

### EABL Plc FY-2020 Earnings Results

#### Impact of Government Regulations on Revenues

EABL saw profits after tax (PAT) plunge by 39.0% to KES 7.02Bn from KES 11.52Bn in FY-19. The drop overshoot our projection of 26.2% drop. Profits Before Tax eased 40.2% to KES 10.66Bn from KES 17.82Bn over the same period. The stock is trading at 13.6% discount to 52-month average.

**Profit and Loss:** The group's volumes declined by 11% while a 29% H2-2020 decline in net revenues cleaned the 10% increase in H1-2020 performance to an overall 9.2% FY-2020 decline in revenues. This was lower compared to a 3% decline we had earlier forecasted. The performance was a direct impact of government regulation on travel restrictions, outlet closure and social distancing implemented to contain the impact of COVID-19 pandemic towards end of the company's Q3-2020 financial year.

- Profit deterioration was cushioned by a 5.7% drop in cost of sales and an 8.6% dip in sales and distribution cost. Total expenditures were up 10.2% driven by a 14.3% increase in finance cost and a 947.7% increase in other expenses due to strategic move to enhance sales.
- Faster decline in revenues compared to cost of sales saw gross margins ease to 44.1% from 46.2% the previous year while PBT Margins and PAT margins dipped to 9.4% and 14.2% from 21.6% and 14.0% respectively.

**Balance Sheet:** Assets grew by a marginal 1.9% as the group pulled back capital expenditure to conserve cash. The brewer invested KES 8.01Bn in capacity expansion and environment projects compared to KES 11.7Bn in 2019. Shareholders' funds shrunk by 13.4% due to a 53.6% decline in retained earnings.

- Receding PAT saw ROaE and ROaA slide to 46.6% and 8.0% from 82.8% and 14.5% respectively. Current ratio marginally dropped to 0.8 from 0.9 while financial leverage ratio was 5.8 from 5.7 in 2019.

**Cash Flow:** Net cash from operations declined on increase in inventory stock up to cushion the company from stockouts. There was also a higher tax payment after end of tax benefit from the Kisumu plant. Operating cash conversion declined from 111% to 68% in FY-2020.

- With the need to conserve cash, the board of directors did not recommend a final dividend with the interim dividend of KES 3.00 per share being the first and final dividend.

Bloomberg Ticker:	EABL KN
Reuters Ticker:	EABL.NR
Company Statistics	
Current Price	160.75
52 Week Ave	186.05
12 Week High	221.75
12 Week Low	135.25
No of Shares ('000)	790,774
Market Cap (Bn)	127.12
Free Float	52.3%
EPS	5.17
PE	31.1
PB	9.1
Dividend Yield	1.9%

P&L (KES Mn)	2018	2019	2020
Revenues	73457	82,543	74,916
Cost of Sales	(41,052)	(44,426)	(41,896)
Gross Profits	32,405	38,117	33,020
Total Expense	(20,663)	(20,302)	(22,365)
PBT	11,742	17,815	10,655
Tax	(4,486)	(6,300)	(3,634)
PAT	7,256	11,515	7,021
EPS	7.19	11.23	5.17

Balance Sheet (KES Mn)	2018	2019	2020
Total Asset	71,247	87,065	88,676
Liabilities	59,595	70,910	74,665
Shareholders' Funds	11,652	16,155	13,993
Net Assets	45463	53,406	57,614

Cash Flow (KES Mn)	2018	2019	2020
Cash from Operations	21717	28,491	13,636
Net Cash from Operations	13,559	22,566	3,346
Net Cash from Investment	(10,492)	(11,546)	(8,330)
Net Cash from Financing	(3,493)	(1,724)	(5,358)
Net Cash and Cash Equivalents	(426)	9,296	(10,342)

### Regional Performance:

- Limited government restriction saw Tanzania performance improve 14% y-y with a slower H2-2020 growth of 10% compared to 19% in H1-2020. Subsidiary contribution to the group improved to 15% from 12%.
  - Tanzania was driven by mainstream and value beer segments and overall improved spirits performance.
- Strict government regulations in Kenya saw performance dip by 14% y-y with 37% decline in H2-2020 reversing 8% growth in H1-2020. Kenya's contribution declined to 69% from 73% in FY-19.
  - Mainstream spirits were key driver (+2%) while there was a poor performance in bottle beer (-23%) and senator (-13%).
- Uganda revenues declined by 5% after 10% H1-2020 growth was whitewashed by 21% decline in H2-2020. Uganda's contribution marginally grew to 16% from 15% in FY-19.
  - Mainstream spirits saw a -20% decline which remains a lag performance from the sachet bank in 2019.

**'Raising the Bar' Global Fund:** The brewer intends to support recovery on-trade outlets through a KES 500Mn recovery fund by provision of hygiene measures, provision of practical equipment, digital support on sales and training to enable outlets conform to government regulations in service customers post-reopening.

### Outlook

- Grim Start: With rising cases, the closure of main alcohol distribution channels, we anticipate a poor performance on Q1-2021. Holiday season in Q2-2021 will aid in pushing sales but Q-3-2021 is set to face low sales.
- We expect pressure on sales and distribution cost as the brewer figures ways of reaching out to its clients in the shortest time possible.
- With change of business environment and economic environment, the brewer intends to maintain a tight working capital reallocating resources towards growing new and emerging trade channels.

P&L % Growth	%Δ 2018	%Δ 2019	%Δ 2020
Revenues	4.6%	12.4%	-9.2%
Cost of Sales	4.9%	8.2%	-5.7%
Gross Profits	4.1%	17.6%	-13.4%
Total Expense	15.9%	-1.7%	10.2%
PBT	-11.8%	51.7%	-40.2%
PAT	-14.8%	58.7%	-39.0%
EPS	-26.0%	56.2%	-54.0%

Balance Sheet % Growth	%Δ 2018	%Δ 2019	%Δ 2020
Total Asset	6.9%	22.2%	1.9%
Liabilities	9.0%	19.0%	5.3%
Shareholders' Funds	-2.8%	38.6%	-13.4%
Net Assets	1.7%	17.5%	7.9%

Key Ratios	2018	2019	2020
Gross Margins	44.1%	46.2%	44.1%
PBT Margin	16.0%	21.6%	14.2%
PAT Margin	9.9%	14.0%	9.4%
ROaE	61.4%	82.8%	46.6%
ROaA	10.5%	14.5%	8.0%
Current Ratio	0.8	0.9	0.8
Financial Leverage	5.8	5.7	5.8

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- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of -5% to +5%.
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\*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

**Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.**

**Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya**

**Office: 0711049540/0711049956**

**Email: [kingdomresearch@co-opbank.co.ke](mailto:kingdomresearch@co-opbank.co.ke)**

### Research Department

**Willis Nalwenge**      [wnalwenge@co-opbank.co.ke](mailto:wnalwenge@co-opbank.co.ke)

**Fred Mwireri**      [fmwireri@co-opbank.co.ke](mailto:fmwireri@co-opbank.co.ke)

### Equities Trading

**Andrew Karanja**      [amkaranja@co-opbank.co.ke](mailto:amkaranja@co-opbank.co.ke)

**Justus Ogalo**      [jogalo@co-opbank.co.ke](mailto:jogalo@co-opbank.co.ke)