

Company Overview

Established in Mombasa, Kenya, in 1940, BOC Kenya Plc (BOCKL) is a leading supplier of industrial, medical and special gases in East Africa. The company has operations in Nairobi, Kisumu, Kampala-Uganda & Dar es Salaam-Tanzania. It was listed on the Nairobi Securities Exchange in 1969.

BOCKL has its roots in Britain since 1886, and has been producing industrial gases. The majority shareholder is BOC Holdings UK, a member of the Linde Group. Linde PLC is an international manufacturing & engineering conglomerate founded in Germany in 1879, and has subsidiaries in over 100 countries.

Products and Services

BOCKL product range includes:

- Bulk gases i.e., Oxygen, Nitrogen and liquefied petroleum gas (LPG).
- Packaged (cylinder) gases.
- Engineering services that include Medical equipment, Construction of medical and other gas pipelines, Gas storage tanks among others.

The company's Afrox range of products includes industrial gases, special gases, medical gases, liquid petroleum gas, hospitality gases, filler materials, gas equipment, arc equipment, and personal protective equipment.

Industrial gases include; dissolved acetylene, oxygen, nitrogen and other general gases.

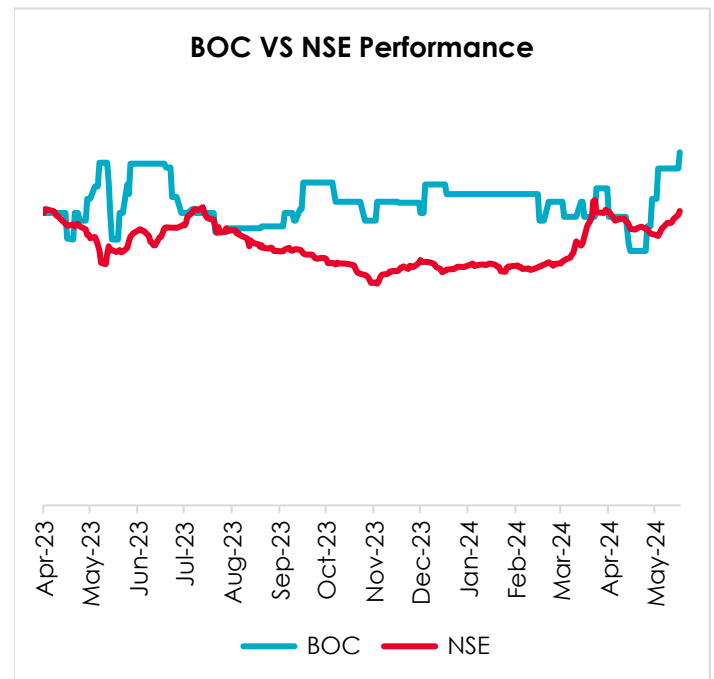
The gas equipment includes accessories and parts, torches, hoses, nozzles/tips, regulators and flowmeters, welding and cutting kits.

The company's customer base cuts across a large spectrum and includes:

- Public and Private Hospitals.
- Food Processors.
- Civil and Mechanical Engineering Contractors.
- Motor Vehicle Body Builders
- Hotels and Restaurants
- The Informal Business Sector ("Jua Kali") and
- Small & Medium Enterprises.

Share Data

Industry	Basic & diversified chemicals
Recommendation	HOLD
Current Price (KES) –25 th June 2024	89.00
Target Price (KES)	90.06
Upside/(Downside)	1.2%
52WK High (KES)	93.00
52WK Low (KES)	65.00
Market Cap (Bn)	KES 1.48
Bloomberg Ticker	BOC KN



Analyst

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Manufacturing Processes

Atmospheric gases are the highest volume products produced by the company. Using air as its raw material, the company produces oxygen, nitrogen and argon through cryogenic air separation.

Process gases, including carbon dioxide, hydrogen, helium & specialty gases are purchased from other gas companies locally and abroad while acetylene is produced at the company's plant by reacting calcium carbide with water.

Distribution

The company uses two basic distribution methods for industrial gases:

- **Merchant/bulk liquid** - The merchant business is generally associated with distributable liquid oxygen and nitrogen. The deliveries are made from the company's Nairobi plants by tanker trucks to storage containers at the customer's site which are owned and maintained by BOCKL.
- **Packaged or cylinder gases** - Customers requiring small volumes are supplied products in cylinders, under medium to high pressure. Packaged gases include atmospheric gases, carbon dioxide, hydrogen, helium, acetylene and related products. Cylinders may be delivered to the customer's site or picked up by the customer at a company facility or distributor store.

Delivery and Branch Network

The group benefits from high quality distribution networks by virtue of being a member of the Linde group. The company manufactures and distributes its industrial gas products through networks of thousands of production plants, pipeline complexes, distribution centers and delivery vehicles. These networks are a competitive advantage, providing the foundation of reliable product supply to its customer base. In the local market, BOCKL has partnered with high quality fleet managers such as Oak and Gold Kenya Limited.

