Dyer & Blair Investment Bank
Earnings Update

Founder Member of the Nairobi Securities Exchange

02ND JUNE 2020

We know. You know.

QUICK THOUGHTS ON E.A. BREWERIES

East African Breweries issued a profit warning dated May 15, 2020, in light of the tough trading environment created by the novel strain of coronavirus (COVID-19). Unlike other events, the breadth and scale to which this pandemic will impact regional sales is still unknown. Management estimates that the profit after tax for FY20 will be around or below KES 8.6 BN. Seeing as the brewer clocked KES 7.2 BN in 1H20, this gives more color as to how affected the 2H20 numbers might be. We are looking at a 25.0% to 30.0% y-o-y decline in revenue come end of FY20.

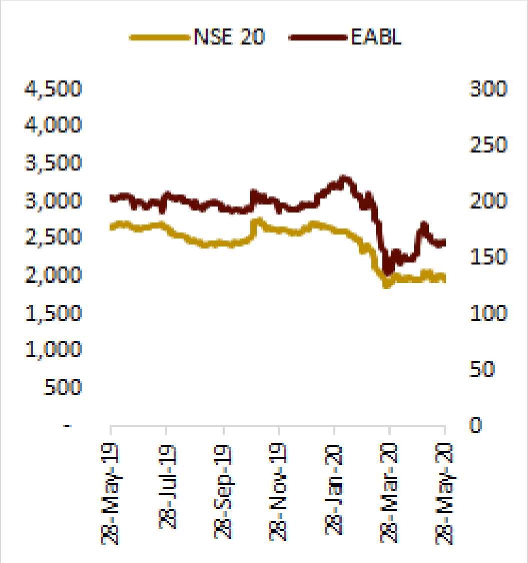
Key highlights:

- **Regional markets:** Come June 6, 2020, Kenya awaits a presidential address that will guide on the country's economic outlook, after a c. 2.5 months stint of nationwide curfew. Uganda has recently seen relative easing of the previously enacted strict measures with hotels being reopened after almost two months of a full lockdown. We foresee a significant decline in both Kenya's and Uganda's top-line growth. On the other hand, Tanzania seems to be taking a herd-immunity approach with zero containment measures in place to date, making it the least affected of EABL's markets.

- **On-trade channels:** The brewer's on-trade channels, which were predominantly responsible for the region's sales pre-COVID, have been entirely disrupted following the shut-down of bars and restaurants in a bid to curb local transmission of COVID-19. We presume beer will be the hardest hit segment of the brewer's portfolio. As per the company's business model, Senator Keg, the company's volume mover, which is sold in majority of the bars (c. 23,000) in Kenya, remains purely on-trade, thus currently unavailable to consumers. We therefore expect that keg sales will be way below par.

- **Off-trade channels:** The brewer's off-trade channels have received more traction as online orders via e-commerce platforms have become the new normal. Consumers are gravitating more towards mainstream spirits than mainstream beer courtesy of the portability of the former. Down-trading has also been evidenced by customers shying away from reserve and premium spirits in favor of mainstream spirits, plausibly due to constrained disposable income.

EABL: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 month (%)	(16.6)	0.0
6 month (%)	(17.3)	8.3
12 month (%)	(19.7)	7.0

KEY METRICS	
Current Price (KES)	162.00
52 week High (KES)	221.75
52 week Low (KES)	135.25
YTD Return (%)	(18.39)
Issued Shares (MN)	790.8
Market Cap (USD MN)	1197.9
Market Cap (USD MN)	545.6

Recommendation	BUY
Target Price (KES)	Under review
Trailing EPS (KES)	15.32
NAV (KES)	22.67
P/E (x)	10.6
P/B (x)	7.1
Div. yield (%)	5.6

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- **Route to Market (RTM):** The traditional model has seen severe disruption post-COVID, as it was highly dependent on on-trade channels. Majority of the distributorship network is currently not operational due to inadequate footfall. Management relayed that they aim to stay ahead of competition by up weighting participation in the off-trade channels. Its pioneer distributors are also repurposing their business models to incorporate innovative e-commerce and take-home systems. Overall, the brewer is keen to leverage relationships to ensure drinks are delivered in an innovative fashion in the short-run.

- **Cost mitigation:** Management alluded that the brewer is actively reducing its discretionary expenditure and reallocating resources across the group. We presume that the advertising and promotional spend will be significantly lower as it is highly unlikely that the company will launch any new innovation brands during this period. Flagship brands will be the core focus during this period as management focuses on faster and shorter ROIs.

- **Non-cash expenses:** Having converted its foreign denominated debt into local currency, we presume that the finance expenses will remain in check on a y-o-y basis. With the new accommodative amendments on corporate tax and PAYE, we presume the tax position will be better on a y-o-y basis.

- **Capital expenditure:** Whilst all CAPEX projects will remain as planned in the long-run, the brewer will tailor current expansions to meet the current demand, which is grossly subdued due to on-trade closures. We presume that the company will also postpone discretionary projects until normalcy is established in the region.

Here's a link to our recently published: Desert Locusts Update

- **Locust invasion:** Whilst locusts remain a key menace to Kenya's food basket, management has reassured that the brewer has adequate stock for this season, thanks to its sophisticated supply chain model. Seeing as COVID-19 has significantly slowed down demand, the brewer will remain well supplied even in the upcoming season.

- **On a trailing basis,** the counter is trading at a P/E multiple of 10.6x and a P/B multiple of 7.1x. Its ROE stands at 67.6% whereas its ROA stands at 13.0%. Currently, its dividend yield stands at 5.6%. We believe EABL is a fundamentally strong company that will ride the COVID wave, emerge resilient and maximize shareholders' returns in the long-run. As the company is basically at its cheapest on a multiples basis, we maintain a **BUY** recommendation.

EABL: Sensitivity Analysis

		Revenue Growth						
		-30.0%	-20.00%	-10.00%	0.00%	10.00%	20.00%	30.00%
Exit Multiple	5.2x	149.48	159.49	169.49	179.49	189.49	199.50	209.50
	6.2x	156.08	166.72	177.36	188.01	198.65	209.29	219.94
	7.2x	162.67	173.95	185.24	196.52	207.80	219.09	230.37
	8.2x	169.26	181.19	193.11	205.04	216.96	228.88	240.81
	9.2x	175.85	188.42	200.98	213.55	226.12	238.68	251.25

Source: (Company Filings, 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 10.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of +/- 10% 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

Disclaimer