

East Africa Breweries Limited (EABL) | FY'2023 EARNINGS UPDATE

EABL announced their FY23 financial results recording a fall in profits by 20.9% to KES 12.3Bn in a period deeply impacted by persistent high inflation as well as multiple excise tax increases in Kenya.

The board of directors proposed a final dividend of **KES 1.75** per share. Earlier, an interim dividend of KES 3.75 was paid bringing the total dividend to **KES 5.50**. This translates to a total dividend yield of 3.6%.

FY 2023 Financial Highlights (% = y/y performance)

Profitability: Profits declined because revenue gains were offset by increases in cost of sales largely due to significant inflationary pressures on the cost of inputs over the period. Further, FY23 performance was undermined by weaker revenue growth in the region.

Regional subsidiaries support growth: In Uganda net sales grew by 17% largely supported by mainstream spirits and value beer consumption, while in Tanzania net sales grew by 1% supported by Serengeti breweries.

Kenya on the other hand, saw a 4% decline as volumes dropped following multiple excise increases. EABL's current revenue contribution has Kenya, Uganda and Tanzania contributing 64%, 21%, and 15%, respectively.

Mainstream spirits support growth: Continued consumption of spirits has become entrenched as the favorite for the vibrant young population. Mainstream spirits growth has consistently outperformed the beer category. Net sales from spirits rose by 3% y/y while the beer category saw a decline by 2% y/y.

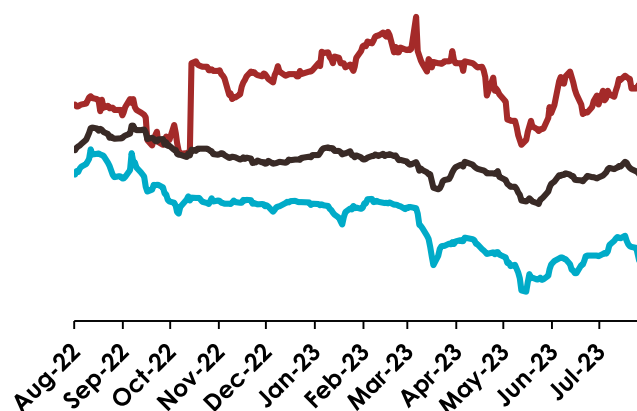
We expect growth in net sales in Kenya to be driven by continued growth in the spirits fueled by premiumization in spirits with brands like Tanqueray and Gordons. This has further been boosted by themed advertising and marketing events whose major sales are in the spirits category.

Share Data	
Ticker	EABL KN
RECOMMENDATION	ACCUMULATE
Current Price (KES)	153.50
Target Price (KES)	178.04
Upside	16.0%
52WK High (KES)	190.00
52WK Low (KES)	110.00
Market Cap (KES Bn)	121.38
Free Float	49.97%
EPS (FY'23)	KES 12.47
DPS (FY'23)	KES 5.50
Dividend yield (FY'23)	3.58%
Current Price = as of 28th July 2023	

Source: Bloomberg, Company financials, NCBA IB Research

EABL Share price performance

— EABL — NASI — NSE-20



Source: NSE, NCBA IB Research

Shift in consumer behavior: Consumption in the upper income bracket is driving demand for local and international premium brands. As reported by EABL, premium beers and spirits recorded sales growth of +5% y/y.

Weaker economic trends and pressure on real growth in consumer income has pushed the middle and lower income consumer globally, shifting consumption to more affordable products to either value beers or illicit brews.

Consumers trade down to cheaper beers and their illicit counterparts to escape the tax which poses a threat to volume growth for the brewer.

Going forward, we expect a diminished per capita alcohol consumption due to slower growth in consumer disposable income on the back of inflationary pressures and heavy indirect taxes.

Weakness in macroeconomic indicators in the region pose a threat: The region's exposure to global economic risks is expected to transfer to corporate earnings and our financial forecasts.

