

KINGDOM SECURITIES

EABL Plc

Earning Update FY-2023

EABL saw profits before tax (PBT) decline by 22.1% y-y to KES 18.71Bn from KES 15.57Bn in 2022. Profits after tax (PAT) was down 20.9% y-y KES 12.32Bn. The management commented on a tough business landscape with macroeconomic headwinds, the inflationary pressure that devoured on the consumers disposable income while rise in cost of supply cutting on gross profits.

Earnings per share (EPS) declined by 16.9% to 12.47 from 15.00. The board of Directors proposed a final dividend of KES 1.50 per shares (2022-KES 7.50) for a total of dividend of KES 5.50, a 50.0% decline from KES 11.0 per share in 2022. The dividend will be paid on 27th October with book closure set for September 15th, 2023. The payout stood at 44.1% compared to dividend policy of 70% payout. The reservation was due to review of the balance sheet, need to maintain key ratios and review of the unstable macroeconomic environment.

We issue a HOLD recommend on the stock is currently trading on the 6-months and 12-months averages while playing above the 3-months average. Our valuation on the stock is KES 185.72, a 12.9% higher compared to market value of KES 164.50. Total expected return is 16.3%.

Net revenues were nearly flat with a y-y rise of 0.2% to 109.41Bn from KES 109.65Bn. This was suppressed by a 4.2% y-y rise in indirect taxes with gross revenues increasing by 1.9% y-y. Revenues were affected by a 7.0% y-y decline in volumes especially in mainstream beer. Uganda and Tanzania continue to see their contribution increase with a revenue growth of 17.0% and 1.0% respectively while Kenya saw a revenue drop of 4.0% y-y. Tanzania has a mis-delivery affected by pricing mix which had an impact on volumes and competition.

On product mix, there was a 2% drop in bottled beer and -3% in new frontier products while spirits were on an upward track with a +3% and +5% growth on main spirit and premium spirits respectively.

Cost of sales jumped by 10.1% y-y to KES 62.25Bn from KES 56.55Bn drive by depreciating shilling leading to rising cost of production. The key areas were increase in prices of grains +31% due to drought leading competing with food supplies, logistics were up 14%, electricity cost was up 40% and neutral spirit due to increase prices in ethanol caused by drought on sugarcane and competition of the same from fuel companies. This rise led to gross income dipping by 10.3% to KES 47.40Bn from KES 52.86Bn.

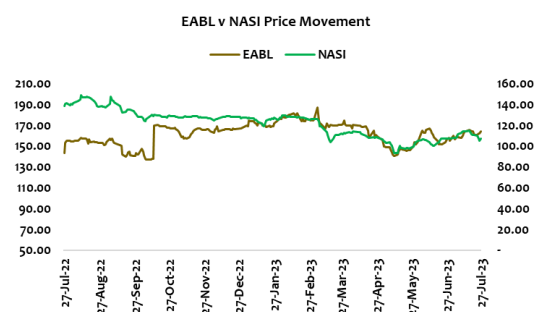
Operating profits declined by 14.4% to KES 24.19Bn from KES 28.25Bn despite a 5.7% drop in operating expense. Expenses saw a KES 4.2Bn savings from mitigating measures such as savings in warehousing.

Cost of financing saw an impact in rising rates with the company's effective rate from 9.9% to 10.4%.

Bloomberg Ticker:	EABL KN
Reuters Ticker:	EABL.NR
Company Statistics	
Recommendation	HOLD
Current Price	164.50
Valuation Price	185.72
Upside/(Downside)	12.9%
No Of Shares ('000)	790,774
Market Cap (Bn)	130.08
Free Float	25.0%
EPS (LTM)	12.47
PE (LTM)	13.2x
P/B (LTM)	4.1x
Dividend	5.50
Dividend Yield	3.3%
Dividend Payout	44.1%

Price Movement		
Period	EABL Plc	NASI
27-Jul-23	164.50	107.34
3-Months	155.60	105.04
6-Months	163.99	111.73
Y-T-D	164.84	113.38
Y-Y	161.63	121.73
52-Wk Max	187.00	148.81
52-Wk Min	137.00	93.04

Price Return		
Period	EABL Plc	NASI
27-Jul-23	164.5	107.34
3-Months	2.81%	-1.13%
6-Months	-6.00%	-14.37%
Y-T-D	-3.24%	-15.71%
Y-Y	14.83%	-22.50%



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The cut in dividends saw retained earnings push shareholders' funds up by 20.2% y-y to KES 31.74Bn.

Current assets increased by 22.7% while current liabilities remained flat with net current asset growth to 124.1%. Non-current assets were up with PPE growth on investments in plant in Moshi, Uganda Brewer House and Microbrewery in Kenya.

Borrowing surged by 41.1% y-y to KES 59.42Bn from KES 41.80Bn. The rise in the cost of borrowing will have a large impact on the bottom-line due to the variable rates that are witnessed in the market.

The company retains a strong cash position ending with KES 9.04Bn while operating cashflow standing at KES 11.05Bn.

Outlook

We expect the company to continue facing challenges due to the high cost of borrowing, elevated inflation that will impact consumers' income and push up cost of production.

Rising cost of energy will impact the plant with regulator requirement will lead to increasing indirect taxes impacting on net revenues in an environment of declining demand.

Currency depreciation will have an impact to the business while the new tax regulations introduced by the suspended Finance Bill 2023 will have a key impact on consumption levels. The removal of the annual inflationary excise duty adjustment will play a positive impact on production and costing.

The Tanzania and Uganda business will continue to drive revenue growth while Kenya will see headwind in revenues due to inflow of imported alcohol and illicit brew.

P&L (KES Mn)	Jun-22	Jun-23	Y-YΔ
Gross Revenues	193,850	197,611	1.9%
indirect Taxes	(84,441)	(87,962)	4.2%
Net Revenues	109,409	109,649	0.2%
Cost of Sales	(56,553)	(62,249)	10.1%
Gross Profits	52,856	47,400	-10.3%
Operating Expense	(24,604)	(23,206)	-5.7%
Operating Profits	28,252	24,194	-14.4%
Net Finance Income/ (Cost)	(4,236)	(5,485)	29.5%
PBT	24,016	18,709	-22.1%
Tax	(8,442)	(6,386)	-24.4%
PAT for the Year	15,574	12,323	-20.9%
EPS	15.00	12.47	-16.9%
DPS	11.00	5.50	-50.0%

Balance Sheet (KES Mn)	Jun-22	Jun-23	Y-YΔ
Total Equity	26,414	31,744	20.2%
Non-Current Liabilities	42,174	58,958	39.8%
Non-Current Assets	75,016	89,155	18.8%
Working Capital			
Current Assets	35,411	43,438	22.7%
Current Liabilities	41,839	41,891	0.1%
Net Current Assets/(Liabilities)	(6,428)	1,547	124.1%

Key Ratio	Jun-22	Jun-23
Indirect Tax	43.6%	44.5%
Gross Margin	48.3%	43.2%
Operating Margins	25.8%	22.1%
PBT Margins	22.0%	17.1%
Tax Rate	35.2%	34.1%
PAT Margins	14.2%	11.2%
Pay Out	73.3%	44.1%
ROE	59.0%	38.8%
ROA	14.1%	9.3%
Current Ratio	0.85	1.04
Debt to Equity	187.2%	162.0%

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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 of both capital appreciation and the dividend yield.

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