Core Products and its uses

The company's core products are oxygen (which has both medical and non-medical applications), nitrogen and dissolved acetylene (DA). Oxygen and nitrogen are supplied to customers either in liquid form or packaged (compressed) into high pressure cylinders.

Oxygen

It is one of BOCKL' core products, with both medical and non-medical applications.

Medical applications include;

- Respiratory Therapy
- Anesthesia
- Intensive & neonatal care

Specific medical Services and products

- i. **Portable Oxygen Concentrators:** BOCKL supplies portable oxygen concentrators for patients who require mobility and independence while receiving oxygen therapy.
- ii. **Cylinder Oxygen:** Medical oxygen cylinders of various sizes are provided for use in hospitals, clinics, and home care settings.
- iii. **Liquid Oxygen Systems:** Liquid oxygen systems are available for patients with high oxygen needs, offering a more compact and long-lasting solution compared to gaseous cylinders.
- iv. **Homecare Services:** BOCKL provides comprehensive homecare services, including oxygen delivery, equipment maintenance, and patient education, to ensure effective and safe use of home oxygen therapy.
- v. The company also constructs pipelines for the gases that it supplies - especially medical gases pipelines in health care facilities. It also procures and installs storage tanks for the same.

Industrial Uses of Oxygen

- Steel and Metal Production: Blast Furnaces and basic oxygen steelmaking
- Chemical Industry: Oxidation Reactions and Synthesis Gas Production
- Water Treatment: Ozonation
- Glass and Ceramic Manufacturing
- Environmental Applications: Incineration and Bioremediation
- Pulp and Paper Industry
- Aerospace and Aviation
- Bulk Oxygen Supply: BOCKL provides bulk oxygen supply systems tailored to industrial needs, ensuring continuous and reliable delivery.
- On-Site Gas Generation: BOCKL offers on-site oxygen generation solutions, including PSA (Pressure Swing Adsorption) and VPSA (Vacuum Pressure Swing Adsorption) systems, to meet specific industrial requirements for oxygen purity and volume.

Uses of Nitrogen

BOCKL provides nitrogen and dissolved acetylene (DA) for various industrial applications. Below are the common uses of nitrogen and dissolved acetylene:

- **Food and Beverage Industry**
Modified Atmosphere Packaging (MAP): Nitrogen is used to displace oxygen in food packaging to extend shelf life and maintain product freshness.
- **Beverage Dispensing**
Nitrogen is used in dispensing systems for beers and other beverages to provide a smooth pour and maintain product quality
- **Chemical Industry:** Blanketing and Inerting and Purging and Sparging
- Electronics and Semiconductor manufacturing
- **Oil and Gas Industry:** Pipeline Inerting and Enhanced Oil Recovery
- **Pharmaceutical and Healthcare:** Cryopreservation and Medical Gas Mixtures
- **Metal Processing and Heat Treatment:** Annealing and Hardening

Uses of Dissolved Acetylene (DA)

- Welding and Cutting
- Metal Fabrication and Construction
- Automotive Repair and Maintenance
- Glass Industry
- Mining and Quarrying

Engineering Services

The company primarily builds medical gas pipelines in hospitals. Additionally, it constructs liquefied petroleum gas (LPG) pipelines. For hospitals, the company has the competency to provide a complete gas solution encompassing supply of medical gas in liquid form or in cylinders, construction of the medical pipelines and installation of the equipment / consumables necessary to deliver the gas to the patient's bed side.

Subsidiaries

BOC Tanzania Limited and BOC Uganda Limited are incorporated in Tanzania and Uganda respectively. Both companies are dormant. Kivuli Limited, a structured consolidated entity, is incorporated in Kenya and previously held quoted shares held by BOC Kenya PLC in Carbacid Investments Plc. These are now held directly by BOC and Kivuli Limited is dormant.

Top Shareholding

Below are the top shareholders as of 31st May 2024.

Name	No of shares	Shares held %
1. BOC Holdings (UK)	12,765,582	65.38%
2. Kiuna Ngugi	1,671,526	8.56%
3. Standard Chartered Kenya Nominees Ltd A/c	1,046,600	5.36%
4. Standard Chartered Kenya Nominee A/c	905,400	4.64%
5. Allied Storage Limited	127,479	0.65%
6. Standard Chartered Kenya Nominees Ltd A/c	121,056	0.62%
7. Mrs. Carolyn Anne Gray Rosso	110,143	0.56%
8. Ngugi, Margaret Wambui	100,281	0.51%
9. Ogango, John Okuna	85,800	0.44%
10. Shah, Minesh Mulchand	80,108	0.41%
	17,013,975	87.14%
11. Other shareholders	2,511,471	12.86%
TOTAL	254,851,985	100%

