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EABL Group HY'24 Earnings Note

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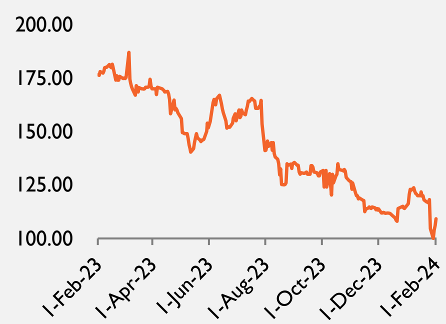
February 2nd, 2024

Ticker Information	
Bloomberg Code:	EABL:KN
NSE Code:	EABL
Issued Shares:	790,774,356
52-week high:	KES 190.00
52-week low:	KES 100.00

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	(6.0%)	(13.6%)	(22.7%)	(38.1%)

Source: NSE, AIB-AXYS Research

Analysts

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Recommendation	Current Price	Target Price
HOLD	**KES 109.25**	**KES 120.25**

Summary

- **EABL Group trailed under the impact of varied macroeconomic headwinds to post a 22.1% y/y decline in net earnings to KES 6.78Bn over the six months to December 2023.** Profitability margins were compressed by a faster surge in operating expenses relative to net sales growth, coupled with an elevenfold jump in foreign exchange losses over the period under review.
- **Management remains keen on margin expansion and deleveraging the balance sheet, despite the uncertain operating environment.** Management hints at implementing stronger pricing action to push back against shrinking margins amidst shifting consumption patterns. Further, an impressive 29.8% growth in operating cashflows, increased the scope for lowering debt exposure amid a rising rate environment.

Key Highlights

- **Net sales growth accelerated markedly to 16.2% y/y to KES 66.54Bn, driven largely by strong pricing action as well as a modest 2% volume expansion across its portfolio brand offerings.** Excise sales taxes held proportionally steady, despite the marginal rise of excise tax rates in Tanzania. Regional subsidiaries continued to demonstrate agile growth, led by Uganda, which grew 31% y/y, whereas Kenya sales grew 10%. Tanzania sales, on the other hand, posted a single-digit growth rate of 9%.
- **Cost of sales soared 20.6% y/y to 37.03Bn, propelled by soaring input costs** This increase stemmed largely from a jump in the prices of returnable glass, sugar and fuel which grew by 10%, 5% and 39% respectively over the same period driven by higher excise taxes. Grain prices normalized following rebounded supply in the year. However, local ethanol supplies declined progressively, compelling the brewer to source the product in offshore markets.

Shifting Consumer Trends

- **Widespread reprioritization of consumer spending over the period led to slower volume growth across 'mainstream' drinking brands.** The persistent price pressures in the economy kept consumers on the edge, as growth in real incomes trailed behind inflationary upsurges. Customers thus resorted to value hunting to maintain overall utility.
- Management also noted an increased shift from On-trade to Off-trade consumption, while emerging channels remained resilient as consumers sought increased travel and leisure engagements over the period. E-commerce sales similarly grew significantly over the period.

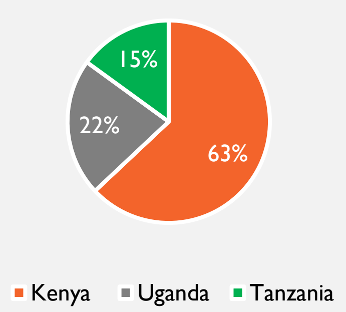
Accelerated Foreign Exchange Rate Losses

- **Unexpected shortfalls in local ethanol supplies, coincided with protracted local currency pressures – leading to an elevenfold rise in foreign exchange rate losses totaling KES 2.31Bn.** The 21.3% slide of the Kenya shilling against the US Dollar, and 25.7% against the Sterling Pound, throughout 2023, confounded management's input sourcing plans. This led to a price-driven expansion in the Group's import bill in landing its offshore premium brands and plugging in ethanol supply shortfalls.

Easing Debt Balance Meets Rising Interest Rate Environment

- **The brewer recorded a notable 12.6% y/y growth in the total stock of borrowings to KES 54.5Bn.** Agile free cash flow generation in the period supported a 61.2% y/y reduction in expensive short-term borrowings, while yielding room for a 40.5% y/y increase in long-term borrowing. However, the fast-rising interest rate environment led to a 420bps increase in the weighted average cost of debt to 15.1% by December 2023. This led to a steep decline in interest coverage ratio to 4.1x from 6.5x a year prior. We expect the speedy rise in the overall cost of debt to weigh on overall margins over the medium-term.

Chart 2: Regional Net Sales Contribution (%)



Source: Company filings, AIB-AXYS Research.

