

# KINGDOM SECURITIES

EABL Plc

## Earnings Update – H1-2022

EABL reported a 130.4% y-y surge in Profits after tax (PAT) to KES 8.74Bn in half year 2022 from KES 3.79Bn seen in HY-21. Profits before tax increased by 120.7% y-y to KES 12.88Bn from KES 5.36Bn. The performance was boosted by easing of Covid-19 restriction that led to favorable business environment aiding net revenues to climb 23.5% y-y, a slower growth of 13.1% in cost of sales and a 30.4% dip in other operating expense and lower effective tax rate of 32.1% compared to 35.0% seen in H1-2021.

The board recommend a per share dividend of KES 3.75 having opted not to pay dividends in the year 2021. Book closure and dividend payment dates are scheduled for 28<sup>th</sup> February and on or about 27<sup>th</sup> April respectively. We expect a price recovery on the counter riding on dividend payment and the bettering revenue performances.

- Net revenues increased to KES 54.90Bn, a 23.5% y-y increase from KES 44.46Bn. Gross revenues was supported by increase in volumes which spiked up 23.9%.
- Regional performance saw strong recovery in Kenya growing by 27% y-y with bottled beer jumping +17% and Senator +49%. Uganda revenues were up 18% with mainstream beer up 46%. Tanzania saw revenues improve by 15% buoyed by Total Spirits +52% and Scotch +43%. The Tanzanian market saw Guinness brand grow by 157%.
- Cost of sales were up 13.1% y-y to KES 28.43Bn from KES 25.13Bn on improved capacity output. The slow growth in cost of sales compared to revenues pushed gross margins up to 48.2% from that of 43.5% seen in H1-21.
- Selling and distribution cost were up by 24.0% while administrative expenses increased by 18.6% having slowed down by 6.3% in H1-21.
- Net finance cost were up 15% to KES 2.2Bn from KES 1.5Bn
- Capital expenditure increased by 51.0% to KES 6.2Bn with capacity expansion being key. Tanzania Moshi KES 5.7Bn, Spirits Cube KES 0.7Bn, Kenya, Kisumu KES 14.9Bn and Uganda KES 3.7Bn.
- Net debt eased to KES 40.7Bn at end of FY-21 to KES 34.7% as end of H1-22 on refinancing and reduction of overdraft facilities. The brewer raised KES 11.00Bn through a mid-term note which was used for refinancing and capex.

### Key ratios

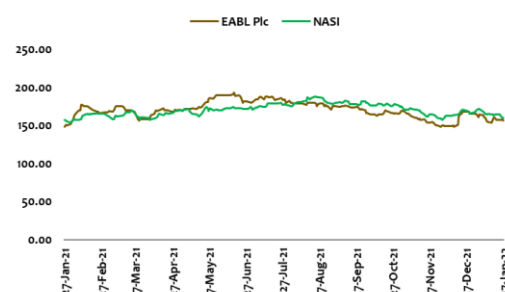
- Net margins improved to 15.9% from 8.5% in H1-21 on higher profitability.
- Operating cash cycle conversion eased to 101% from 137% in H1-21.
- Net debt to EBITDA improved from 2.1 to 1.0 with a board target of <1.5.
- Interest coverage saw EBIT/Interest increase to 6.8 from 3.8 with board targeting >4.0.

### Outlook

- Optimism on regional economic recovery has led to an upward outlook on consumer income which can fuel net sales growth in the region.
- Covid-19 effects continue to be a key risk due to lingering social economic factor and global logistic effect.

Bloomberg Ticker:	EABL KN
Reuters Ticker:	EABL.NR
Company Statistics	
Current Price	156.00
3-Months Avg	158.97
6-Months Avg	166.53
12-Month Avg	170.63
52-Week High - Low	193.75 - 148.25
No of Shares ('000)	790,774
Market Cap (Bn)	123.36
Free Float	52.3%
EPS (annualized)	16.9
PE	9.2
PB	5.0
Dividend	3.75

Return Performance		
Period	EABL	NASI
3-Months	-6.0%	-9.0%
6-Months	-15.2%	-9.7%
Y-T-D	-5.7%	-4.2%
Y-Y	5.1%	2.0%



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- Political risk in Kenya in the later stage of FY-22 can lead to a slowdown in economic activities which can result to lower consumer income that will affect beer consumption in Kenya.
- We expect the company to revert to full dividend payment which will lead to a surge in price.

P&L (KES Mn)	Dec-20	Dec-21	%Δ
Gross Revenues	78,164	96,836	23.9%
indirect Taxes	(33,704)	(41,937)	24.4%
Net Revenues	44,460	54,899	23.5%
Cost of Sales	(25,127)	(28,429)	13.1%
<b>Gross Profits</b>	<b>19,333</b>	<b>26,470</b>	<b>36.9%</b>
Selling Distribution Cost	(3,878)	(4,810)	24.0%
Administrative Cost	(4,258)	(5,052)	18.6%
Other Operating Income/(Expense)	(5,361)	(3,730)	-30.4%
<b>Total Cost</b>	<b>(13,497)</b>	<b>(13,592)</b>	<b>0.7%</b>
<b>PBT</b>	<b>5,836</b>	<b>12,878</b>	<b>120.7%</b>
Tax	(2,044)	(4,140)	102.5%
<b>PAT for the Year</b>	<b>3,792</b>	<b>8,738</b>	<b>130.4%</b>
EPS	2.71	8.45	211.8%
DPS	-	3.75	100.0%

Balance Sheet (KES Mn)	Dec-20	Dec-21	%Δ
Total Equity	11,993	24,538	104.6%
Non-Current Liabilities	43,442	40,823	-6.0%
	<b>55,435</b>	<b>65,361</b>	17.9%
Non-Current Assets	65,337	71,054	8.8%
Working Capital			
Current Assets	31,520	38,899	23.4%
Current Liabilities	(41,422)	(44,592)	7.7%
	<b>55,435</b>	<b>65,361</b>	17.9%

Key Ratio	Dec-20	Dec-21
Gross Margin	43.5%	48.2%
PBT Margins	13.1%	23.5%
PAT Margins	8.5%	15.9%
ROaE	31.6%	35.6%
ROaA	3.9%	7.9%
Current Ratio	0.76	0.87
Operating Cash Conversion	186%	186%

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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 30% 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 10% and 30%.
- **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 10%.
- **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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