Source: Company Annual Reports, NCBA IB Research

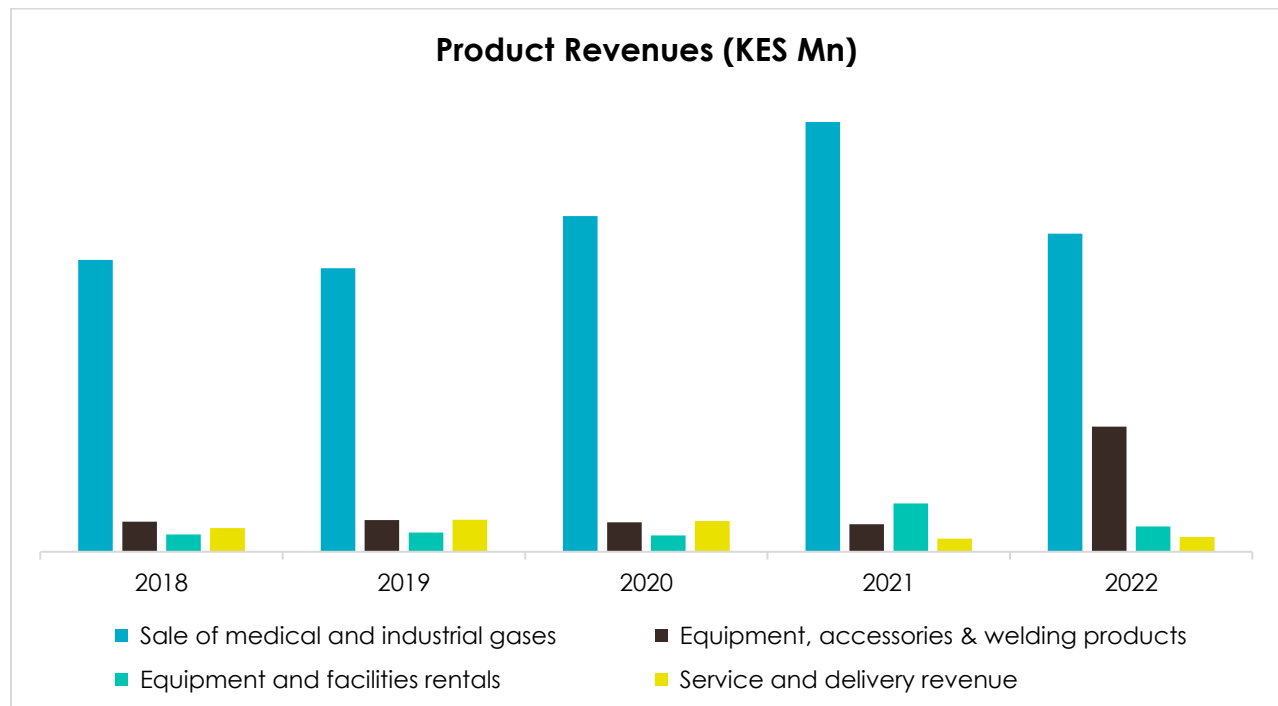
Key performance indicators

Sales Revenue

BOCKL' consolidated revenues in 2021 increased by 25.8% on account of increased demand for medical oxygen driven by the Covid-19 pandemic. There was a remarked drop in sales volumes of the same in 2022. During the same period, revenues from medical gases increased by 33.9%, industrial gases volumes by 15.1% and welding products and services grew by 20.9%. In 2022, the overall decline in revenues from medical gases was compensated by revenue arising from installation of medical oxygen bulk tanks and ancillary infrastructure.

In the period 2019 & 2020, the company recorded high sales volumes attributable to renewed tenders to supply their products. In 2022 the manufacturer recorded an impressive 335 % increase in revenue of KES 333Mn generated from sale of equipment, accessories & welding products on improved availability and customer demand.

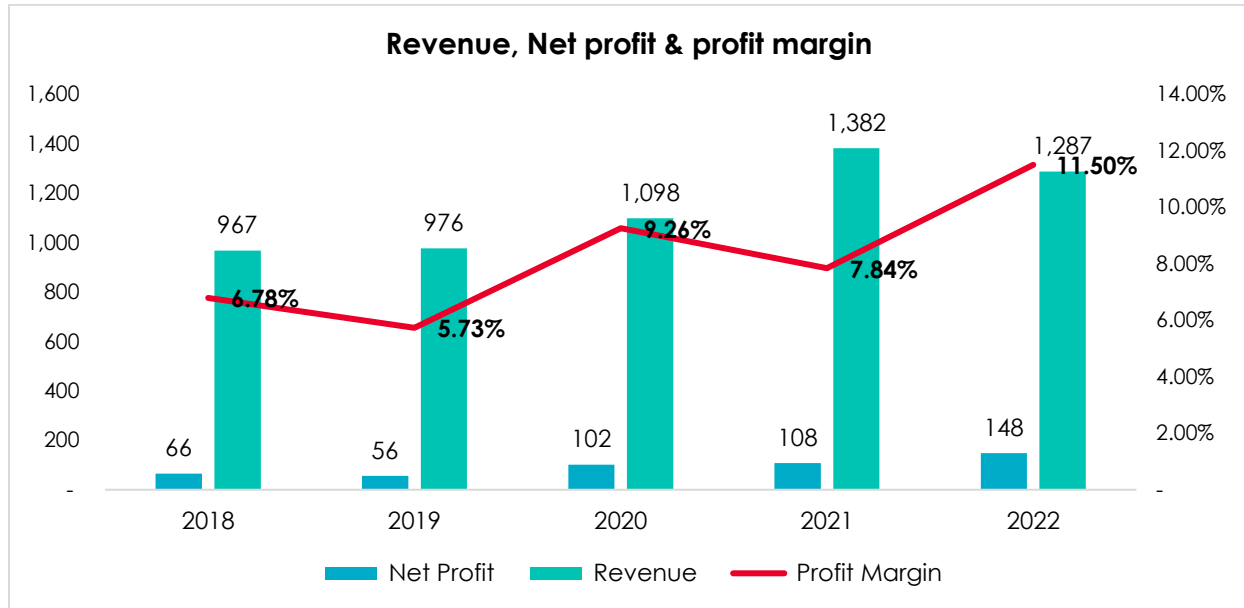
We expect revenue from sale of medical and industrial gases, equipment & facilities' rental to grow by 4.38% and 35.66% respectively driven by the ongoing improvements in oxygen infrastructure in the Kenyan healthcare sector spearheaded by county governments. In the period 2022-2023, BOCKL has installed a large portion of healthcare infrastructure, primarily comprising bulk oxygen storage tanks and related gas pipelines. This is expected to continue on the back of the quality, safety & technical capabilities of the company.



