudan stifled growth numbers. Export volumes stood at c.60.0% of total volumes, while revenue split between export business and domestic market remained at c.50-50, implying better domestic margins. **Management pointed out that the company's export business covers its forex requirement for imports, implying a natural hedge against the current dollar shortage.**

#### BAT KENYA: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(12.2)	(2.2)
6 months (%)	(2.9)	8.5
12 months (%)	(3.4)	12.4

#### KEY METRICS

Current Price (KES)	430.00
52 week Range (KES)	404.00-509.00
YTD Return (%)	(2.6)
Issued Shares (MN)	100.0
Market Cap (USD MN)	363.6

EPS (KES)*	67.10
NAV (KES)*	129.10
P/E (x)*	6.4
P/B (x)*	3.3
Div Yld (%)*	12.8

\*Trailing ratios

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**Excise duty and VAT edged up a marginal 0.9% y-o-y to KES 7.8 BN in spite of a 5.0% increase in excise duty in November 2021.** The proportion of excise duty and VAT to gross revenue in turn declined by 250 bps y-o-y to 35.5%. Annual excise adjustment for VAT was enacted in the Finance Act 2022, thwarting efforts by manufactures to change the review period to every two years. **Notably, the cumulative adjustment in the one year period spanning Nov 2021-Nov 2022 stands at c.23%, with the company management indicating during the results call that an upward excise review of c. 8.0% is expected in 4Q22.**

<u>Period</u>	<u>Excise adjustment</u>
November 2021	+5.0%
July 2022	+10.0%
4Q22	+8.0%* guided by management

<b>Finance Act 2022</b>	<b>Old rate</b>	<b>New rate effective 1 July 2022</b>	<b>% change</b>
Cigarettes with filters (hinge lid and soft cap)	KES 3,477.61 per mille	KES 3,825.99 per mille	+10.0%
Cigarettes without filters (plain cigarettes)	KES 2,502.74 per mille	KES 2,752.97 per mille	+10.0%
Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes	KES 13,906.04 per kg	KES 15,296.6 per kg	+10.0%

<b>Finance Act 2022</b>	<b>Excise duty rate effective 1 July 2022</b>
**Liquid nicotine for electronic cigarettes	KES 70 per mille

**We expect the company to adjust prices upwards in line with the above excise adjustment,** with the strategy of encouraging up-trading by consumers, implying higher price adjustment of low-end brands compared to premium brands.

With vape products being netted into excise taxation (KES 70 per mille), we see it likely that the company may absorb the tax on the e-cigarette products to boost performance of this segment being in its nascent stage. **The company recently re-launched its vape products in the Kenyan market in July 2022.**

**Cost of operations increased by 15.0% y-o-y to KES 9.9BN** driven by higher input costs due to global supply chain challenges. As a result, operating profit margin deteriorated 162 bps y-o-y to 29.5%.

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**Total assets declined by 1.0% h-o-h (compared to FY21) to KES 23.9 BN** on the back of a 2.5% h-o-h increase in non-current assets to KES 12.6 BN and a 4.6% h-o-h decrease in current assets to KES 11.3 BN. Total liabilities increased by 20.0% h-o-h to KES 11.0 BN as a result of a 25.2% h-o-h increase in current liabilities to KES 9.0 BN and a 0.8% h-o-h increase in non-current liabilities to KES 1.9 BN. Total shareholders' funds declined by 13.8% in the half year period to KES 12.9 BN.

**On a trailing basis, BATK is trading at a P/E multiple of 6.4x** against a sector median of 5.8x and a P/B multiple of 3.3x against a sector median of 0.9x. Its ROE stands at 52.0%, against a sector median of 17.1% whereas ROA stands at 28.1%, against a sector median of 4.8%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: DECEMBER (KES MN)	1H22	1h21	y-y % chg	2H21	h-h% chg	FY21
Gross Revenue	21,864	20,245	8.0	18,600	17.5	38,845
Excise duty and VAT	(7,772)	(7,703)	0.9	(5,803)	33.9	(13,506)
Net revenue	14,092	12,542	12.4	12,797	10.1	25,339
Cost of operations	(9,934)	(8,638)	15.0	(9,112)	9.0	(17,750)
Operating profit	4,158	3,904	6.5	3,685	12.8	7,589
Finance costs	20	(49)	(140.8)	(124)	(116.1)	(173)
Profit before tax	4,178	3,855	8.4	3,561	17.3	7,416
Income tax expense	(1,253)	(1,157)	8.3	(741)	69.1	(1,898)
Profit after tax	2,925	2,698	8.4	2,820	3.7	5,518
Fair value and revaluation gains	-	-	-	(27)	(100.0)	(27)
Comprehensive income	2,925	2,698	8.4	2,793	4.7	5,491
EPS	29.25	26.98	8.4	28.20	3.7	55.18
DPS	5.00	3.50	42.9	41.50	(88.0)	45.00

