

East Africa Breweries Limited (EABL) | HY'2024 EARNINGS UPDATE

EABL announced their HY2024 financial results recording a fall in profits by 21.8% to KES 6.8Bn in a period deeply impacted by foreign exchange losses and persistent inflationary pressures.

HY 2024 Financial Highlights (% = y/y performance)

Profitability: Profits declined because revenue gains were offset by increases in cost of sales and net finance costs largely driven by local currency depreciation as well as significant inflationary pressures on the cost of inputs over the period.

Regional subsidiaries support growth: In Uganda sales grew by 31% largely supported by mainstream spirits and value beer consumption, while in Tanzania sales grew by 9% supported by Serengeti breweries.

Sales in Kenya rose by 10% following a stable regulatory environment. EABL's current revenue contribution has Kenya, Uganda and Tanzania contributing 63%, 22%, and 15%, respectively.

New product categories boost growth: Growth in new categories outpaced the growth in beer and mainstream spirits. Net sales from new frontiers rose by 34% y/y while the sales from the beer and spirits category rose by 18% and 11%, respectively.

Market trends continue to be influenced by a dynamic change in consumer tastes hence the need for the company to remain innovative. The brewer established a Microbrewery which will support the innovation of different brands. We expect growth in Kenya- their main market- to be driven by the new portfolio.

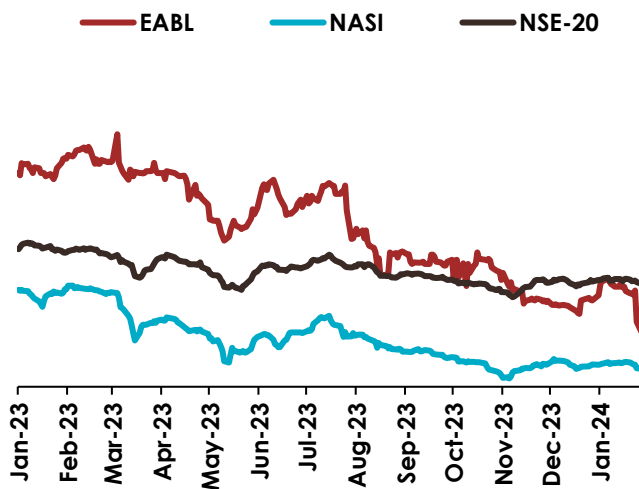
Sharp decline in dividend yield

EABL declared an interim dividend of KES 1.00 for the HY2024 (1% dividend yield) which is significantly lower than the interim dividend of KES.3.75 announced in HY23. The decline in the interim dividend will negatively impact the performance of EABL on the bourse.

Share Data	
Ticker	EABL KN
RECOMMENDATION	BUY
Current Price (KES)	100.00
Target Price (KES)	134.61
Upside	34.6%
52WK High (KES)	190.00
52WK Low (KES)	100.00
Market Cap (KES Bn)	79.08
Free Float	49.97%
EPS (HY'24 Annualized)	KES 13.80
Interim DPS (HY'24)	KES 1.00
P/E Ratio	7.25x
Dividend yield (HY'24)	1.00%
<i>Current Price = as of 29th January 2024</i>	

Source: Bloomberg, Company financials, NCBA IB Research

EABL Share price performance



Source: NSE, NCBA IB Research

Challenging macro-economic environment continues to weigh heavily on the Brewer

Geo-political risks, persistent inflationary pressures and a strong US dollar have adversely impacted EABL's bottom line- a surge in net finance costs and growth in the cost of sales led to the 22% decline in net profit.

The Kenya Shilling depreciated against the USD by 27% in 2023 and continues depreciating further. A significant amount of inputs such as Ethanol used in the production process is imported leading to an increase in production costs.

Dollar supply-demand imbalances have further exacerbated the situation. We believe the forex volatility will persist and continue to impact the company.

The region's exposure to these macroeconomic risks will negatively impact the company's earnings and our short to medium term financial forecasts.

Financial Summary

East African Breweries PLC	Key Metrics Y/Y
Net Sales	Up 16.2% to KES 66.5Bn
Cost of Sales	Up 20.6% to KES 37.0Bn
EBIT	Up 5.9% to KES 16.4Bn
Finance Costs	Up 66.8% to KES 3.99Bn
PBT	Down 21.7% to KES 10.1Bn
PAT	Down 22.4% to KES 6.8Bn
EPS	Down 20.0% to KES 13.80
DPS	Down 73.3% to KES 1.00

East African Breweries PLC	Key Ratios Y/Y
ROE	Down to 17.5% from 27.4%
EBIT Margin	Down to 22.1% from 25.8%
Net debt to EBITDA	Down to 1.23 from 1.60
Effective Cost of Debt	Up to 15.1% from 12.5%
Current Market Price	KES 100.00
P/E	7.3x
P/B	2.1x
Dividend payout	14.5%
Dividend Yield	1.0%

Source: Company financials, NCBA IB Research

VALUATION

Following the HY2024 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 **BUY** with a target price of **KES 134.61**. The target price implies an upside of 34.6% to the current trading price of KES 100.00 as of 29th January 2024.

Valuation Methodology	Implied Price	Weighting	Weighted Value
DCF Approach	108.52	50%	54.26
EV/EBITDA	160.51	50%	80.35
Fair Value		100%	134.61
Current Price (at 29.01.2024)			100.00
Upside/(Downside)			34.6%

Source: 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 134.61**.

Outlook

We believe EABL will record steady growth supported by increased revenue from Uganda and Tanzania. The subsidiaries could help achieve revenue expansion above consensus and entrench the company's presence in the region.

A gradual improvement in Uganda's economy (projected to grow at 5.9% by the IMF) underpins our optimistic outlook. We estimate Tanzania share to grow to 20% in FY2024, a 500bps increase on the back of robust sales growth supported by sufficient brewing capacity.

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

Physical Address

NCBA Annex,
Hospital Road, Upper Hill, Tel: +254 20 2884444
Mobile: +254 711 056444/+254 732 156444

Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that:

- (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and
- (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

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%

Disclaimer

Any opinion or other information in this document is not an invitation to buy or sell any asset class. Legally binding obligations can only arise for or be entered into on behalf of NCBA Group by means of a written instrument signed by a duly authorized signatory. You are cautioned to ensure that you have made an independent decision in accordance with your own objectives, experience, operational and financial resources and any other appropriate factors including independent professional advice. No guarantee, warranty, or representation is made in respect of the performance or return on any transaction.

Key Contacts: Research Desk

ncbaresearch@ncbagroup.com

Key Contacts: Trading Team

dealing@ncbagroup.com