Source: Company Annual Reports, NCBA IB Research

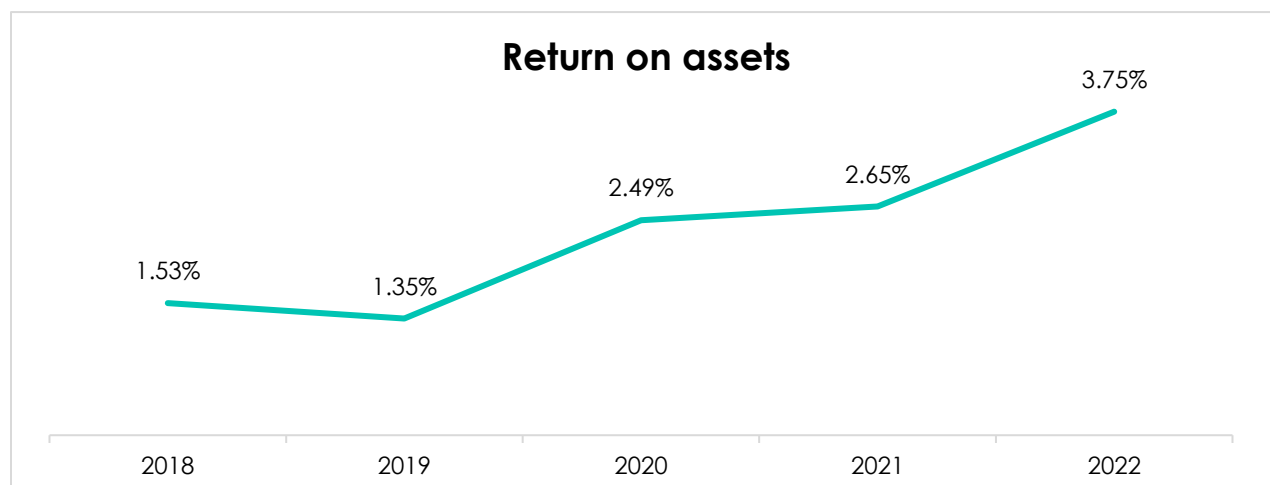
We are however cognizant of the potential impact of inflationary pressures driven by; cost of power and fuel, which would influence operating costs.

The company has maintained an average net profit margin of 8.22%, which is indicative of efficient product pricing and cost management with the exception of 2020. During the period, the company supplemented its local oxygen production with imported product. As a result, the company incurred high costs which could not be fully transmitted to its customers.



Source: Company Annual Reports, NCBA IB Research

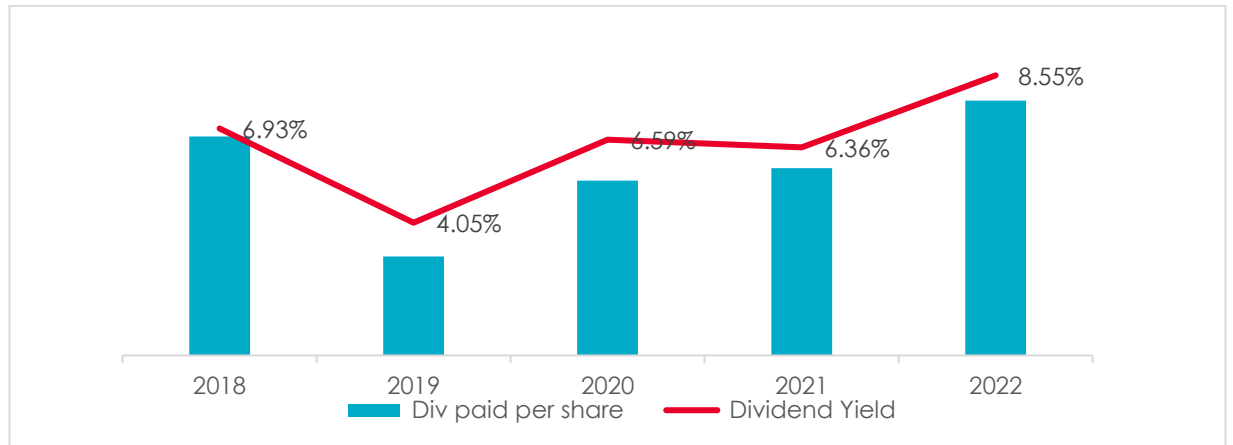
In the past five years, ROA has grown from 1.5% to 3.7% with a CAGR of 2.35% indicating the company's efficiency in asset deployment. In 2022 however, the Group had capital commitments of KES 19Bn down from KES 22.9Bn in 2021.