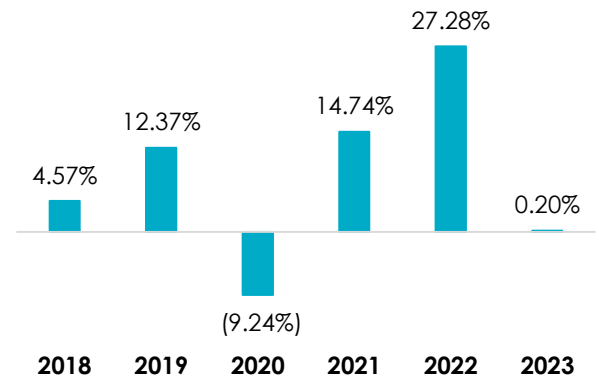
Global growth is estimated to have slowed down from 6.0% in 2021 to 3.2% in 2022 attributable to a myriad of factors, among them; geo-political risks, persistent inflationary pressures and a strong US dollar.

Locally, inflation remains above the target band of 2.5% - 7.5%. Manufacturers continue to grapple with high cost of inputs and imports which are necessary in the production process.

The Kenya Shilling has depreciated against the USD by 13% in 2023 and there is a potential threat to it depreciating further.

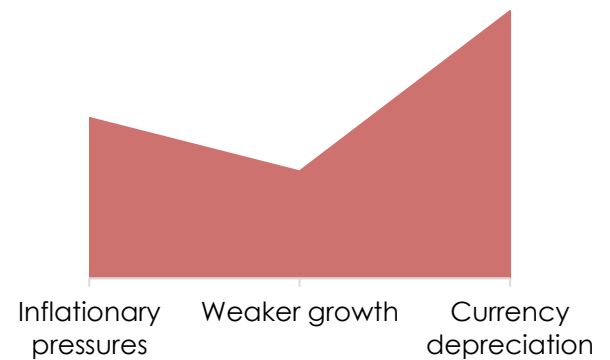
Dividend yield: EABL declared a total dividend of KES 5.50 for the FY2023 (KES 3.75 interim dividend and 1.75 final dividend) which is significantly lower than the total dividend of KES.11.00 announced in FY22.

Trend in revenue growth

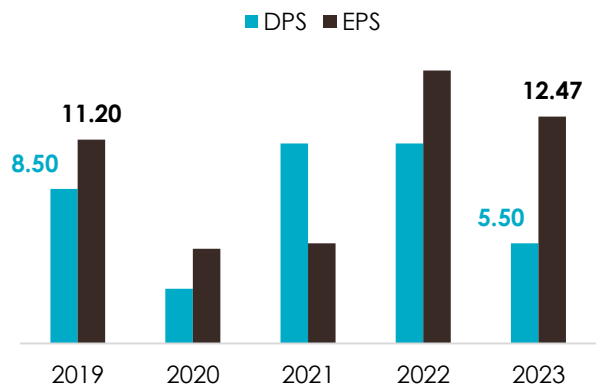


Source: Company financials, NCBA IB Research

Tough Macroeconomic Environment



EABL Dividend Payout



Source: Company financials, NCBA IB Research

Financial Summary

East African Breweries PLC	Key Metrics Y/Y
Net Sales	Up 0.2% to KES 109.6Bn
Cost of Sales	Up 70.7% to KES 62.2Bn
EBIT	Down 14.4% to KES 24.2Bn
Finance Costs	Up 29.5% to KES 5.5Bn
PBT	Down 22.7% to KES 18.7Bn
PAT	Down 20.9% to KES 12.3Bn
EPS	Down 16.9% to KES 12.47
DPS	Down 13.7% to KES 5.50

East African Breweries PLC	Key Ratios Y/Y
ROE	Down to 38.8% from 58.9%
EBIT Margin	Down to 22.1% from 25.8%
Net debt to EBITDA	Up to 1.6 from 1.1
ROCE	Down to 27% from 41%
Current Market Price	KES 153.50
P/E	12.3x
P/B	3.8x
Dividend payout	44.1%
Dividend Yield	3.6%

Source: Company financials, NCBA IB Research

VALUATION

Following the FY2023 earnings release, and given the key business announcement by the company, we have reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and recommend **ACCUMULATE** with a target price of **KES 178.04**.

