

# KINGDOM SECURITIES

Kakuzi Limited

Company Report - 2021

Kakuzi Limited has consistently posted a growth in revenue and profitability with a 5-year compounded annual growth rate (CAGR) of 11.3% and 34.8% in revenues and profit after tax. The product mix ensures the company performs well in volatile markets while adjusting to climate change and erratic weather. The 2020 performance will be supported by lower VAT at 14% from 16% and corporate taxes of 25% from 30%. The board has maintained a payout for an average of 28.1% for the last five years. The payout levels have increased to 38.5% in 2019 from 21.3% in 2015 on stronger cashflow. We expect this to be retained.

Performance of the company is heavily dependent on the second half of the year on weather pattern with over 80% revenue received in the second half. The company has maintained annual production during dry season as they are supported by 16 dams enough to meet the water needs.

The company will maintain preference of good weather especially in the tea growing areas. Favorable weather, as seen in 2019, aided higher profits margins of 40.4% on tea despite revenue and profit contribution of 7.0% and 11.5% respectively.

Avocado remain the champion product generating 64.4% of total revenues in 2019 and 81.3% of total profit. The company has continually increase area under avocado from 515Ha in 2016 to 794Ha in 2020.

Britain and Europe maintained the top destination, especially for tea and avocados with the continent contributing >60% of annual revenues. Other markets have continued to grow with macadamia exports in Asia and Australian markets growing.

The global agriculture sector may be primed for earnings growth in 2021 on recovery of food industry. Demand will improve in 2021 with aggressive vaccination and receding Covid-19 pandemic leading to near full reopening of the global economy.

Total hectares under cultivation has increased by 4.3% on a 5-year CAGR. The company has farms in two geographical areas, Makuyu and Nandi Hills and under different segments. The key segments are Avocado, Macadamia, Tea, Forestry, Livestock and newly introduced Blue Berries.

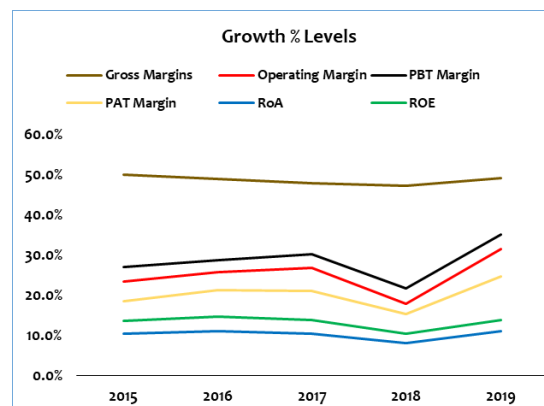
Headwinds caused by the 2020–2021 La Niña episode puts some countries in Southern Africa, the greater Horn of Africa, Asia and the Pacific at high risk of incurring agricultural losses and seeing food insecurity conditions worsen.

The share price is expected to track the market recovery while remaining discounted against equity indexes until long term growth patterns emerge. This will leave the stock price less volatile.

## Upside

- Kenyan product quality levels continue to gain tract in the global positioning the country as a key export of avocado and macadamia nuts.
- Orchard expansion – production continues to increase with maturity of macadamia and blue berry orchards. This will increase product portfolio and revenue diversification.
- Total hectares under cultivation has increased by 4.3% on a 5-year CAGR. The fastest land use growth was seen under Avocado (+14.0% 5-yr CAGR) and Macadamia (+8.1% 5-yr CARG). There was no indication on the unutilized land bank.
- The company as the potential to expand production capacity through partnership and smallholder empowerment Programme. In 2018, Kakuzi ceased the growing of pineapple and entered a joint venture with Del Monte on production.