Source: Company Annual Reports, NCBA IB Research

Dividend pay-out ratio

The shareholder continues to be a main focus with the DPS growing from KES 5.20 in 2018 to KES 6.05 in 2022 representing a 16.35% increase. A dividend yield of 8.55%, which is well above inflation rate of 5.60% is indicative of potentially higher payouts in the long term.

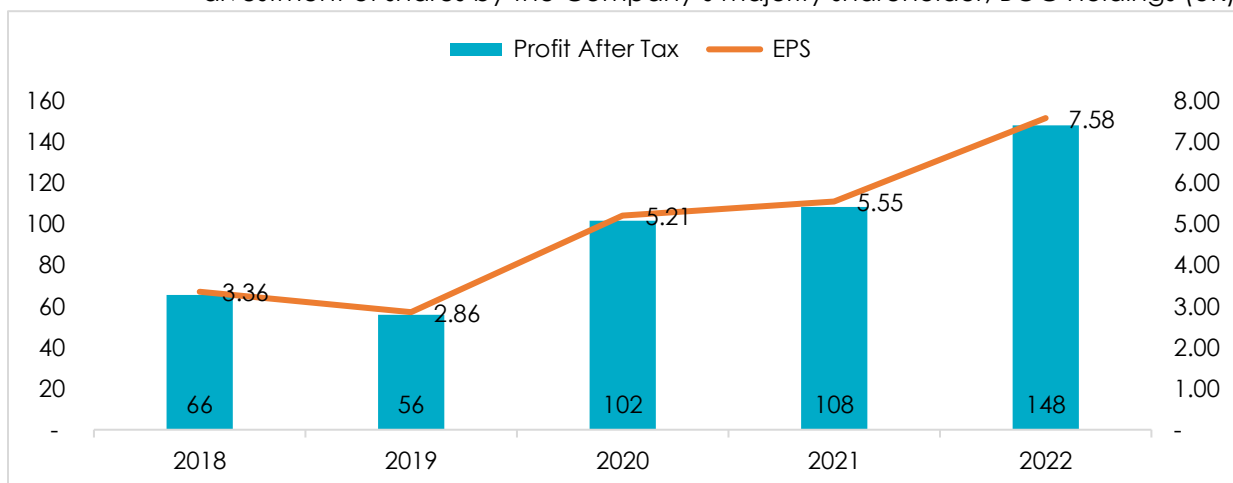


Source: Company Annual Reports, NCBA IB Research

Profitability

PAT in 2022 increased by 37% due to the fact that the company's importation of oxygen drastically dropped, post-Covid. The increase was also brought about by a reduction in cost of electricity and a write-back to income, on cylinder deposits arising from cylinders lost or not returned by customers.

In 2021, operating profit increased by 6.4% from KES 120.4Mn to KES 124.1Mn, lower than 16.4% realized in gross profit amount due to a 16.3% increase in Selling and Administration costs which was driven by a material cost of KES 25.4Mn in legal and other costs arising from the proposed divestment of shares by the Company's majority shareholder, BOC Holdings (UK).



