

## BAT KENYA | FY'2023 EARNINGS UPDATE

BAT announced their FY2023 financial results recording a fall in profits by 19.2% to KES 5.57Bn in a period that faced adverse economic conditions across both the domestic and global markets on the back of geopolitical disruptions. The challenges involved elevated inflation, currency depreciation, rising interest rates and increased taxation.

The company also experienced regulatory uncertainty relating to BAT's modern oral category leading to supply disruption of the tobacco-free oral nicotine pouches to the market especially in Nairobi. This impeded their ability to unlock both domestic and export markets.

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

**Profitability:** BAT's Profit declined mainly on the back of reduced revenue attributable to lower sales and higher taxes coupled with higher duties on inputs reflecting the full year impact. Excise duty rates hiked by 10% in July 2022 and 6% in October 2022 and higher duties on inputs. Consequently, EPS also declined by 19.2% to KES 55.68Bn.

**Cost of Operations:** Increased by 0.8% to KES 17.6Bn attributable to higher input costs offset by cost savings from productivity initiatives, as well as lower sales volume.

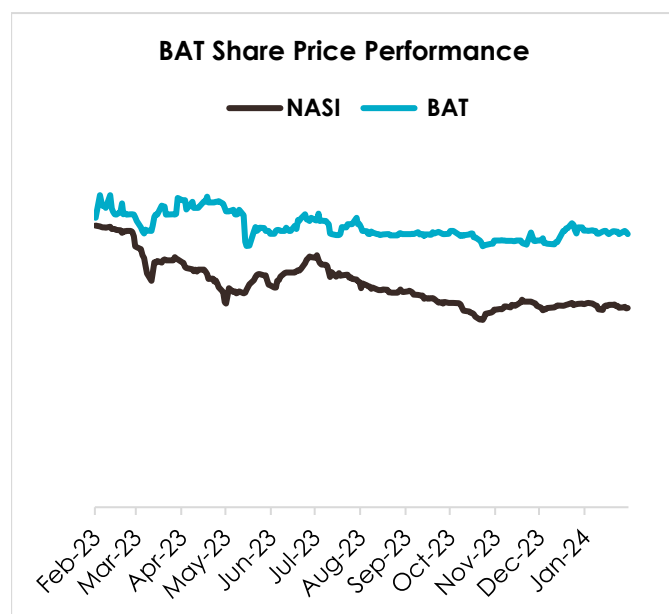
**Taxes:** BAT's taxation increased by 5% to KES 19.4Bn in FY2023. The taxes are in the form of Excise Duty, VAT, Customs Duties, Solatium Levy, Tax Stamps, Pay As You Earn (PAYE) and Corporation Tax.

**Revenue:** Declined by 6.7% to KES 25.56Bn, primarily driven by lower domestic and cut-rag (semi-processed leaf) sales. However, this was offset by pricing and foreign exchange benefits from the export sales.

Revenue performance was negatively impacted by consumer affordability challenges arising from reduced income levels which triggered down

Share Data	
<b>Ticker</b>	<b>BATK KN</b>
<b>RECOMMENDATION</b>	<b>ACCUMULATE</b>
<b>Current Price (KES)</b>	<b>419.75</b>
<b>Target Price (KES)</b>	<b>494.50</b>
<b>Upside</b>	<b>17.8%</b>
<b>52WK High (KES)</b>	<b>495.00</b>
<b>52WK Low (KES)</b>	<b>400.00</b>
<b>Market Cap (KES Bn)</b>	<b>41.98</b>
<b>Free Float</b>	<b>40%</b>
<b>EPS (FY'23 Annualized)</b>	<b>KES 55.68</b>
<b>Total DPS (FY'23)</b>	<b>KES 50</b>
<b>P/E Ratio</b>	<b>7.53x</b>
<b>Dividend yield (FY'23)</b>	<b>12%</b>
<i>Current Price = as of 15<sup>th</sup> February 2024</i>	

Source: Bloomberg, Company financials, NCBA IB Research



Source: NSE, NCBA IB Research

trading to lower priced brands and fueled an increase in the prevalence of illicit trade in tax evaded cigarettes which is estimated at 27%.

Illicit trade continues to adversely impact industry revenues and deny Government an estimated KES 7Bn per annum in taxes.

**Dividend:** BAT total dividend per share declined by 12.3% to KES 50 (dividend yield of 12%) for FY2023 lower than KES 57 declared in FY2022.

### Financial Summary

BAT KENYA PLC	Key Metrics Y/Y
Revenue	Down 6.7% to KES 25.56Bn
<b>Cost of Operations</b>	<b>Up 0.8% to KES 17.63Bn</b>
Profit from Operations	Down 19.8% to KES 7.93Bn
PBT	Down 19.1% to KES 8.02Bn
<b>PAT</b>	<b>Down 19.2% to KES 5.57Bn</b>
EPS	Down 19.2% to KES 55.68
<b>DPS</b>	<b>Down 12.3% to KES 50</b>

Source: Company financials, NCBA IB Research

## VALUATION

Following the FY2023 earnings release we have reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see an upside potential and recommend an **ACCUMULATE** with a target price of **KES 494.50**. The target price implies an upside of 17.8% to the current trading price of KES 419.75 as of 15<sup>th</sup> February 2024.

Valuation Methodology	Implied Price	Weighting	Weighted Value
DCF Approach	546.49	40%	218.59
EV/EBITDA	495.53	30%	148.66
DDM	466.29	20%	93.26
P/E	339.65	10%	33.96
<b>Fair Value</b>		<b>100%</b>	<b>494.50</b>
<b>Current Price (at 15.02.2024)</b>			<b>419.75</b>
Upside/(Downside)			17.8%

Source: NCBA IB Research estimates

## Investment recommendation:

From our estimates and assumptions, we believe the stock is undervalued and maintain an **ACCUMULATE** recommendation with a target price of **KES 494.50**.

## Outlook

Going forward, the company remains focused on reducing the health impact of its business by offering alternative innovative products, including tobacco-free oral nicotine pouches. BAT continues to engage transparently on a sustainable regulatory framework for the commercialization of oral nicotine pouch factory in Nairobi.

The company expects to positively navigate the challenging operating environment through geographical diversity, world class talent, consumer-centric brand portfolio, sustainable trade and farmer partnerships.

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The following analyst(s) who prepared this research report: Christopher Aura 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) (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%

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