The target price implies an upside of 16% to the current trading price of KES 153.50 as of 28th July 2023.

We have used four valuation methodologies to arrive at our fair value estimate:

1. Discounted Cash flow
2. EV/EBITDA
3. Price to Book Valuation
4. Price to earnings Valuation

Valuation Summary

Valuation Methodology	Implied Price	Weighting	Weighted Value
DCF Approach	175.48	60%	105.29
EV/EBITDA	205.12	20%	41.02
P/E Approach	162.86	10%	16.29
P/B Approach	154.43	10%	15.44
Fair Value		100%	178.04
Current Price (at 28.07.2023)			153.50
Upside/(Downside)			16.0%

Source: NCBA IB Research estimates

Relative Valuation: Regional Peers

Company	Location	Ticker	Mkt Cap (KES Bn)	EV/EBITDA	P/E	P/B	Dividend Yield
Champion Breweries Plc	Africa	CHAMPION NL	10.14	9.22	23.43	3.59	-
East African Breweries Plc	Africa	EABL KN	121.38	5.32	12.31	8.51	3.60%
Namibia Breweries Ltd	Africa	NBS NW	68.25	11.19	19.66	3.88	-
Nigerian Breweries Plc	Africa	NB NL	113.11	5.86	21.84	2.30	3.05%
Phoenix Beverages Ltd	Africa	PBL MP	23.58	8.73	20.11	2.06	2.68%
Sechaba Breweries Holdings	Africa	SCHB BG	21.34	9.61	10.87	2.59	6.25%
Tanzania Breweries Ltd	Africa	TBL TZ	171.60	10.60	22.00	4.60	2.66%
Zambian Breweries	Africa	ZABR ZL	25.07	14.81	-	3.15	-

Source: Bloomberg, NCBA IB Research estimates

Investment recommendation:

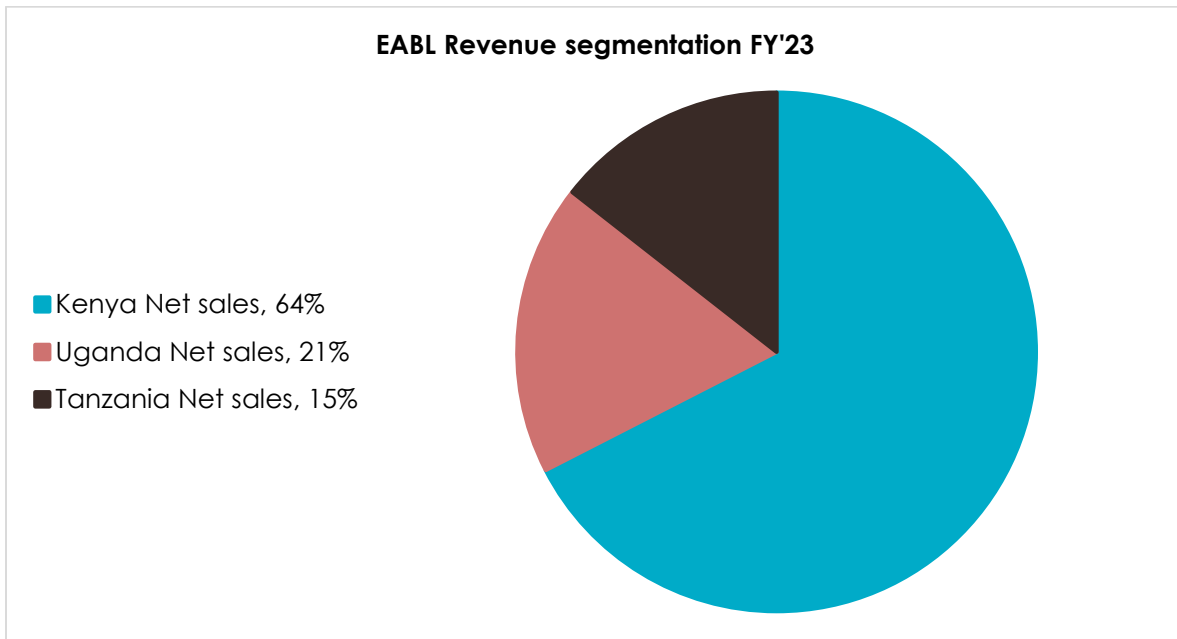
At the current market price, the stock presents a good entry position. EABL is a well-positioned brewer in Kenya and we see growth opportunities in the regional subsidiaries.

