NCBA

INVESTMENT BANKING EARNINGS UPDATE

BAT KENYA | FY'2024 EARNINGS UPDATE

BAT Kenya reported a **19.5%** decline in Profit after Tax (PAT) to **KES 4.48Bn** in FY2024, mostly driven by rising costs and a stronger Kenyan shilling, which significantly increased finance costs.

The company faced challenges in its export markets, including forex shortages, adverse weather conditions, supply chain disruptions, and geopolitical tensions, all of which impacted sales volumes.

BAT's results were in line with our expectations, considering the challenging operating environment. Despite the subdued performance, the company remains fundamentally strong, with significant growth potential in its non-combustible segment and export business, particularly as global conditions stabilize. Additionally, BAT's consistent dividend track record further enhances its appeal to investors, reinforcing its commitment to long-term shareholder value.

Given our estimates and assumptions, we recommend a **BUY** on the counter, projecting a **31%** upside potential with a target price of KES 493.57, compared to the current trading price of KES 375.75 as of February 24, 2025.

OUTLOOK

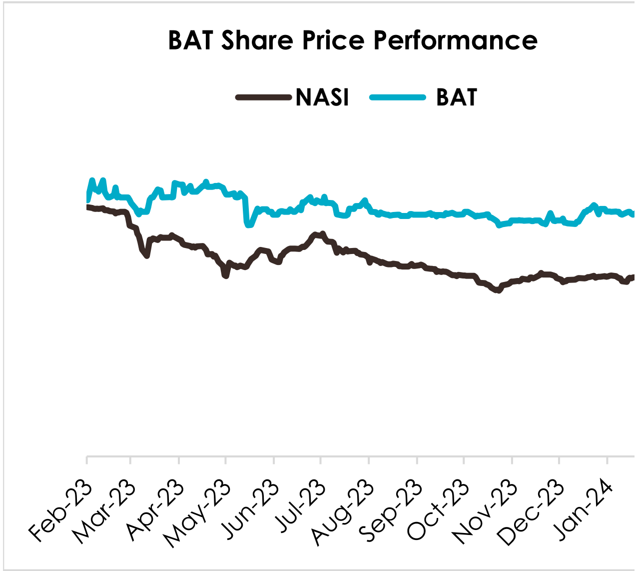
BAT Kenya remains committed to its corporate purpose by ensuring reduced health impact of its business through innovative, reduced-risk products, such as tobacco-free oral nicotine pouches. The company continues to engage with regulators to establish a sustainable regulatory framework essential in commercializing its oral nicotine pouch factory in Nairobi and unlocking greater shareholder value.

While challenges such as illicit trade and economic headwinds persist, BAT Kenya is well-positioned to navigate these obstacles by leveraging its geographical diversity, talent, strong consumer-centric brand portfolio, and sustainable trade and farmer partnerships. These strengths will support its long-term growth and resilience in an evolving market.

Share Data	
Ticker	BATK KN
RECOMMENDATION	BUY
Current Price (KES)	375.75
Target Price (KES)	493.57
Upside	31%
52WK High (KES)	495.00
52WK Low (KES)	325.00
Market Cap (KES Bn)	36.00
EPS	KES 44.83
Total DPS	KES 50
P/E Ratio	8.38x
Dividend yield (FY'24)	13%

Current Price = as of 25th February 2025

Source: Bloomberg, Company financials, NCBA IB Research



Source: NSE, NCBA IB Research

Analyst:

