

KENGEN PLC – EARNINGS UPDATE: FY 2023

Kenya's Electric generating Company, Kengen, reported a net profit of KES 5.02Bn for FY 2023, 48.4% year-on-year rise from that report same time last year, benefitting from higher revenues and a lower effective tax rate of 41.1% compared to that of 45.4% in FY-2022. Profits before tax spiked 37.7% y-y to KES 53.96Bn from KES 47.48Bn being driven by higher revenues from the company's geothermal energy investments.

The Company's Board recommended a first and final dividend of KES 0.30 per share representing a 50.0% rise from KES 0.20 per share issued same time last year. The dividend book closure and payment are set for 30th November 2023 and 15th February 2024, respectively.

We retain our BUY recommendation with a revised price target of KES 2.50, a total upside of 22.3% from the current price of KES 2.29 as of 27th October 2023.

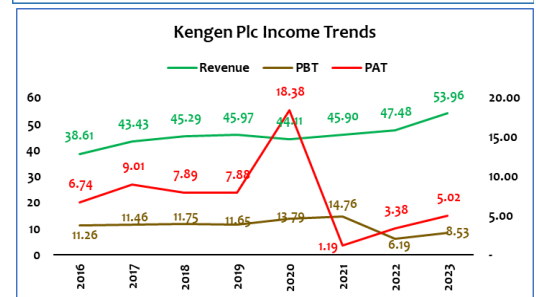
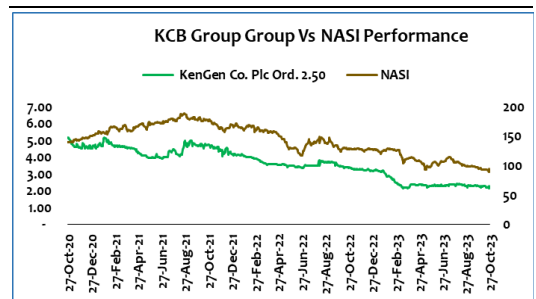
Income Statement

- The listed company's revenues up 13.7% y-y from KES 47.48Bn in FY-2022 to KES 53.96Bn boosted by spikes in unit sales from 7,918Gwh to 8,027Gwh elevated by commissioning of unit 6 of Olkaria Geothermal power station which added an additional 86 megawatt to its grid by the start of its financial year, July 2022. This pushed the geothermal generation 24.0% up and there resulting to the overall sales.
- Currently, Kengen green energy sources stand at 86.7% of which 799.MW is from geothermal, 826MW from hydro and 25.5MW from wind with only about 253.5MW coming from thermal sources.
- Operating expenses jumped 21.6% from a total of KES 31.90Bn to KES 38.79Bn attributed rising insurance and impairment costs. Steam costs also added to the overall costs associated with distribution Geothermal dispatch. The rise in expenses was however offset by a faster rise in revenues.
- The growth was underpinned by the company's decade strategy of supplying uninterrupted clean energy, having contributed over 66% of Kenya's electricity consumption in the year.

Balance sheet

- The company's total assets enlarged by 3.3% y-y from KES 500.31Bn to 516.58Bn supported by the new plant station established in the year.
- Shareholders' equity remained relatively stable with a 0.1% y-y decline from KES 274.60Bn to KES 174.19Bn on what we attribute to be effect from dividend payment on the cash reserves.
- Non-current liabilities escalated to KES 220.20Bn in FY-2023 from KES 203.59Bn on effect from the establishment of the new power plant.

Bloomberg Ticker:	KENKEG
Share Statistics	
Current Price (KES)	2.29
Six Month Average	2.33
12 Month Average	2.69
52 Week High - Low	2.15 - 3.55
Issued shares (Mn)	6,594.52
Market Cap (Kes Mn)	15,101.46
Market Cap (USD Mn)	115,274.45
P/E	3.01
BVPS	41.58
PB	0.06
EPS	0.76
DPS	0.30
Dividend Payout	39.5%
Dividend Yield	13.1%



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Outlook

- The company remains ambitious in its electric generation, planning to add more than 154MW to the grid in the next two years through rehabilitation of and upgrading of its existing power plants.
- According to the management comment, the company also looks to complete soon the Gogo Hydropower Redevelopment project in Migori County which is expected to elevate the dam's capacity from 2MW to 8MW.
- This is expected to increase its stable supply and the overall revenues to the company's shareholders.

Financial performance (KES Mn)				
Revenue Item	Jun-2021	Jun-2022	Jun-2023	%Δ Y-Y
Revenue	45,901	47,477	53,964	13.7%
Reimbursable expenses (Fuel & water costs)	(4,160)	(9,753)	(8,121)	-16.7%
Revenue Less Reimbursable expenses	41,741	37,724	45,843	21.5%
other income	495	769	2,084	171.0%
Gains/losses on net forex & fair valuation of financial assets	1,125	(515)	428	-183.1%
Total Revenue	43,361	37,978	48,355	27.3%
Expenses	(27,426)	(31,898)	(38,785)	21.6%
Operating profits	15,935	6,080	9,570	57.4%
Finance Income	1,881	2,073	1,689	-18.5%
Finance Costs	(3,053)	(1,961)	(2,732)	39.3%
Profit before tax	14,763	6,192	8,527	37.7%
Income tax expense	(13,574)	(2,810)	(3,508)	24.8%
Profit after tax	1,189	3,382	5,019	48.4%
Earnings Per Share (EPS)	0.18	0.51	0.76	49.0%
Dividend Per Share	0.30	0.20	0.30	50.0%

Balance Sheet (KES Mn)				
Balance Sheet Item	FY-2021	FY-2022	FY-2023	%Δ Y-Y
Total Assets	425,658	500,312	516,577	3.3%
Total equity	206,982	274,597	274,193	-0.1%
Non-current liabilities	194,939	203,594	220,197	8.2%
Current Liabilities	20,396	22,121	22,187	0.3%

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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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