Bloomberg Ticker:	KKZI KN
<b>Company Statistics</b>	
Current Price	370.00
6 Month Av	375.59
52 Week Ave	353.94
12 Month High/Low	397.00 - 300.00
No of Shares ('000)	19,600
Market Cap (Bn)	7.25
Free Float	13.8%
EPS (LTM)	37.79
Dividend	14.00
PE (LTM)	9.8x
P/B (LTM)	1.4x
Dividend Yield	3.8%



Holder Name	Shares	Holding
Kimani John Kibunga	6,311,199	32.2%
Bordure Ltd	5,107,920	26.1%
Lintak Investments Ltd	4,828,714	24.6%
Gh Kluge & Sons Ltd	239,118	1.2%
Kakuzi Neigh Dev Foundation	155,500	0.8%
Wanjui Joseph Barrage	122,004	0.6%
Ogango John Okuna	104,400	0.5%
Nganga Nicholas	1,000	0.0%
Shah Ketan Rameshchandra	200	0.0%
Mclean Graham Harold	100	0.0%

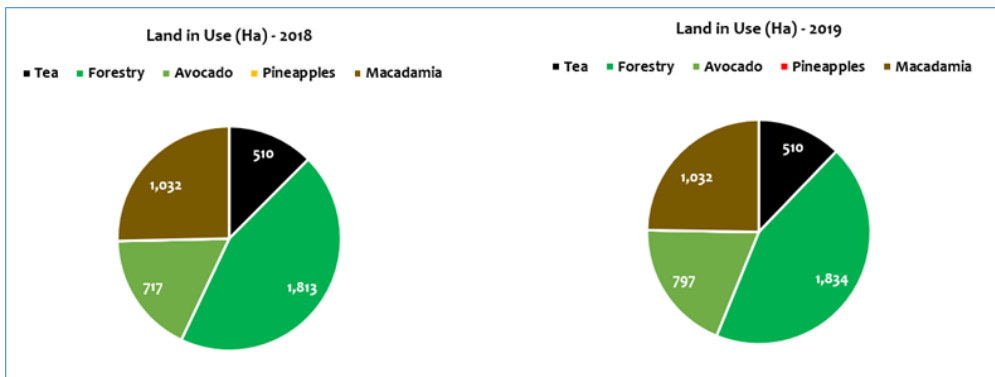
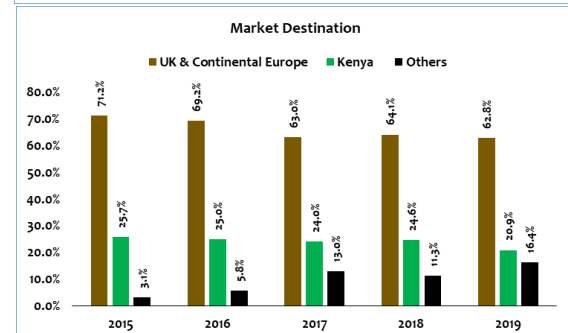
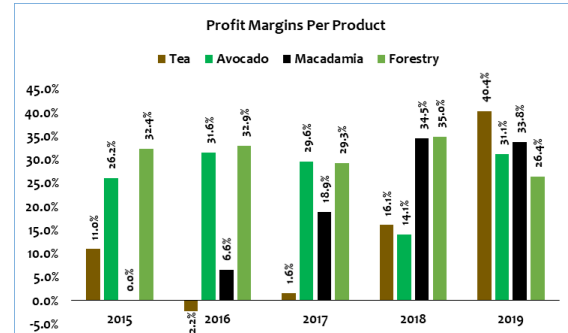
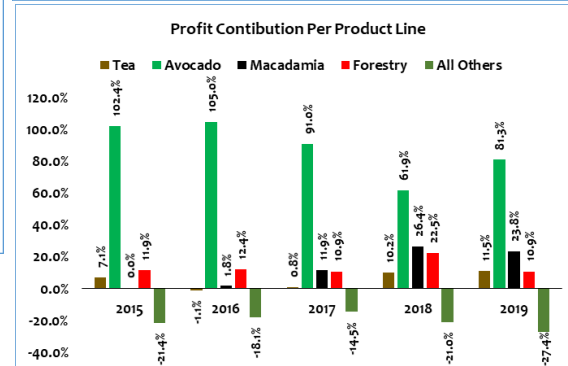
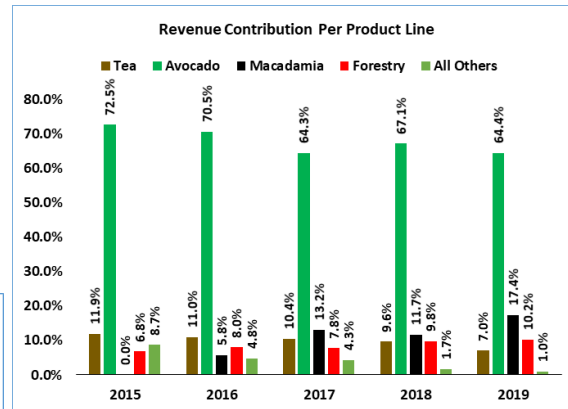
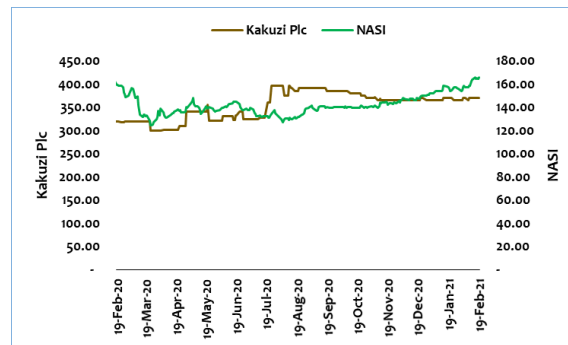
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## Risk and Operational Challenges

