

Record Dividend Per Share Payment of KES 53.50

BAT Kenya reported KES 9.29Bn in profits before tax (PBT) in FY-21, which was a 25.2% y-y recovery from KES 7.42Bn in FY-20. Profits after tax (PAT) increased by 17.5% y-y to KES 6.48Bn from KES 5.52Bn in FY-20. The performance was supported by a 9.5% y-y decline in operating profits while PAT was suppressed by higher effective tax rate of 30.2% from 25.6% in FY-20. Earnings per share (EPS) surged to 64.83, a 17.5% jump from 55.15 in FY-20.

The board proposed a payment of final dividend of KES 50.00 per shares for a total dividend payment of KES 53.50. this pushed dividend payout to 82.5% from 81.6% in FY-20.

Despite the spectacular results and increase in dividend payment, we retain our HOLD recommendation at KES 500.00, a 6.8% increase compared to KES 468.00 as of Thursday February 17th, 2022. The stock gains will be curtailed due to reduced exposure to foreign corporate investors after the deletion of the from the MSCI Frontier Markets Small Cap Indexes.

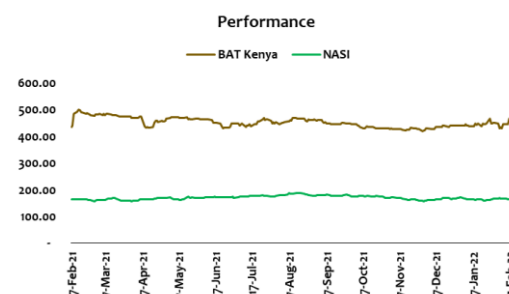
- The effect of reversion of VAT from 14% in 2020 to 16% in 2021, inflationary adjusted excise duty of 4.9% in October 2020 and 4.97% in November 2021 saw excise duty and VAT increase by 8.3% y-y to KES 14.62Bn from KES 13.51Bn forcing gross revenues up 3.1% y-y to KES 40.05Bn from KES 38.85Bn in FY-20 driven by recovery in volumes and increase in inflationary factored excise duty.
- Net revenues were up marginally by 0.4% y-y to KES 25.43Bn from KES 25.34Bn driven by increase in volumes as Kenyan market led the increase with a 1%. The domestic market remains a major revenue contributor with 55% compared to 45% generated by exports. Finished cigarettes contributed more to the export market revenues compared to cut rags tobacco (CRT).
- Sales were down in Uganda on introduction of regulation on images on the package and challenges in the Somali market.
- Operating profits were up 23.5% y-y to KES 9.37Bn from KES 7.59Bn in FY-20 driven by stringent sourcing management, operational restructure and product migration with Spotsman fully transformed to Rothmans. This saw operating margins improve to 36.8% from 29.9% in FY-20
- Finance cost declined by 52.6% y-y to KES 82.0Bn from KES 173.0Bn on lower need for overdraft necessitated by H1 needs for farmers payment on cut tobacco rugs.
- Balance sheet saw shareholders' funds increase by 23.0% to KES 14.97Bn from KES 11.89Bn supported by a 22.0% increase in retained earnings.
- Stringent collection and debt management to contain receivables saw net working capital increase by 83.0% y-y to KES 4.61Bn from KES 2.52Bn in FY-20.

Bloomberg Ticker: BATK Company Statistics

Recommendation	HOLD
Valuation	500.00
Current Price	468.00
Upside/Downside	6.8%
3-Months Avg	438.46
6 Month Avg	442.42
52 Week Avg	452.26
12 Month High/Low	499.75 - 420.25
No of Shares (Mn)	100.00
Market Cap (KES Mn)	46,800
Market Cap (USD Mn)	411.71
Free Float	40.0%
EPS (LTM)	64.83
PB	149.74
Dividend	53.50
PE (LTM)	7.2x
P/B (LTM)	4.4x
Dividend Yield	11.4%

Return Performance

Period	BAT Kenya	NASI
3-Months	9.2%	-1.8%
6-Months	2.4%	-11.1%
Y-T-D	6.4%	-0.3%
Y-Y	7.1%	1.0%



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Outlook

- The company expect the reintroduction of nicotine pouch product Lift with a new brand name Velo on or before August 2022 after an agreement with the government on the regulatory and fiscal requirements.
- Political risk in the domestic market will be a key factor to consider with domestic market contributing 55% of the group revenues.
- Illicit cigarette trades continue to affect the market with a cover of 22% in value transacted. This remains a key challenge to the company in the domestic market especially with most of the illicit transactions coming from the neighboring Uganda.
- Product portfolio remains a key item in growing revenues especially in with the adjustments of excise duty. The company adjust prices changes on the products depending with the ability to pass price changes to consumer.
- Market diversification continues to aid with mitigating market risk as the decline in Uganda and Somali revenues were able to be offset by other markets to retain an upward trajectory in revenues.