Source: Company Annual Reports, NCBA IB Research

KEY INVESTMENT RISKS

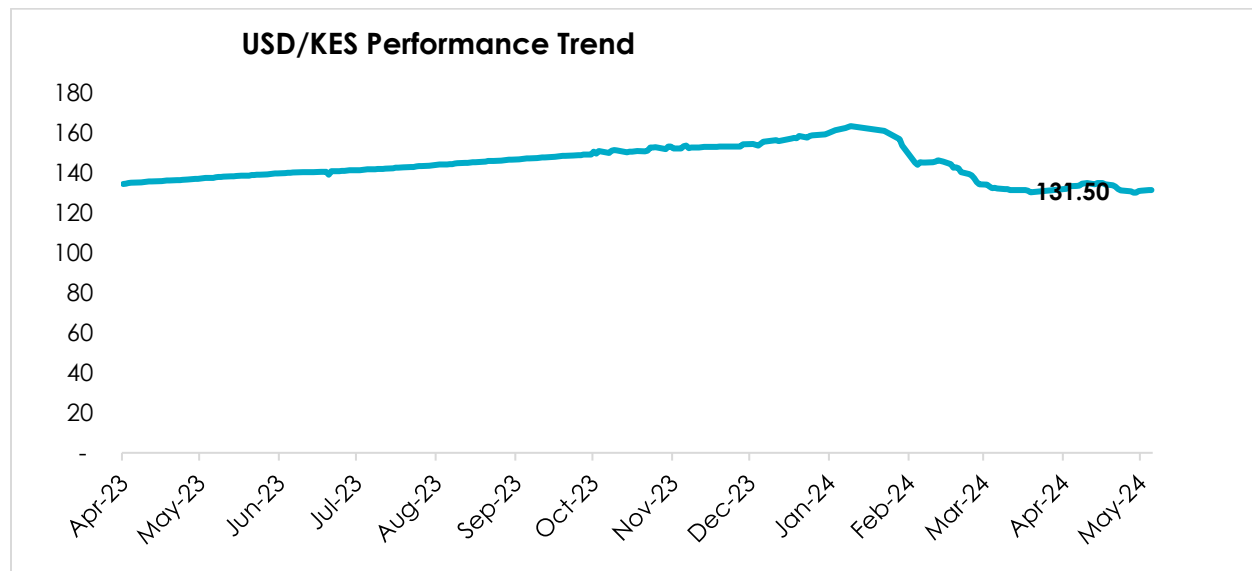
Currency

In 2023, KES declined by 26.9% against the USD. This has a direct impact on the Group since the costs of imports, suppliers, and other products throughout the supply chain are highly correlated to the exchange rate. This in turn puts a strain on overall profitability.

Out of BOCKL' top 10 suppliers, 5 are foreign domiciled, i. e.,

- Brothers Gas Bottling & Distribution Co. LLC – Dubai, UAE
- Fortischem A.S – Slovakia
- Precision Parts (UK) Limited – UK
- Muller Gas Equipment A/S – Denmark
- Chart Ferox, A.S – Czechia

Erratic fluctuation in domestic currencies of the export regions may also impede export profits.



Source: Company Annual Reports, NCBA IB Research

Fuel Costs

Gasoline and energy prices in Kenya rose sharply in 2023. Manufacturing companies are by definition energy intensive, and increased fuel costs has a direct impact on overall production. For reference, the Kenya National Bureau of Statistics Producer Price Index1Q2024 Release states that during the period, manufacturing costs had grown by 8.6% y-o-y with the greatest impact on chemical and chemical product manufacturing, which shot by 32%. Manufacturing companies are one of BOCKL' main customers, and if their capacity is constrained, BOCKL' revenues suffer in tandem.

Customer Base

Government regulated/supported health care providers are a major constituent of BOCKL' customer base. Timely settlement of supplies by this sector is particularly important to BOCKL. For example, in 2021, the following government institutions were among the top customers of BOCKL;

- Kenyatta National Hospital
- Kenya Medical Supplies Authority
- Ministry of Health
- Kiambu County Level 4 Hospital
- The Tigon Hospital

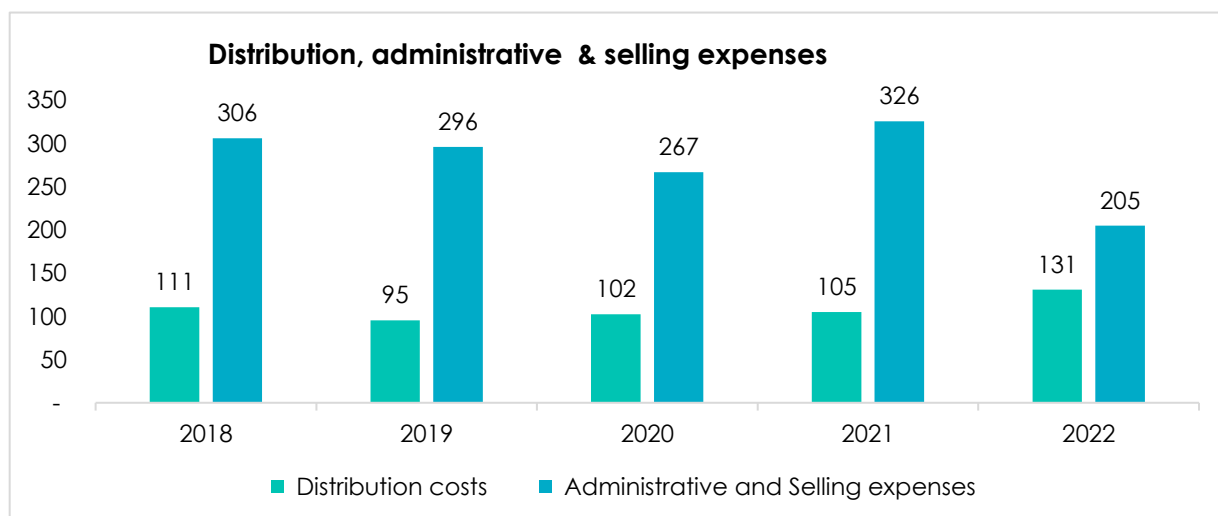
The industrial gases sector, where BOCKL products are used for welding and metal-cutting during fabrication, has been performing well post-Covid hence mitigating the decline in demand from hospitals during the same period. This growth is expected to grow exponentially with the main threat being price-sensitivity and illegal filling of the company's cylinders.

