

### BAT Kenya posts a 3.5% Drop in Profits

BAT Kenya plc reported KES 4.03Bn profits before tax (PBT) for H1 2023, a 3.5% decline year-on-year (y-y) drop from of KES 4.18B reported in same time 2022, being impacted by inflationary pressures and geopolitical risks that affected some of its markets. This was further depressed by the excise duty tax review.

The board of directors retained an interim dividend of KES 5.00 from an earnings per share of 28.22. The book closure and payment dates for the dividend are set for 18<sup>th</sup> August and 22<sup>nd</sup> September respectively.

We retain a HOLD recommendation on the counters shares at the current price of KES 451.25 per shares compared to a 3, 6 and 12-months average price of KES 443.85, KES 447.11 and KES 443.99 per share.

### Income Statement

- The overall gross revenue fell 4.0% y-y from KES 21.86n to KES 21.00Bn on lower sales on its markets especially on high inflations reflected during the period under review even as competition from illegal cigarettes continue adversely affecting the industry.
- The market remained affected by a compound excise led price surge after a 66.7% rise in excise duty tax review of 2022 from 6.0% to 10.0% effected in July 2022.
- Cost of operations declined 7.0% from KES 9.93Bn to KES 9.24Bn on account low volumes while benefitting from high productivity initiatives aimed at mitigation inflationary pressures.

### Key Ratios

Profit margins remained stable in the period with the PAT standing at 13.4% as the PBT rose marginally from 19.1% to 19.2% on account of declines in operating costs.

Return on assets (ROA) fell to 17.7% in H1 2023 from that of 19.7% recorded in H1 2022 as Return on Equity dropped from 22.7% to 20.2% y-y on effect from the above decline in net profits.

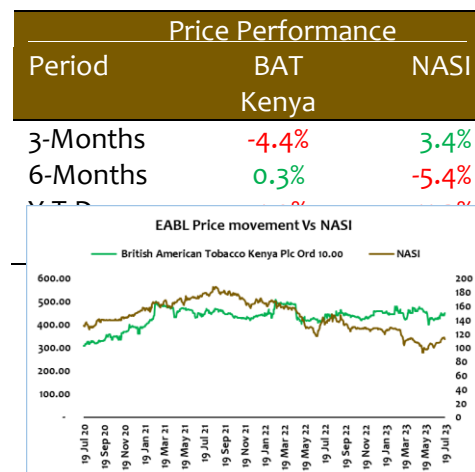
Current ratio however went up from 0.87 in H1 2022 to 1.02 in H1 2023.

### Outlook

The counter remains confident of reaping from the market riding on its customer centric brands and winning culture amid macro-economic challenges.

To enhance good health on its clientele, the company reactivated the rolled out a KES 2.5 billion investment in modern oral nicotine pouch factory which is expected to further support revenues especially through exports in the country.

Bloomberg Ticker: <b>BATK</b> Company Statistics	
Recommendation	HOLD
Current Price	451.25
3-Months Avg	443.85
6 Month Avg	447.11
52 Week Avg	443.99
12 Month High/Low	479.75
No. of Shares (Mn)	100.00
Market Cap (KES Mn)	45,125.00
Market Cap (USD Mn)	318.70
Free Float	0.40
EPS	28.22
BVPS	140.04
Dividend	5.00
PE	15.99
PB	28.22
Interim Dividend	5.00



Revenue - 4.0% Y/Y

Costs – 7.0% Y/Y

Operating Profit – 6.5% Y/Y

PBT – 3.5% Y/Y

PAT - 3.5% Y/Y

Shareholder's Funds + 8.5% Y/Y

Total Assets + 7.3 Y/Y

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Income Statement (KES Mn)					
	H1-2020	H1-2021	H1-2022	H1-2023	%Δ Y-Y
Gross Revenues	16,615	20,245	21,864	20,999	-4.0%
Excise Duty and VAT	(6,078)	(7,703)	(7,772)	(7,875)	1.3%
<b>Net Revenues</b>	<b>10,537</b>	<b>12,542</b>	<b>14,092</b>	<b>13,124</b>	-6.9%
Total cost of operations	(3,747)	(8,638)	(9,934)	(9,237)	-7.0%
<b>Operating profit</b>	<b>6,790</b>	<b>3,904</b>	<b>4,158</b>	<b>3,887</b>	-6.5%
Finance costs	81	(49)	20	145	625.0%
<b>PBT</b>	<b>6,871</b>	<b>3,855</b>	<b>4,178</b>	<b>4,032</b>	-3.5%
Tax	(987)	(1,157)	(1,253)	(1,210)	-3.4%
<b>PAT</b>	<b>5,884</b>	<b>2,698</b>	<b>2,925</b>	<b>2,822</b>	-3.5%
EPS	350	350	500	500	0.0%
Dividend	27	27	29	28	-3.5%

Balance Sheet (KES Mn)					
	H1-2020	H1-2021	H1-2022	H1-2023	%Δ Y-Y
Share Capital	1,000	1,000	1,000	1,000	0.0%
Revaluation Surplus	1,756	1,727	2,837	2,800	-1.3%
Retained Earnings	6,567	7,792	9,073	10,204	12.5%
<b>Shareholders' Funds</b>	<b>9,323</b>	<b>10,519</b>	<b>12,910</b>	<b>14,004</b>	<b>8.5%</b>
Non-Current Liabilities	1,861	1,606	1,954	1,951	-0.2%
	<b>11,184</b>	<b>12,125</b>	<b>14,864</b>	<b>15,955</b>	<b>7.3%</b>
Assets					
Non-current assets	10,867	10,864	12,615	12,295	-2.5%
Working Capital					
Current assets	10,353	8,477	11,271	14,274	26.6%
Net working Capital	(10,036)	(7,216)	(9,022)	(10,614)	17.6%
<b>Net working Capital</b>	<b>317</b>	<b>1,261</b>	<b>2,249</b>	<b>3,660</b>	<b>62.7%</b>
	<b>11,184</b>	<b>12,125</b>	<b>14,864</b>	<b>15,955</b>	<b>7.3%</b>

Key Ratios	H1-2020	H1-2021	H1-2022	H1-2023
Operating Margins	40.9%	19.3%	19.0%	18.5%
PBT Margin	41.4%	19.0%	19.1%	19.2%
PAT Margin	35.4%	13.3%	13.4%	13.4%
Current Ratio	1.11	0.81	0.87	1.02
ROA	52.6%	22.3%	19.7%	17.7%
ROE	63.1%	25.6%	22.7%	20.2%
Dividend Pay-out	7.7%	7.7%	5.9%	5.6%

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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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