Chart 3: Group Return on Equity Trend (%)

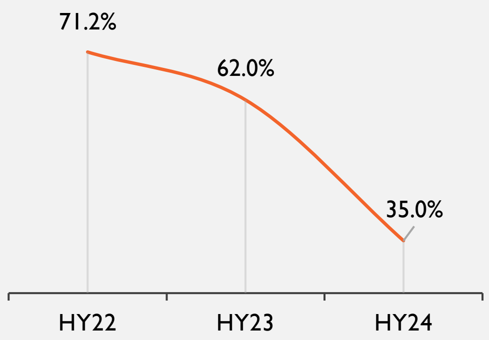
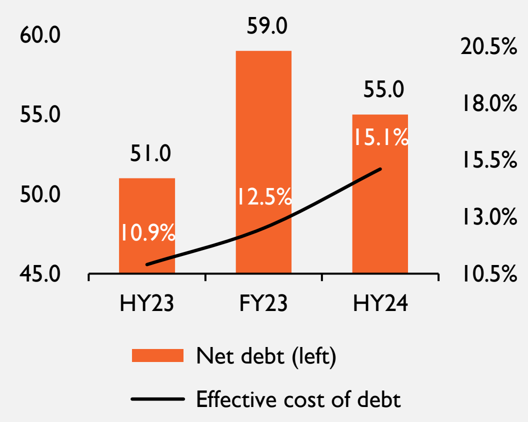


Chart 4: Net Debt (KES Bn) and Effective Cost of Debt



Source: Company filings, AIB-AXYS Research.

Recommendation

- **We maintain our HOLD recommendation on EABL Group, on account of its sharp declining return on equity, yet remain cautiously optimistic for a robust recovery in consumer demand and sustained cost efficiencies over the medium-term.** We expect the Group's bottom-line to remain sensitive to interest rate pressures and input price shocks over the year. Our one-year target price for EABL Group currently stands at KES 120.25 - representing a c.10.0% upside potential from current levels.

RATIO ANALYSIS	FY19	FY20	FY21	HY22	FY22	HY23	FY23	HY24
Capital Structure								
Debt Ratio	35.7%	41.6%	38.2%	30.4%	31.8%	28.0%	38.5%	34.5%
Debt-to Equity Ratio	2.2x	2.9x	3.0x	1.7x	1.6x	1.7x	1.9x	1.4x
Times Interest Covered	6.3x	3.8x	3.7x	6.8x	6.7x	6.5x	4.8x	4.1x
Management Quality								
Gross Margins	25.5%	24.8%	24.5%	27.3%	27.3%	25.4%	24.0%	24.8%
Total assets turnover	94.8%	84.5%	85.9%	99.9%	99.1%	91.2%	82.7%	93.0%
Cost-to Income Ratio	20.5%	24.6%	26.3%	20.7%	22.5%	19.4%	19.2%	19.8%
Debt-to EBIT	1.7x	3.1x	3.1x	1.4x	1.5x	1.7x	2.3x	1.8x
Earnings Quality								
Return on Equity	71.7%	50.8%	46.9%	71.2%	59.0%	62.0%	38.8%	35.0%
Net profit Margin	14.0%	9.5%	8.1%	15.9%	14.2%	15.2%	11.2%	10.2%
Earnings Yield	7.2%	5.3%	4.7%	7.1%	15.3%	6.6%	9.8%	7.7%
Dividend Yield	4.2%	1.8%	0.0%	7.7%	8.6%	3.0%	3.2%	4.5%
Liquidity Ratios								
Current Ratio	0.9x	0.8x	0.9x	0.9x	0.8x	0.8x	1.0x	1.1x
Quick Ratio	0.5x	0.7x	0.7x	0.7x	0.6x	0.7x	0.8x	0.8x
DuPont Identity								
ROE	71.7%	50.8%	46.9%	71.2%	59.0%	62.0%	38.8%	35.0%
Net Income/EBT	65.0%	66.1%	64.1%	67.8%	64.8%	67.7%	65.9%	67.2%
EBT/EBIT	84.1%	73.7%	73.3%	85.3%	85.0%	83.2%	71.2%	61.7%
EBIT/Revenue	25.7%	19.4%	17.2%	27.5%	25.8%	27.0%	24.0%	24.6%
Revenue/Total Assets	94.8%	84.5%	85.9%	99.9%	99.1%	91.2%	82.7%	93.0%
Total Assets/Equity	5.4x	6.3x	6.7x	4.5x	4.2x	4.5x	4.2x	3.7x

Source: Company Filings, AIB-AXYS Africa Research
Half Year Computations are Annualized.

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