

Kenya Power Plc - When the Tide Leaves...

Kenya Power Plc has seen a recent surge in prices after a change in single majority shareholder. The utility company reported strong H1-22 results however the company continues to be laden by heavy foreign dominated debt and corporate governance challenges with board members on a revolving door.

We view the price gain as a speculative temptation with price movement pushed by herd mentality. Our view is, after all the carnivore sentiments, the price will decline to below its 52-week average of KES 1.58 as it is currently trading at a gain compared to the market as indicated by the Nairobi All Share Index (NASI).

KPLC is set to release its Full Year 2022 results by end of September 2022 with an expectation of a strong year after posting KES 5.66Bn in H1-2022 profits before tax (PBT), a 1,604.5% y-y increase from KES 332Mn in H1-21. This driven by 21.1% y-y rise in revenues and 46.7% y-y improvement in earnings before interest and tax (EBIT).

The key ratios remained stable with gross margins at 33.8% compared to 34.0% in H1-21 and 34.6% in H1-20. EBIT margins were 14.6% vs 12.1% in H1-21 and 7.1% in H1-20. Pre-tax margins were 6.8% while net margins 4.6% in H1-22 vs 0.5% and 0.2% in H1-21 pre-tax margins and net margins respectively.

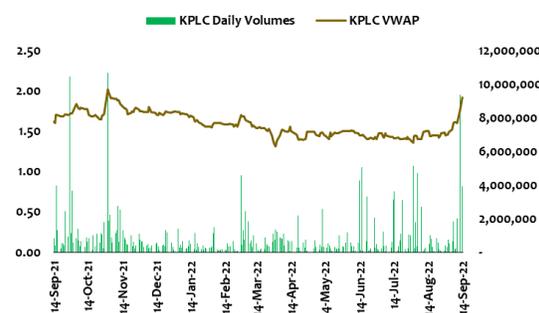
The H2-22 performance of the company will be challenged by 15.0% cut of electricity tariff despite, and higher cost of electricity supplied due to the drought that faced the country leading to use of more costly thermal than hydroelectricity as thermal generation increased to 19.9% in March 2022 compared to 13.6% in December 2021 and 8.2% respectively.

The biggest challenge facing the utility company is the high cost of financing due to external dollar loans with finance cost at 8.1% of total revenues in H1-22, down from 11.7% in H1-21 on restructuring of the debt and government guarantees. The other issue is corporate governance on resignation of the Chair of the Board and two independent board members and appointment of Managing Director after acting Managing Director was sent on annual leave.

The share price has gained 10.3% y-y and 19.3% w-w to KES 1.98 after a political statement by one of the member of parliament from the ruling party on reason for share accumulation. In our view, the price is not sustainable even in the short run.

Recommendation:	SELL
Bloomberg Ticker:	KPLL
Share Stats	
Current Price	1.92
3-Month Avg	1.46
6 Month Avg	1.47
52 Week Avg	1.58
52 Week High - Low	2.02 - 1.31
Issued shares Mn	1,951.47
Free Float	44.49%
Market Cap (KES Mn)	3,746.82
Market Cap (USD Mn)	31.12
EPS Annualized	3.92
P/E	0.5
BVPS	31.3
PB	0.1

Price Performance		
Period	KPLC	NASI
14-Sep-22	1.92	138.23
W-W	19.3%	-4.0%
M-T-D	31.5%	0.6%
M-M	28.0%	-5.9%
Y-T-D	10.3%	-17.3%
Y-Y	18.5%	-23.3%



Willis Nalwenge, CFA
Lead Analyst

+254 711 049 183

[wnalwenge@co-opbank.co.ke](mailto:wналwenge@co-opbank.co.ke)

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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 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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Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: kingdomresearch@co-opbank.co.ke/

Research Department

Willis Nalwenge wnalwenge@co-opbank.co.ke

Shadrack Manyinsa smanyinsa@co-opbank.co.ke

Equities Trading

Justus Ogalo jogalo@co-opbank.co.ke

High Net-Worth Team

Dennis Langat dlangat@co-opbank.co.ke

Wycliffe Wesonga wwesonga@co-opbank.co.ke

Martim Cheruiyot mcheruyot@co-opbank.co.ke

Operations and Client Service

Timothy Kagunya tkagunya@co-opbank.co.ke

Joab Kiprono jkiprono@co-opbank.co.ke