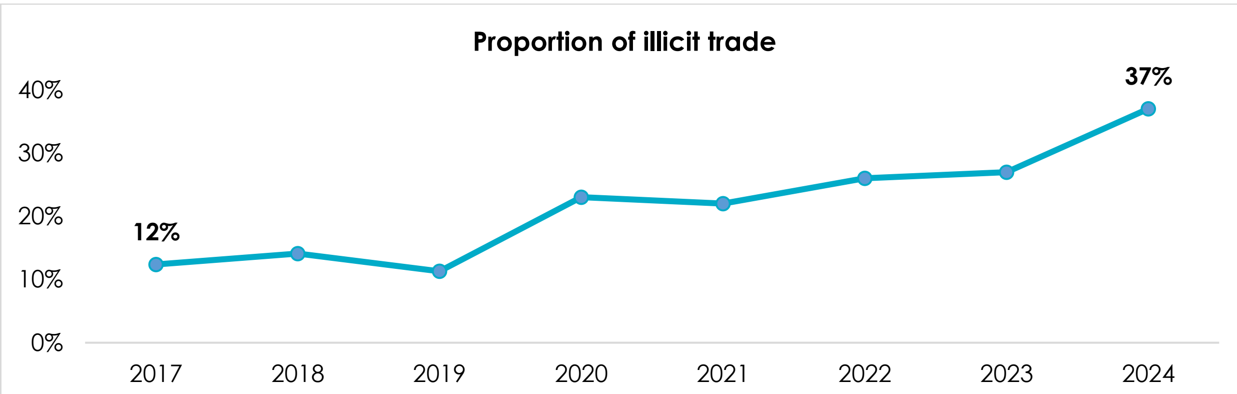
Christopher A. Aura

Christopher.aura@ncbagroup.com

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

Profitability: BAT Kenya's PAT declined by **19.5%** to **KES 4.5Bn**, primarily due to higher finance costs and slower sales growth. This was driven by cost inflation, which increased operational expenses, lower consumer purchasing power, leading to downtrading toward lower-priced brands and supply disruptions of modern oral nicotine pouches.

The company's performance was further impacted by illicit trade in tax-evaded cigarettes, which now accounts for an estimated **37%** of the market. This not only erodes domestic revenues but also deprives the government of about **KES 9.0Bn annually** in tax revenue. BAT continues to urge the government to intensify enforcement efforts locally and strengthen cross-border collaboration with neighboring countries to combat this issue at its source.



Source: Company financials, NCBA IB Research

Additionally, **regulatory uncertainty** has hindered BAT's growth in the non-combustible segment. The suspension of modern oral nicotine pouch sales in the domestic market has stalled commercialization of its oral nicotine pouch factory in Nairobi, forcing the company to accept offers for the disposal of related machinery to safeguard shareholder value.

Before the suspension, the non-combustible segment contributed nearly **3%** of domestic revenue and holds strong growth potential. BAT remains optimistic about continuing in this space and is actively engaging with government authorities to resolve regulatory challenges. As part of its strategy, management plans to re-enter the market through an import model, ensuring the business remains positioned for future growth.

Gross Sales & Net Revenue: Gross sales, including indirect taxes, declined by **0.4%** to **KES 41.0Bn**, while net revenue edged up by 0.6% to KES 25.7Bn. The marginal increase was driven by a strategic pricing benefit though this was partially offset by the impact of foreign exchange losses on the export sales. The sluggish revenue growth reflects a subdued market for tobacco products, leading to an almost flat sales growth.

Revenue Breakdown

In 2024, domestic sales contributed **53%,** while export sales accounted for **47%**. This represents a shift from 2023's **51%:49%** ratio, with the decline in export sales largely due to forex losses from the Kenyan shilling's appreciation against the dollar. Despite this shift, domestic and export markets remain nearly equal contributors to total revenue.

Notably, the below challenges contributed to the slow sales growth:

- **Inflationary Pressures & Consumer Affordability**: Inflation peaked in 2024, reducing consumers' disposable income and driving a shift toward lower-priced brands. This constrained both revenue per unit and overall consumption.

- **Regulatory Challenges**: Uncertainty around oral nicotine pouches disrupted supply, limiting growth in the non-combustible segment.