- Weather – Kenyan weather remains erratic with climate change playing an important role. Production of highland tea and macadamia has a direct effect on natural weather with production not sustainable.
- International Trading Conditions – currency movements, volatile commodity markets and seasonality does affect demand. Global political environment posed challenges in logistics and distribution.
- Cost of labor – operations remain labor intensive which affect the cost of production. Cost of labor is usually affected by inflationary pressure. In 2019, the company had 3,007 (2018 – 2,939) with 2,944 (2018 – 2,880) who are in unions.
- International production levels – global production contribute heavily to the international markets. This leads to oversupply suppressing international prices directly affecting Kakuzi profitability. In 2018, avocado production increased by 78.6% coinciding with increase in production in South Africa and Peru. This affected revenues which increased at a lower rate of 16.5% with product profitability shrinking by 44.6%.
- Operating risk – Kakuzi has been sued in the UK, one of its key markets, for human rights abuse. This saw some of the key clients, like Tesco and Lidl Supermarkets, suspending procurement of avocados from the plantation.



Kakuzi Limited - Land Use (Ha)	2015	2016	2017	2018	2019	5Yr CAGR
Tea	510	510	510	510	510	0.0%
Forestry	1,773	1,798	1,792	1,813	1,834	1.4%
Avocado	450	515	606	717	797	14.0%
Pineapples	55	52	24	-	-	-100.0%
Macadamia	856	953	1,026	1,032	1,032	8.1%
<b>Total</b>	<b>3,644</b>	<b>3,828</b>	<b>3,958</b>	<b>4,072</b>	<b>4,173</b>	<b>4.3%</b>

Kakuzi Plc	H1-2016	H1-2017	H1-2018	H-2019	H1-2020
Sales	437,347	547,277	613,118	619,463	889,909
Profit before fair value gain in non-current biological assets and income tax	(109,297)	85,462	361,927	334,857	186,022
Fair value gain in non-current biological assets	57,693	20,000	20,641	20,225	18,095
PBT	(51,604)	105,462	382,568	355,082	204,117
Tax	16,366	(32,259)	(112,114)	(109,501)	68,670
PAT	(35,238)	73,203	270,454	245,581	272,787
EPS	(1.80)	3.73	13.80	12.53	13.92