From our estimates and assumptions, we believe the stock is undervalued and maintain our **BUY** recommendation with a target price of **KES 178.04**. The target price implies an upside of 16.0% to the current trading price of KES 153.50 as of 28th July 2023.

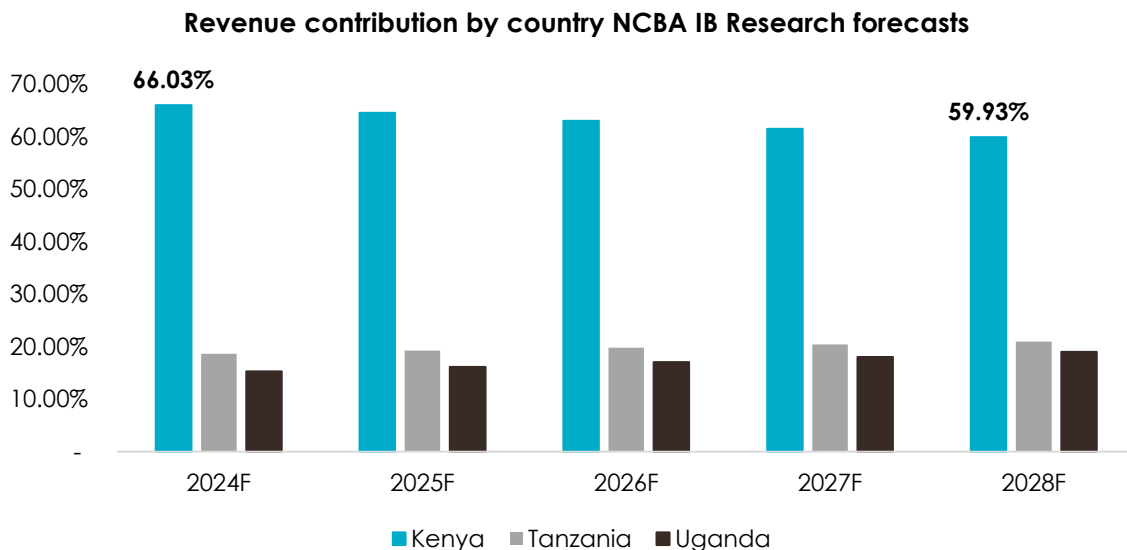
Outlook

We believe EABL will record steady growth supported by:

- **Regional Subsidiaries:** We expect increased revenue from Uganda and Tanzania. The subsidiaries could help achieve revenue expansion above consensus and entrench the company's presence in the region. In Uganda, a gradual improvement in Uganda's economy (projected to grow at 5.9% by the IMF) underpins our optimistic outlook. Despite a slowdown in Tanzania, we estimate its share will grow to 20% in FY2024, a 500bps increase on the back of robust sales growth supported by sufficient brewing capacity.



Source: Company financials, NCBA IB Research estimates



About NCBA Investment Bank

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Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%

ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%

HOLD – Total expected 12-month return (incl. dividends) between 0% -10%

SELL – Total expected 12-month return (incl. dividends) less than 0%

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