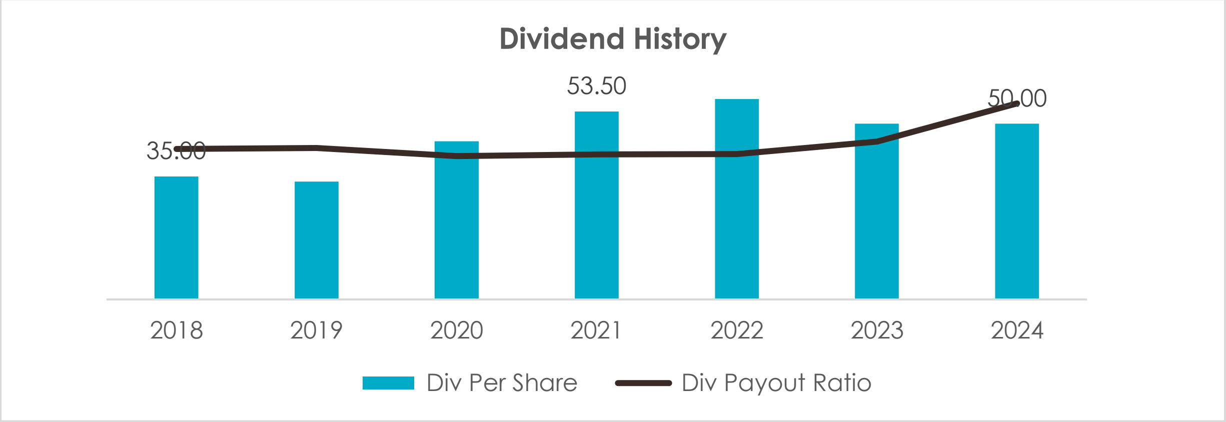
- **Adverse Export Market Conditions**: Issues such as forex shortages, supply chain disruptions, and geopolitical tensions negatively impacted export sales.

- **Foreign Exchange Losses**: The Kenyan shilling appreciated by 20% against the US dollar in Q1 2024, significantly reducing the value of USD-denominated export sales.

While revenue remained **relatively constant**, BAT Kenya continues to navigate these macroeconomic and regulatory challenges while leveraging its strategic positioning to drive long-term growth.

Dividend: BAT Kenya maintained its total dividend per share at **KES 50** for FY2024, representing a dividend yield of **13%**. Despite the decline in profitability, the company upheld its commitment to shareholder returns, supported by an **improved cash position**.

Earnings per share (EPS) declined by 19.49% to KES 44.83 in 2024 from KES 55.68 in FY23. BAT's strong dividend track record, including both interim and full-year payouts, reinforces its financial resilience and attractiveness to investors.



Source: Company financials, NCBA IB Research

Cost of Operations: Increased by 4.37% to KES 18.4BnBn attributable to higher input costs which were partially offset by cost savings from productivity initiatives, as well as lower sales volume. Despite rising operational expenses, the company has implemented efficiency-enhancing measures to manage costs. These include solar power investments, which have helped reduce electricity expenses, and a strategic shift toward sourcing more tobacco leaves locally, lowering reliance on costlier imports. These initiatives align with BAT's broader efforts to optimize production efficiency and enhance long-term cost sustainability.

Operating Profit: Cash generated from operations increased by 23% to KES 10.4Bn reflecting prudent working capital management and proceeds from sale of modern oral nicotine machinery.

Financial Summary.

BAT KENYA PLC FY2024	Key Metrics Y/Y
Gross Revenue	Down 0.40% to KES 41.08Bn
Cost of Operations	**Up 4.37% to KES 18.40Bn**
Profit from Operations	Down 7.72% to KES 7.31Bn
PBT	**Down 19.17% to KES 6.48Bn**
PAT	Down 19.49% to KES 4.48Bn
EPS	**Down 19.49% to KES 4.83Bn**
DPS	Remained unchanged at 45.00
P/E	**8.36x**
P/B	8.70x

Source: Company financials, NCBA IB Research

BAT KENYA PLC FY2024	Key Metrics Y/Y
Current Assets	Up 11.03% to KES 13.59Bn
Non-current Assets	**Down 14.79% to KES 10.06Bn**
Current Liabilities	Up 3.88% to KES 6.02Bn
Non-current Liabilities	**Down 5.20% to KES 1.90Bn**
Equity	Down 3.18% to KES 15.73Bn

Source: Company financials, NCBA IB Research

DISCLAIMER AND DISCLOSURES

1. General Disclaimer

This research report (Report) has been prepared by NCBA Investment Bank (NCBA-IB) and contains detailed industry analyses, statistics and forecasts exclusively for informational purposes and is intended solely for the use of NCBA-IB clients and may not be distributed, published, or reproduced, in whole or in part, nor may its contents be disclosed to any other party without the express written consent of NCBA-IB. While this Report contains analyses and insights aimed at assisting customers in making investment decisions regarding various securities, it does not constitute an offer, solicitation, or recommendation to buy or sell any securities, and it is not intended to provide the basis for any evaluation of the securities discussed herein. NCBA-IB expressly disclaims any responsibility for errors and omissions in this Report.

