

EABL Doubles its Profits at 123.7%

East African Breweries plc (EABL) posted KES 24.02Bn in profits before tax (PBT) for the FY 2022 representing a 121.2% spike in from KES 10.86Bn reported in FY 2021. This was accelerated by a 27.3% revenue growth and better cost and cash management resulting to borrowing reductions. EABL's profits after tax (PAT) jumped 123.7% Y/Y to KES 15.57Bn in FY 2022 from that of KES 6.96Bn in FY 2021 as effective tax rate declining to 35.2% from 35.9% in 2021.

The listed counter's earnings per share nearly tripled at 172.2% from 5.51 in FY 2021 to 15.00 in FY 2022 on account of a better recovery despite the soaring inflations witnessed in its 2nd half. The company declared a KES 7.25 final dividend whose book closure and payment are scheduled for 15th September and 30th October respectively. This out-performed our projections by 45.0%.

We revise our recommendation to ACCUMULATION on the counter being undervalued at 11.2% from an average price of KES 170.20 recorded in 2021 and the ongoing economic recoveries.

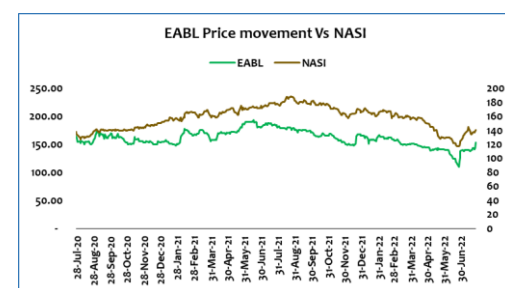
Income Statement

- Net revenue expanded 27.3% from KES 85.96Bn to KES 109.41Bn in FY-22 resulting from a 22.0% spike in beer and spirits volumes occasioned by economic re-openings.
- Kenyan subsidiary grew at 30.0% contributing 68.0% of groups revenue, Uganda, and Tanzania subsidiaries at 24.0% and 21.0% to contribute 18.0% and 14.0% respectively.
- Cost of sales moved 16.5% up to support the growing volumes in production but remained low compared to 27.3% growth net revenues. This pushed the net profit margins from 43.5% in FY-21 to 48.3% in FY-22.
- Selling and distributions costs surged 32.2% Y/Y to KES 10.84Bn due to logistics and promotion activities. Administrative costs increased by 16.3% on return-to-work basis for the staff. This pushed the overall operating expenses 8.6% up to KES 28.84Bn. operating margins stood at 25.8% against 17.2% in FY-21.
- Prudent cashflow utilization saw borrowings drop from KES 41.8Bn to KES 34.7Bn in FY-22. Capital allocation to capacity expansion dropped to 45.0% in H2-22 from that of 62% witnessed the first half of FY-22 with the company easing on capacity expansion in Uganda and Tanzania.
- Overall, the beer manufacturer remained affected by heavy taxes that remains a thorn in the industry by governments in the region. Kenya saw excise duty increase in excise duty rates of 5% in November 2021, and 10% effective July 2022. This is bound to affect future volumes due to adjustment in retail prices. Uganda enforced a 12.0% excise duty as Tanzania proposed a 10.0%

Balance Sheet

- Shareholder funds expanded 77.8% Y/Y to close the year at 26.41Bn largely benefiting from a 57.2% jump in retained earnings from KES 5.52Bn to KES 8.68Bn.

