

KINGDOM SECURITIES

EABL revenue performed much better with H1-21 revenues declining by 3.0% y-y compared to a full year revenue decline of 10.9% in 2020. The beer manufacturer reported KES 3.79Bn in H1-21 Profits after tax, a 47.4% decline compared to KES 7.21Bn in H1-2020. Profits before tax stood at KES 5.84Bn, 45.0% down from KES 10.60Bn. On the back of the H1-21 performance, we forecast a FY revenue growth of 10% - 12.5% and PAT growth of 35% - 40%. We therefore maintain a BUY recommendation with a valuation of KES 203.61 which is a 35.1% upside compared to a price of KES 150.75 on Thursday January 29th, 2021.

P&L: The company managed to streamline its operation which enabled management of revenue deterioration. Half year revenues declined by 3.0% to KES 44.46Bn in H1-21 compared to KES 45.86Bn in H1-2020.

- At 3.0% decline, net sales recovered much better in H1-21 compared to a dip of 25% in H2-2020. This was due to a 45% recovery in volumes over the same period.
- Revenue performed much better compared to a volume decline of 5%. This was supported by increase in sale of 17% and 13% in Tanzania and Uganda.
- Kenya performance declined by 10% y-y although performing better by 53% compared to H2-2020. The decline was contributed by company's weak Q1-2020 and a 29% decline in Senator sale.

Balance Sheet: Total equity decline by 33.1% on acquisition of further stake in Serengeti Breweries Limited (SBL).

- Liabilities increased based on refinancing the borrowing at current favorable rates which will ease pressure on cost of financing.

Key Ratio: Gross margins declined from 47.6% to 43.5% with pressure from low volumes and digital tax in Uganda.

- The manufacturer current ration remains >1.0 at 1.31 after a relief given on basis of the pandemic. We expect the ratio to ease down in FY-21
- Operating cash conversion returned to Pre-Covid-19 levels at 186% compared negative 30% in FY-2020. This will give space for management to continue fast tracking repayment of long-term obligation.

The Upside:

- Normal economic activities interruptions through lockdowns and curfew continues to affect the day to day operation. The manufacturer has mitigated the challenge by facilitating home delivery by linking clients with the large network of distributors in Kenya and the region.
- Reopening of Kisumu Senator plant has boosted production increasing sales in the western region.
- EABL currently holds 85% of Serengeti Breweries Limited (SBL). This will aid in market share growing volumes and sales.

EABL Plc – HY-2021 Results

Bloomberg Ticker:	EABL KN
Reuters Ticker:	EABL.NR
Company Statistics	

Recommendation	BUY
Current Price	150.75
Valuation Price	203.61
Upside/(Downside)	35.1%
52 Week Avg	164.69
6 Month Avg	157.40
12 Month High-Low	221.75-135.25
No of Shares ('000)	790,774
Market Cap (Bn)	119.21
Free Float	25%
EPS (LTM)	5.17
PE (LTM)	13.4X
Forward P/E	20.9X
P/B (LTM)	8.5X
P/B (NTM)	6.1X
EV/EBITDA (NTM)	6.9X

P&L (KES Mn)	Dec-19	Dec-20	%Δ
Revenues	45,856	44,460	-3.0%
Cost of Sales	(24,013)	(25,127)	4.6%
Gross Profits	21,843	19,333	-11.5%
Distribution Cost	(3,883)	(3,878)	-0.1%
Admin Cost	(4,542)	(4,258)	-6.3%
Other Expense	(2,816)	(5,361)	90.4%
Total Cost	(11,241)	(13,497)	20.1%
Operating Profit	10,602	5,836	-45.0%
PBT	10,602	5,836	-45.0%
Tax	(3,393)	(2,044)	-39.8%
PAT for the Year	7,209	3,792	-47.4%
EPS	7.00	2.71	-61.3%