Surge in Expenses

The firm's administrative and selling expenses have grown at a CAGR of 25.5% from KES 305Mn in 2018 to KES 325.3Mn in 2022. During the period there was a legal cost of KES 25.4Mn arising from proposed divestment by the company's majority Shareholder, BOC Holdings (UK).

Relatedly, the increase in expenses resulted from the comparator of 2020 when there was a one-off liability write-back and reestablishment of variable pay in 2021 for employees that had been suspended in prior years.

The firm continues to bear the brunt of erratic taxation laws in the country. The mining act 2016 allows authorities to charge 5% of royalties on top-line revenues, leading to increased cost of sales, an unprecedented increase from KES 0.70 per Kg.



Source: Company Annual Reports, NCBA IB Research

Comparison with Peer Companies

BOCKL is comparable to Carbacid Kenya, Maghreb Oxygene (Morocco), Air Liquide (Tunisia), TOL Gases (Tanzania) and BASF (Germany). These are all major players in the gas and gas-related production and services sectors.

- It has a low EV/EBITDA multiple which is indicative of undervaluation. Its high EBITDA Margin is reflective of healthy earnings.
- BOC's P/E ratio is lower than peer average which is reflective of the stock being lowly priced compared to its earnings.

	EV/EBITDA	EBITDA Margin	P/E	ROE
BOC	6.27	21.80%	9.32	9.11%
Carbacid	3.64	67.24%	5.44	20.53%
Maghreb Oxygene	9.51	9.90%	19.33	3.24%
Air Liquide	4.50	25.68%	7.50	20.60%
TOL Tanzania	5.73	38.25%	11.30	14.00%
BASF Germany	5.70	10.58%	10.20	20.53%
Average	5.89	28.91%	10.52	14.67%

Source: Company financials, Bloomberg, NCBA IB Research

Outlook

Despite a substantial uptick in cost of doing business arising from higher input costs, we believe the company will deliver a relatively strong performance. The performance will be pegged on;

- **Value addition:** The Group is adopting agile and optimal business processes. It has elevated the quality of its production capacity and has continued to upgrade its assets and capabilities to differentiate its services from its competitors. We remain cognizant of the fact that global disruptions on the supply chain of raw materials may persist.
- **Strong presence in the healthcare sector:** Ongoing improvements in oxygen infrastructure in the healthcare sector post- Covid is leading to increased demand for medical oxygen. In 2021 and 2022, the company installed a large portion of this infrastructure, primarily bulk oxygen storage tanks and the related gas pipelines. The company, with its high technical standards, quality and safety of its products, is expected to reap the benefits of the installed infrastructure by ensuring that the equipment remains in serviceable condition and that medical grade oxygen is available.
- **Increased proportion of spending on local suppliers:** BOCKL, in line with its sustainability agenda is pursuing possibility of sourcing some of its inputs from local suppliers. The company defines suppliers who operate within the same country as being part of BOC facility. This not only supports businesses in the wider community but also reduces transportation costs and

minimizes environmental impact. BOCKL' total spend for 2022 on local suppliers was KES 648Mn out of a total spend of KES 957Mn. This represents 67.7% of the total spend on suppliers.

Global disruptions, inflationary pressures, weakening currency, increasing costs of operations will be major challenges for the remainder of the financial year. Scarcity of the greenback in regional markets also pose a risk to the business.

Opportunities

BOCKL seeks to consolidate and grow the medical gases segment, maintain and grow the industrial gases segment (especially oxygen and dissolved acetylene) and aims to become the gas supplier of choice in the Kenyan market.

- The company seeks to partner with real estate developers for Liquefied Petroleum Gas reticulation and provide innovative solutions to key segments in the agricultural and floricultural sectors and to partner with national referral and county governments to deliver quality medical supplies to public hospitals.
- The majority of BOCKL' business is conducted through long-term contracts which provide cashflow and the ability to pass through energy costs and feedstock to end users.
- BOCKL can leverage on One Linde's world-class engineering and technology capabilities to;
 - ✓ Deliver a competitive advantage to the gases business
 - ✓ Profitably grow with customers
 - ✓ Profitably and sustainably grow industrial and medical gases business by increasing density
- The company has growth opportunities in all major geographical regions and in diverse end-markets such as healthcare, chemicals, energy, manufacturing, metals and mining, food and beverage as well as electronics.

Valuation

We derive our target price by blending EV/EBITDA and P/E approaches to arrive at a 12-month target price of **KES 90.06** for **BOC Kenya Ltd.**

The target price implies a upside of **1.2%** to the current trading price of **KES 89.00** as of 25th June 2024.

Assumptions

- Risk free rate of 13.8% based on the 10-year Treasury bond yields.
- Tax rate of 30%.
- Equity risk premium of 14.11%.
- Beta of 0.16 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on GDP growth forecast for 2024

Valuation Methodology	Implied Price	Weighting	Weighted Value
DCF Approach	83.37	60%	50.02
EV/EBITDA	59.67	20%	11.93
P/E Approach	140.54	20%	28.11
Fair Value		100%	90.06
Current Price (25th June 2024)			89.00
Upside/(Downside)			1.2%

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%

Investment Recommendation

We recommend a **HOLD** based on a target price of **KES 90.06** implying a 1.2% return on the current market price of KES 89.00 as of 25th June 2024.