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: DECEMBER (KES MN)	1H22	FY21	1H21	y-y % ch	h-h % ch
Share capital	1,000	1,000	1,000	-	-
Revaluation & Hedging Reserve	2,837	2,837	1,842	54.0	-
Retained Earnings	9,073	11,137	7,677	18.2	(18.5)
Shareholders' Funds	12,910	14,974	10,519	22.7	(13.8)
Non Current Liabilities	1,954	1,939	1,606	21.7	0.8
	14,864	16,913	12,125	22.6	(12.1)
Non-current assets	12,615	12,305	10,864	16.1	2.5
Current Assets	11,271	11,814	8,477	33.0	(4.6)
Current Liabilities	9,022	7,206	7,216	25.0	25.2
Working Capital	2,249	4,608	1,261	78.4	(51.2)
	14,864	16,913	12,125	22.6	(12.1)

(Source: Company, DBIB Research)

## CASHFLOW SUMMARY (KES MN)

Year End: DECEMBER (KES MN)	1H22	FY21	1H21	y-y % ch	h-h % ch
Cash generated from operations	3,690	8,576	3,616	2.0	(57.0)
Net interest paid	(10)	(102)	(65)	(84.6)	(90.2)
Tax paid	(2,295)	(2,234)	(1,434)	60.0	2.7
Net cash from/(used in) operating activities	1,385	6,240	2,117	(34.6)	(77.8)
Net cash from/(used in) investment activities	(125)	(570)	(192)	(34.9)	(78.1)
Net cash from/(used in) financing activities	(2,670)	(4,525)	(4,151)	(35.7)	(41.0)
Change in cash & equivalents	(1,410)	1,145	(2,226)	(36.7)	-
Cash at the start	3,029	1,884	1,884	60.8	60.8
Cash at the end	1,619	3,029	(342)	(573.4)	(46.6)

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	1H22	FY21	1H21	y-y bps ch	h-h bps ch
Gross Profit margin (%)	19.0	19.5	19.3	(27)	(52)
Excise duty & VAT (%)	35.5	34.8	38.0	(250)	78
Operating margin	29.5	29.9	31.1	(162)	(44)
Pretax margin (%)	19.1	19.1	19.0	7	2
PAT margin (%)	13.4	14.2	13.3	5	(83)
Fixed Assets Turnover (x)	3.5	3.2	3.7	(26)	31
Current Assets Turnover (x)	3.9	3.3	4.8	(90)	59
Current Liabilities Turnover (x)	4.8	5.4	5.6	(76)	(54)
Working capital turnover (x)	19.4	8.4	32.1	(1,267)	1,101
Current ratio (x)	(1.2)	1.6	(1.2)	(7)	(289)

*\*Annualized ratios*

*(Source: DBIB Research)*

## FINANCIAL STABILITY & LIQUIDITY

	1H22	FY21	1H21	y-y bps ch	h-h bps ch
Net debt (KES MN)*	335.0	(1,090.0)	1,948.0	17	(31)
Enterprise value/share (KES)*	488.10	469.1	504.2	97	104
EV/EBIT (x)	11.7	6.2	12.9	91	190
Current ratio (x)	1.2	1.6	1.2	106	76
Interest cover (x)	(207.9)	43.9	79.7	(261)	(474)
CFO/share (KES)	36.90	85.8	36.2	102	43
NTA/share (KES)	129.10	149.7	105.2	123	86
Book value/share (KES)	129.10	149.7	105.2	123	86
	1H22	FY21	1H21	y-y bps ch	h-h bps ch
Net debt/equity (%)	2.6	12.9	18.5	(1,592)	(1,035)
Net debt/EV (%)	0.7	(2.3)	3.9	(318)	301
Payout ratio (%)	17.09	81.6	13.0	412	(6,446)

*\*Annualized ratios*

*(Source: DBIB Research)*

## INVESTMENT RETURN

	1H22	FY21	1H21	y-y bps ch	h-h bps ch
RoA	21.3	22.9	23.5	(218)	(159)
RoE	45.3	36.9	51.3	(598)	846
RoIC	39.4	32.6	44.5	(515)	673

*\*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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