Income Statement (KES Mn)	Period					Annual %Δ				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Gross Revenues	34,468	36,496	39,827	38,845	40,049	-6.0%	5.9%	9.1%	-2.5%	3.1%
Excise Duty and Value Added Tax (VAT)	(15,794)	(15,746)	(15,788)	(13,506)	(14,621)	-6.1%	-0.3%	0.3%	-14.5%	8.3%
Net Revenues	18,674	20,750	24,039	25,339	25,428	-5.9%	11.1%	15.9%	5.4%	0.4%
Total cost of operations	(13,313)	(14,531)	(18,313)	(17,750)	(16,058)	0.1%	9.1%	26.0%	-3.1%	-9.5%
Operating profit	5,361	6,219	5,726	7,589	9,370	-18.1%	16.0%	-7.9%	32.5%	23.5%
Finance costs	(494)	(338)	(193)	(173)	(82)	67.5%	-31.6%	-42.9%	-10.4%	-52.6%
PBT	4,867	5,881	5,533	7,416	9,288	-17.7%	20.8%	-5.9%	34.0%	25.2%
Tax	(1,531)	(1,796)	(1,648)	(1,898)	(2,805)	-8.7%	17.3%	-8.2%	15.2%	47.8%
PAT	3,336	4,085	3,885	5,518	6,483	-21.2%	22.5%	-4.9%	42.0%	17.5%
EPS	33.36	40.85	38.85	55.18	64.83	-21.2%	22.5%	-4.9%	42.0%	17.5%
Dividend	26.00	35.00	33.50	45.00	53.50	-39.5%	34.6%	-4.3%	34.3%	18.9%

Balance Sheet (KES Mn)	Period					Annual %Δ				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Share Capital	1,000	1,000	1,000	1,000	1,000	0.0%	0.0%	0.0%	0.0%	0.0%
Revaluation Surplus	1,861	1,820	1,756	1,756	2,837	-2.2%	-2.2%	-3.5%	0.0%	61.6%
Retained Earnings	4,979	6,490	6,959	9,129	11,137	-15.5%	30.3%	7.2%	31.2%	22.0%
Shareholders' Funds	7,840	9,310	9,715	11,885	14,974	-10.9%	18.8%	4.4%	22.3%	26.0%
Non-Current Liabilities	3,391	3,237	1,871	1,576	1,939	1.0%	-4.5%	-42.2%	-15.8%	23.0%
	11,231	12,547	11,586	13,461	16,913	-7.6%	11.7%	-7.7%	16.2%	25.6%
Assets										
Non-Current Assets	9,140	9,123	10,685	10,914	12,305	-4.1%	-0.2%	17.1%	2.1%	12.7%
Working Capital										
Current Assets	8,665	9,216	11,251	10,792	11,814	-3.4%	6.4%	22.1%	-4.1%	9.5%
Current Liabilities	(6,574)	(5,792)	(10,350)	(8,274)	(7,206)	3.6%	-11.9%	78.7%	-20.1%	-12.9%
Working Capital	2,091	3,424	901	2,518	4,608	-20.3%	63.7%	-73.7%	179.5%	83.0%
	11,231	12,547	11,586	13,432	16,913	-7.6%	11.7%	-7.7%	15.9%	25.9%

Key Ratios	2017	2018	2019	2020	2021
Gross Profits	17.9%	19.7%	16.2%	21.8%	25.5%
Operating Margins	28.7%	30.0%	23.8%	29.9%	36.8%
PBT Margin	26.1%	28.3%	23.0%	29.3%	36.5%
PAT Margin	17.9%	19.7%	16.2%	21.8%	25.5%
ROaA	18.4%	22.6%	19.3%	25.3%	28.3%
ROaE	40.1%	47.6%	40.8%	51.1%	48.3%
Dividend Payout	77.9%	85.7%	86.2%	81.6%	82.5%
Excise Duty	45.8%	43.1%	39.6%	34.8%	36.5%
Tax Rate	31.5%	30.5%	29.8%	25.6%	30.2%

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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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