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Kenya Power

Kenya Power & Lighting PLC H1'25 Earnings Note

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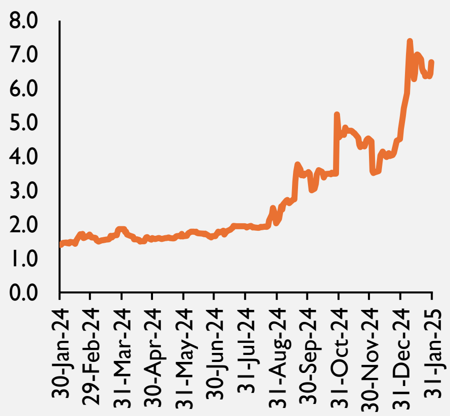
KPLC Group H1'25 Earnings Note

February 3rd, 2025

Ticker Information	
NSE Code:	KPLC
Issued Shares:	1,951,467,045
52-week high:	KES 7.66
52-week low:	KES 1.33

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	40.96%	48.68%	249.48%	484.29%

Analysts

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Recommendation	Current Price	Target Price
HOLD	KES 6.78	KES 8.26

Summary

- **KPLC maintained its earnings momentum witnessed in the second half of FY24, as net earnings recorded a 3025.39% y/y growth to KES 9.97 Bn up from KES 0.32 Bn recorded a year prior.** This significant uptick in profitability was driven by an expansion in business's profit margins, with operating expenses registering a decline of 14.0% y/y and finance cost registering an 86.9% decline vis-à-vis a 5.4%y/y decline in revenue in the period under review.
- **The Board of Directors recommend an interim dividend of KES 0.20/=**, this being its first in nine years, with the business retuning to profitability. The interim dividend will be payable on 11th April 2025 to shareholders on register as of 28th February 2025.

Key Highlights

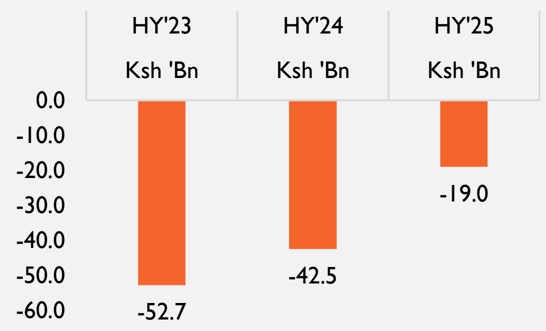
- **Net sales demonstrated a being slowdown in the period, declining to KES 107.4 Bn, down from KES 113.55 Bn recorded in a similar period last year. This decline was prompted by a reduction in tariffs that saw unit costs per Kilowatt hour decline by KES 1.50.** Despite this decline, electricity unit sales in the period witnessed a 5.4% uptick to 5,506GWH buoyed by higher consumption as a result of improved network reliability and new customer growth. We believe this trend will be sustained in the coming half year, as lower price effects reverberate through the market, boosting demand.

- **Cost of sales declined by 14.0% y/y to KES 71.37 Bn, as power purchase costs pressures waned on the back of a strengthening shilling, with many Power Purchase Agreements (PPAs) being foreign currency denominated.** This was further magnified by a reduction in fuel prices, as global oil prices trended towards the downside for the majority of 2024.

Improvement in Working Capital

Working capital continued to witness significant improvement during the half year, coming in at negative KES 18.99 Bn from negative KES 42.46 Bn registered at 2024, signaling a 55.3% y/y rise. This improvement was buoyed by the continued optimization of business operations, with KPLC scaling down investments to only core and high impact engagements. Additionally, prepayment of expensive debt obligations has also been a key driver in the improvements witnessed in working capital, with the utility opting to utilize its improving cash position to reduce its credit obligations. Given the positive momentum shown in improving its working capital, we anticipate that Kenya power could possibly extinguishing its negative position by the end of FY25.

Chart 2: Working Capital trend

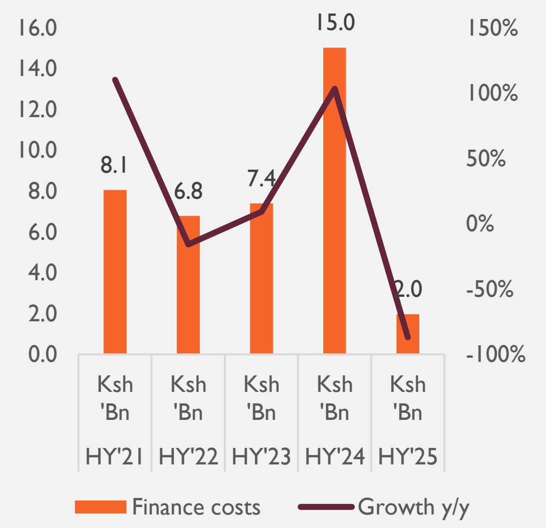


Source: Company filings, AIB-AXYS Research.