The recommendation is based on the company's revamped business strategy underpinned by productivity, driven primarily by continuous improvement initiatives and sustainability initiatives. Relatedly its operational efficiency coupled with high safety standards will competitiveness.

The expectation for increased regional demand and opportunities in new markets will underpin the company's growth and profitability.

Appendix 1.

Additional Financial performance KPIs:

	2018	2019	2020	2021	2022
Revenue	966,543	975,863	1,098,104	1,381,768	1,287,250
Gross Profit	49.7%	44.0%	43.8%	40.5%	40.7%
Distribution costs	110,693	95,268	102,374	105,122	130,709
Selling and admin costs	305,987	298,008	266,890	204,781	329,571
Operating profit	49,315	37,349	120,388	128,144	177,587
Operating profit/sales	5.1%	3.9%	11.0%	9.3%	13.8%

	2018	2019	2020	2021	2022
Quick assets	667,388	497,436	560,541	585,794	277,118
Quick ratio	1.1	0.9	1.2	1.5	0.9
Liquidity ratio	1.9	2.0	2.5	2.9	3.9
Debt to equity ratio	0.41	0.38	0.30	0.3	0.2
Long term debt	Nil	Nil	Nil	Nil	Nil

	2018	2019	2020	2021	2022
Dividends	101,532	45,885	81,031	85,912	118,129
Dividend per share (KES)	5.20	2.35	4.15	4.40	6.05
Capital expenditure	73,503	83,500	40,352	52,212	89,106
Return on total assets	2.3%	1.9%	5.8%	6.4%	9.0%

- i. All figures in Kenya shilling thousands (KES "000") unless indicated otherwise
- ii. Quick assets comprise bank balances and term deposits. Trade debt is excluded

Historical Profit and Loss Statement (KES Mn)

	2018	2019	2020	2021	2022
Sale of medical and industrial gases	777	755	894	1,144	846
Equipment, accessories & welding products	80	84	78	73	333
Equipment and facilities rentals	46	51	43	129	67
Service and delivery revenue	62	85	81	35	39
Total Revenue Actuals	966	975	1,089	1,381	1,287
Cost of sales Actuals	(486)	(546)	(616)	(821)	(763)
Gross Profit Actuals	480	428	481	559	524
Other income/expenses	2.4	2.1	8.4	(920)	1,079
Distribution costs	(110)	(95)	(102)	(105)	(130)
Administrative and Selling expenses	(305)	(295)	(266)	(325)	(204)
Impairment release/(charge) on financial assets	(16)	6	-	-	(12)
Operating Profit	49	45	120	128	177
Finance Income	73	54	37	41	36
Finance costs	(3)	(10)	(1)	(1)	(1)
Profit before income tax Actuals	119	89	156	168	213
Tax calculated at domestic rate; 30% Actuals	(54)	(33)	(54)	(60)	(65)
Total Net Profit After Tax	65	55	101	108	147

Appendix II: Historical Statement of Financial Position (KES Mn)

	2018	2019	2020	2021	2022
Non-Current Assets					
Property, plant and equipment	789	773	673	624	569
Rights of use assets	0	10	11	10	10
intangible assets	250	62	-	-	-
Investments in subsidiaries	-	-	-	-	-
Equity and debt investments	148	118	179	163	178
Deferred tax assets	28	8	33	43	47
Prepaid operating leases	3	-	-	-	-
Total Non-current Assets Actuals	969	911	897	841	805
Current Assets					
Inventories Actuals	162	155	160	206	202
Equity and debt investments	333	226	245	-	-
Trade and other receivables	306	374	457	348	657
Current income tax	35	54	12	14	8
term deposits	273	232	243	-	-
cash and cash equivalents	60	37	71	585	277
Total Current Assets Actuals	1,172	1,080	1,191	1,155	1,145
Total Assets Actuals	2,141	1,992	2,089	1,997	1,950
Capital Reserves Attributable to Company's Shareholder's Equity					
Share capital	97	97	97	97	97
Share premium	2	2	2	2	2
Other reserves	72	38	104	88	100
Retained earnings Actuals	1,346	1,300	1,402	1,400	1,460
Total equity Actuals	1,519	1,439	1,607	1,588	1,661
Non-Current Liabilities					
Borrowings	-	-	-	-	-
Lease liabilities	-	6	7	7	7
Total non-current liabilities Actuals	-	6	7	7	7
Current Liabilities					
Lease Liability	-	8	1	1	1
Bank overdraft	40	-	-	-	-
Current tax payable	-	1	1	3	1
Trade and other payables	581	545	471	396	279
Total Current Liabilities Actuals	622	546	473	400	281
Total Equity and Liabilities Actuals	2,141	1,992	2,089	1,997	1,950

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