The Information set forth in this Report has been obtained from sources believed reliable and developed through the application of independent judgement, but NCBA-IB does not warrant its completeness or accuracy. Opinions expressed in this Report are current viewpoints as of the date of issue and are subject to change without notice. Furthermore, NCBA-IB is under no obligation to update or keep the information current. While every effort has been made to ensure the accuracy and completeness of the information provided, no representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained herein, and nothing contained herein is, or shall be relied upon as, a promise or representation as to the future performance of any securities or financial product and market conditions which may change and this might materially impact the accuracy and validity of such analysis.

2. Use of Information

The information presented in this Report is intended solely for informational purposes and is not a comprehensive treatment of the topic at hand. NCBA-IB makes every effort to use reliable, comprehensive information, but we do not represent that the information is accurate or complete. NCBA-IB is not responsible for errors or omissions nor for results obtained from the use of this information. All information is provided "as is", without warranty of any kind, express or implied.

3. No Guarantees on Performance

NCBA-IB, its affiliates, employees, or any associated entities provide no guarantee, warranty, or representation regarding the potential performance or expected outcomes of any investment or financial transaction referenced within this document. Investment values can fluctuate, and the past performance of a security, industry, sector, market, financial product, trading strategy, or individual investment does not guarantee future results or returns.

4. Independent Decision Making

Recipients of this Report are strongly advised to make investment decisions based on their own investment objectives, careful consideration of their financial situation, operational capacity, and the availability of resources. It is recommended that all clients conduct thorough due diligence and, where appropriate, consult independent financial, legal, tax, or other professional advisors to assess the suitability of any potential investment.

5. Limitation of Liability

The Bank, its affiliates, and their respective officers, directors, employees, or agents accepts no liability whatsoever for any direct or consequential loss or damage arising from the use of this Report or the information contained herein. Past performance is not necessarily indicative of future results, and NCBA-IB does not undertake that the recipient of this report will obtain profits or avoid incurring losses. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in these reports is suitable for their particular circumstances and, if necessary, seek professional advice, including tax advice.

6. Authority to Enter Contracts

Please be advised that legally binding obligations on behalf of NCBA-IB can only be established through formal written agreements, duly signed by authorized representatives of NCBA-IB. No electronic communications or implied agreements through informal communications shall be considered binding under any circumstances.

7. Disclosure Statement

NCBA-IB may, from time to time, participate or invest in transactions with the companies mentioned herein, perform services for or solicit business from company(s) mentioned, and/or have a position or effect transactions in the securities or options thereof. Members of NCBA-IB, its principals or affiliates, may have a financial interest in securities of the companies mentioned in this report.

8. Conflicts of Interest

NCBA-IB may engage in transactions in a manner that is inconsistent with the recommendations made in this Report, and it may have commercial relationships with entities mentioned in this Report. NCBA-IB may have provided advice or investment services relating to the investments concerned or a related investment to any company mentioned in this Report prior to its publication. Further, NCBA-IB may receive compensation for these services and acts as a market maker or liquidity provider in the securities that are the subject of this report. NCBA-IB does not prepare research on entities within its corporate group ("the NCBA Group") or other entities where a real or perceived conflict of interest may exist.

9. Confidentiality

This Report is confidential and is intended only for the person or entity to which it is addressed. It may contain confidential, proprietary, or legally privileged information. No confidentiality or privilege is waived or lost by any misdelivery or transmission errors. If you are not the intended recipient, please immediately delete it and all copies of it from your system, destroy any hard copies of it, and notify the sender. You must not, directly or indirectly, use, disclose, distribute, print, or copy any part of this report if you are not the intended recipient.

10. Intellectual Property Rights

All content, data, analyses, graphics, and logos provided in this Report are the exclusive property of NCBA-IB and/or its affiliates, unless otherwise noted, and cannot be copied, distributed, transmitted, displayed, published, or broadcast without the prior written permission of NCBA-IB.

11. Regulatory Compliance

This Report is also subject to regulatory restrictions and obligations that may affect its use. NCBA-IB produces research reports which adhere to regulatory standards. This document may not be distributed in any jurisdiction where its distribution may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

12. Use and Distribution

These materials are intended only for clients of NCBA-IB, and may not be reproduced, redistributed, or copied in whole or in part for any purpose without the express written consent of NCBA-IB