Bloomberg Ticker:	EABL KN
Recommendation	ACCUMULATE
Company Statistics	
Current Price	153.00
Valuation Price	170.12
Upside	11.2%
3-Months Avg	146.30
6-Months Avg	163.99
12-Month Avg	163.99
52-Week High - Low	184.50 - 110.00
No of Shares ('000)	790,774,356
Market Cap (Bn)	120.99
EPS (annualized)	15
PE	10.2
PB	4.58
Final Dividend	7.25
Total Dividend	15.00



Net Sales + 27.1 % Y/Y

Cost of Sales – 16.5% Y/Y

Gross Profit + 41.3% Y/Y

PBT + 121.2% Y/Y

PAT + 123.7% Y/Y

Borrowings – 17.0%

Shareholder's Funds + 77.8% Y/Y

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KINGDOM SECURITIES

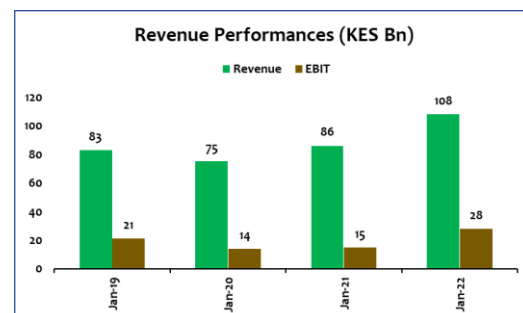
EABL Plc

Earnings Update – FY-2022

- Total assets were 13.5% up from KES 60.41Bn to KES 68.59Bn on boosted by PPE on expansion capacity in the region.

Key Ratios

- Return on equity surpassed the 50% mark to 59.0% in FY-2022 compared to 46.9% recorded in FY-21 attributed to a fasted growth in PAT. Return on assets doubled from 11.5% to 22.7% on account of a slow growth in the company's assets.
- The company retained strong liquidity position with current ratios of remaining flat at 0.85 from 0.86.
- Net debt to EBITDA improved from 2.10 to 1.03, which was within group target of 1.0 – 1.5.
- EBIT/interest ratio was 6.7, an improvement from 3.8 seen in FY-21 and a group target of >4.0.
- The operating cash cycle was near flat at 104% from 103% leaving the company with sufficient liquidity for working capital.



Outlook

- EABL remains confident on its 10-Year sustainability plan of growing its portfolio while responding to emerging trends and insights in its east African market.
- Global inflationary impact on consumer income will have an impact on consumptions affecting revenues.
- The devaluation of the shilling will impact on import of raw materials and finished products affecting cost of sales impacting gross margins.
- The Group will continue facing regional challenges with regulatory authorities targeting their performance with inflation adjusted excise duty and limiting their market reach in terms of promotion and marketing capabilities that can impact their volumes.

P&L (KES Mn)	Jun-21	Jun-22	%Δ
Gross Revenues	152,572	193,850	27.1%
indirect Taxes	(66,610)	(84,441)	26.8%
Net Revenues	85,962	109,409	27.3%
Cost of Sales	48,548	56,553	16.5%
Gross Profits	37,414	52,856	41.3%
Selling Distribution Cost	(7,362)	(9,734)	32.2%
Administrative Cost	(9,320)	(10,842)	16.3%
Other Operating	(5,925)	(4,028)	-32.0%
Income/(Expense)			
Operating Margin	14,807	28,252	90.8%
Net finance costs	(3,949)	(4,236)	7.3%
PBT	10,858	24,016	121.2%
Tax	(3,896)	(8,442)	116.7%
PAT for the Year	6,962	15,574	123.7%
EPS	5.51	15.00	172.2%
DPS	-	11.00	100.0%

Balance Sheet (KES Mn)	Jun-21	Jun-22	%Δ
Total Equity	14,852	26,414	77.8%
Non-Current Liabilities	45,562	42,174	-7.4%
	60,414	68,588	13.5%
Non-Current Assets	66,024	75,016	13.6%
Current Assets	34,092	35,411	3.9%
Borrowings	39,323	36,161	-8.0%
Current Assets	34,092	35,411	3.9%
Current Liabilities	39,702	41,838	5.4%

Key Ratio	Jun-21	Jun-22
Gross Margin	43.5%	48.3%
Operating Margin	17.2%	25.8%
PBT Margins	12.6%	22.0%
PAT Margins	8.1%	14.2%
ROaE	46.9%	59.0%
ROaA	11.5%	22.7%
Current Ratio	0.86	0.85

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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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