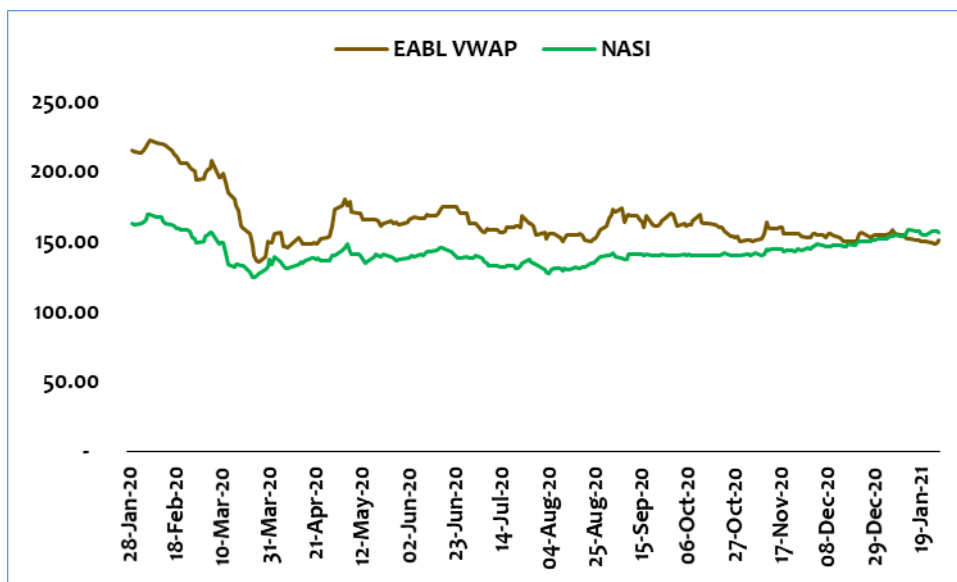
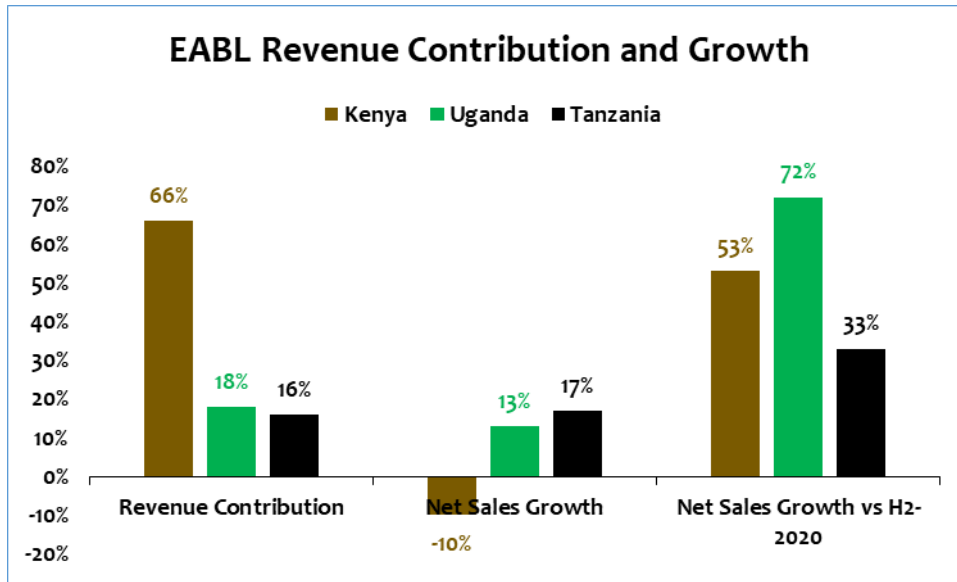
Balance Sheet (KES Mn)	Dec-19	Dec-20	%Δ
Total Equity	17,924	11,993	-33.1%
Non-Current Liabilities	38,527	43,442	12.8%
	56,451	55,435	-1.8%
Non-Current Assets	60,756	65,337	7.5%
Working Capital			
Current Assets	32,612	31,520	-3.3%
Current Liabilities	(36,917)	(41,422)	12.2%
	56,451	55,435	-1.8%

Key Ratio	Dec-19	Dec-20
Gross Margin	47.6%	43.5%
PBT Margins	23.1%	13.1%
PAT Margins	15.7%	8.5%
ROaE	40.2%	31.6%
ROaA	7.7%	3.9%
Current Ratio	1.13	1.31
Operating Cash Conversion	102%	186%

Regional subsidiaries have continued to show an upside in performance to cover the negative growth of Kenya.

Downside:

- Consumers purchasing power remains weak and will trickle to the overall consumption leading to a weaker growth in revenues.
- Regulation: regional government continue to impose new regulation on the industry. This will lead to increase in prices affecting growth in revues.



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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 10% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 5% and 10%.
- **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%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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