Kakuzi Limited – KShs'000	2015	2016	2017	2018	2019	5Yr CAGR
Turnover	2,481,844	2,651,199	2,823,926	3,152,831	2,888,662	11.3%
Gross Profit	1,238,538	1,296,521	1,346,210	1,484,643	1,415,676	17.3%
Operating profit	580,078	682,592	754,683	560,753	904,972	42.2%
Finance income/(costs)	87,263	75,187	94,440	123,330	109,505	7.3%
<b>PBT</b>	<b>667,341</b>	<b>757,779</b>	<b>849,123</b>	<b>684,083</b>	<b>1,014,477</b>	<b>34.2%</b>
Income tax	(207,627)	(195,354)	(257,480)	(202,489)	(301,038)	32.9%
<b>PAT</b>	<b>459,714</b>	<b>562,425</b>	<b>591,643</b>	<b>481,594</b>	<b>713,439</b>	<b>34.8%</b>
Basic EPS (Shs)	23.45	28.70	30.19	24.57	36.40	34.8%

Kakuzi Limited – KShs'000	2015	2016	2017	2018	2019	5Yr CAGR
Total Asset	4,459,075	5,064,414	5,746,126	5,941,042	6,461,035	10.9%
Total equity	3,366,961	3,831,386	4,305,429	4,665,335	5,214,184	11.8%
Dividends: -						
Proposed final dividend – for the year	98,000	117,600	137,200	176,400	274,400	30.1%
Called up share capital	98,000	98,000	98,000	98,000	98,000	0.0%
Reserves and non-controlling interest	3,268,961	3,733,386	4,207,429	4,567,335	5,116,184	12.2%

Kakuzi Limited	2015	2016	2017	2018	2019	5Yr CAGR
DPS (Shs)	5.00	6.00	7.00	9.00	14.00	30.1%
Dividend cover	4.69	4.78	4.31	2.73	2.60	3.6%
Total equity per ordinary share (Shs)	171.78	195.48	219.66	238.03	266.03	11.8%
Ordinary Share Par Value	5.00	5.00	5.00	5.00	5.00	0.0%
Dividend on Per Value	100%	120%	140%	180%	280%	

Kakuzi Limited – Growth %	2015	2016	2017	2018	2019
Turnover	46.9%	6.8%	6.5%	11.6%	-8.4%
Gross Profit	94.5%	4.7%	3.8%	10.3%	-4.6%
Operating profit	272.6%	17.7%	10.6%	-25.7%	61.4%
Finance income/(costs)	13.2%	-13.8%	25.6%	30.6%	-11.2%
<b>PBT</b>	<b>186.7%</b>	<b>13.6%</b>	<b>12.1%</b>	<b>-19.4%</b>	<b>48.3%</b>
Income tax	186.0%	-5.9%	31.8%	-21.4%	48.7%
<b>PAT</b>	<b>187.0%</b>	<b>22.3%</b>	<b>5.2%</b>	<b>-18.6%</b>	<b>48.1%</b>
<b>EPS</b>	<b>187.0%</b>	<b>22.4%</b>	<b>5.2%</b>	<b>-18.6%</b>	<b>48.1%</b>
<b>Dividend</b>	<b>33.3%</b>	<b>20.0%</b>	<b>16.7%</b>	<b>28.6%</b>	<b>55.6%</b>

Kakuzi Limited – Growth %	2015	2016	2017	2018	2019
Assets	15.6%	13.6%	13.5%	3.4%	8.8%
Equity	13.0%	13.8%	12.4%	8.4%	11.8%

Kakuzi Limited - Key Ratios %	2015	2016	2017	2018	2019
Gross Margins	49.9%	48.9%	47.7%	47.1%	49.0%
Operating Margin	23.4%	25.7%	26.7%	17.8%	31.3%
PBT Margin	26.9%	28.6%	30.1%	21.7%	35.1%
PAT Margin	18.5%	21.2%	21.0%	15.3%	24.7%
ROA	10.3%	11.1%	10.3%	8.1%	11.0%
ROE	13.7%	14.7%	13.7%	10.3%	13.7%

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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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