Easing debt balance

Finance costs for the business continue on their downward trend, with the utility recording an 86.9% y/y decline to KES 1.97Bn from KES 15.02BN recorded in HY'2024. Interplays between a strengthening exchange rate coupled with declining of global interest rates, helped lower interest repayment experienced by the firm, given that most outstanding debt obligation are foreign currency denominated. Going forward, the business intends to leverage its improving cash position to retire all hard currency commercial debt in its books or at least KES 20Bn by June 2026. This process is already under, following the expiry of the Covid-19 debt service mortarium, with KPLC having acknowledge payment of KES 3.3Bn between July and September toward its outstanding debt obligations, with the business planning to repay approximately KES 12Bn of outstanding debt obligations by FY25

Chart 3: Finance Costs



Source: Company filings, AIB-AXYS Research.

Balance Sheet restructuring

Kenya power, remains in the process of transferring a portion of its transmission assets to Kenya Electricity Transmission Company (KENTRACO) as part of a government led initiative to restructure its balance sheet and enhance efficiency. This transfer would see Kenya power offset significant debt obligation to the government, which is further expected to lower its debt obligations going forward. The transfer which was initially scheduled for completion by December 2024, was rescheduled due to delays in appointing a transaction advisor, with expected completion set for 2025. This move in our view, would not only help restructure Kenya Power balance sheet by reducing capital intensive obligations, but would also help reduce operational costs with KENTRACO expected to take over transmission investments and maintenance. If the transfer is successful by the end of FY25, we opine that earnings momentum for Kenya power would witness a significant upside in the medium term.

Recommendation

- We maintain our **HOLD** recommendation on **KPLC** as we await sustained earnings growth in upcoming financial periods. While ongoing business optimization efforts are expected to yield positive results—reducing both operational and finance costs in the near term—challenges remain. Infrastructure limitations and elevated price levels could cap potential gains for investors, as many manufacturers and high-consumption clients turn to alternative power sources to mitigate cost pressures. Additionally, customer migration due to the anticipated proposal to end the company's monopoly could limit earnings momentum going forward, however, the major effects of this could be inflicted in the long term due to KPLC already having an existing distribution network as compared to upcoming competitors. Our one-year target price for KPLC currently stands at KES **8.26 -** representing a c. **9.3%** upside potential from current levels.

Ratio Analysis	FY22	HY23	FY23	HY24	FY24	HY25
Capital Structure						
Debt Ratio	48.3%	47.9%	46.5%	47.3%	46.2%	44.5%
Debt-to Equity Ratio	2.7x	2.7x	2.9x	3.0x	1.9x	1.7x
Times Interest Covered	1.4x	0.8x	0.8x	1.0x	-60.8x	8.0x
Management Quality						
Gross Profit Margins	373.4%	421.0%	402.9%	372.0%	287.0%	298.0%
Total Assets Turnover	47.6%	26.1%	54.0%	31.3%	64.5%	29.1%
Cost-to Income Ratio	24.2%	25.1%	19.5%	17.4%	20.0%	22.1%
Debt-to EBIT	9.2x	28.1x	8.6x	11.9x	4.0x	10.5x
Earnings Quality						
Return on Equity	5.9%	-1.9%	-5.6%	0.6%	34.5%	10.2%
Net Profit Margin	2.2%	-1.3%	-1.7%	0.3%	13.0%	9.3%
Earnings Yield	125.9%	-37.8%	-103.8%	11.3%	928.3%	106.2%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	42.2%	4.2%
Liquidity Ratios						
Current Ratio	0.5x	0.5x	0.6x	0.7x	0.7x	0.8x
DuPont Identity						
ROE	5.9%	-1.9%	-5.6%	0.6%	34.5%	10.2%
Net Income/EBT	68.4%	72.1%	72.0%	59.3%	68.9%	70.9%
EBT/EBIT	29.4%	-28.1%	-23.1%	3.7%	105.2%	89.7%
EBIT/Revenue	11.1%	6.5%	10.1%	12.7%	18.0%	14.6%
Revenue/Total Assets	47.6%	26.1%	54.0%	31.3%	64.5%	29.1%
Total Assets/Equity	5.5x	5.6x	6.2x	6.4x	4.1x	3.8x

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