www.aib-axysafrica.com

East African Breweries Limited FY'24 Earnings Note

research@aib-axysafrica.com

EABL Group FY'24 Earnings Note

August 12th, 2024

Ticker Information	
NSE Code:	EABL
Issued Shares:	790,774,356
52-week high:	KES 160.00
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	7.6%	-0.2%	33.9%	4.5%

Source: NSE, AIB-AXYS Research

Analysts

Ronny Chokaa

rchokaa@aib-axysafrica.com

Stacy Makau

smakau@aib-axysafrica.com

Recommendation	Current Price	Target Price
HOLD	**KES 152.00**	**KES 172.50**

Summary

- **EABL Group navigated varied macroeconomic headwinds to post a sharp 11.8% y/y decline in net earnings to KES 10.87Bn from KES 12.32Bn a year prior.** Profitability margins were compressed by a faster surge in operating expenses (+18.4%) relative to revenue growth (+13.2%), coupled with an 84.3% y/y surge in foreign exchange losses and a 49.0% y/y increase in net finance costs over the period under review.
- **The Board of Directors recommend a final divided of KES 6.00/=**. This in addition to the earlier issued interim dividend of KES 1.00, raises the total FY'24 dividend to KES 7.00 per share. The dividend will be payable on 28th October 2024 to shareholders on register as of 16th September 2024.

Key Highlights

- **Net sales demonstrated robust growth, surging 13.2% y/y to KES 124.13Bn largely propped by stronger pricing action, complemented by a modest 1% rise in regional volumes across the company's diverse brand portfolio.** Kenya rose to the fastest growing market, posting a strong 15% y/y growth in sales while Uganda followed closely with a 12% y/y increase in sales. Tanzania recorded a modest single-digit growth in sales of 9% y/y. However, growth remained muted when adjusted for exchange rate depreciation effects.
- **Cost of sales soared 13.0% y/y to KES 70.33Bn quickened by elevated costs for fuel, sugar, and returnable glass.** The situation was further magnified by high taxes, holding gross margins compressed. Nevertheless, cashflow generation remained robust, supporting faster reduction in debt holdings and additional CAPEX initiatives.

Shifting Consumer Trends

Widespread shifts in consumer behavior were observed during the year. The "Premium" brand sales rose steadily by 13% y/y faster than "Vibrant beer" and "Mainstream Spirits" brands which grew by 12% y/y and 10% y/y respectively. However, consumption of mainstream spirits especially in Kenya and Tanzania declined – pointing to consumers' reprioritization of spending amidst economic pressures. This signifies that sales were largely propped by stronger pricing action than organic increases in demand. Downtrading behavior was similarly observed as well as a widespread transition from On-trade to Off-trade consumption. Additionally, e-commerce sales showed significant growth throughout the period, reflecting fast-evolving consumption trends.

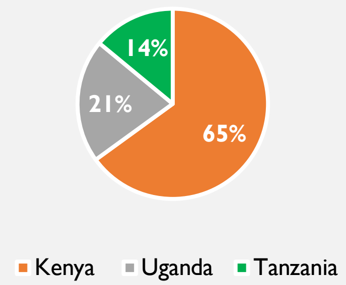
Accelerated Foreign Exchange Rate Losses

Unexpected ethanol supply shortages coincided with sustained local currency depreciation for the better part of the financial year resulted in an 84.3% y/y surge in foreign exchange losses to KES 3.87Bn. The shilling's depreciation against the US Dollar and the British Pound coincided with unstable supply chains - confounding management's input sourcing plans, leading to a substantial rise in the Group's import costs of offshore brands and required ethanol supplies.

Easing Debt Balance Cushions Elevated Interest Rate Effects

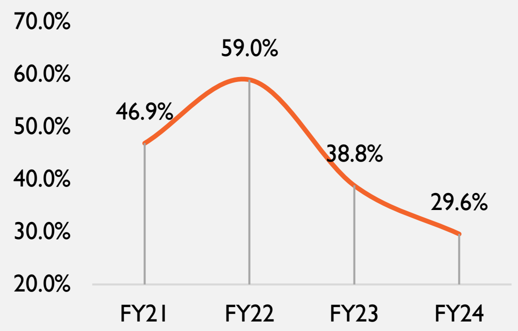
The brewer recorded a notable 17.7% y/y decline in the total stock of borrowing to KES 48.93Bn. This reduction emerged from a 32.9% decrease in costly short-term borrowings as well as a 15.1% reduction in long-term debt. As a result, the company's debt ratio improved to 34.8%. However, the rising interest rate environment led to a steep decline in the interest coverage ratio to 3.5x from 4.8x a year prior. We expect the rapid increase in overall debt costs to impact profit margins in the medium-term, requiring the brewer to explore alternative financing strategies

Chart 2: Regional Net Sales Contribution (%)



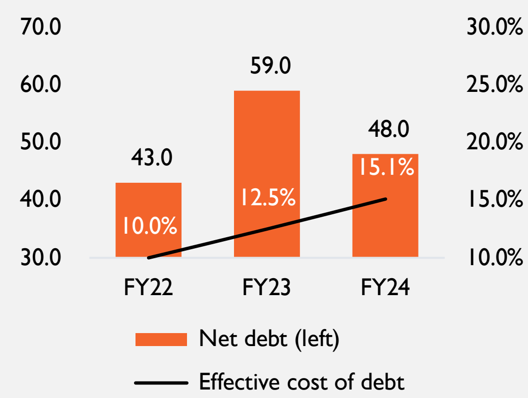
Source: Company filings, AIB-AXYS Research.

Chart 3: Group Return on Equity Trend (%)



Source: Company filings, AIB-AXYS Research.

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***, pending sustained recovery in consumer demand across all regional markets. We anticipate robust recovery in consumer demand beginning 2025 even as dynamic pricing strategies help support topline revenues. However, elevated financing costs and further input price pressures over the coming year could delay the projected recovery. Our one-year target price for EABL Group currently stands at KES 172.50 - representing a c.13.5% upside potential from current levels.

Ratio Analysis	FY19	FY20	FY21	FY22	FY23	FY24
Capital Structure						
Debt Ratio	35.7%	41.6%	38.2%	31.8%	38.5%	34.8%
Debt-to Equity Ratio	2.2x	2.9x	3.0x	1.6x	1.9x	1.3x
Times Interest Covered	6.3x	3.8x	3.7x	6.7x	4.8x	3.5x
Management Quality						
Gross Profit Margins	46.2%	44.1%	43.5%	48.3%	43.2%	43.3%
Total Assets Turnover	94.8%	84.5%	85.9%	99.1%	82.7%	99.9%
Cost-to Income Ratio	20.5%	24.6%	26.3%	22.5%	19.2%	20.1%
Debt-to EBIT	1.7x	3.1x	3.1x	1.5x	2.3x	1.7x
Earnings Quality						
Return on Equity	71.7%	50.8%	46.9%	59.0%	38.8%	29.6%
Net Profit Margin	14.0%	9.5%	8.1%	14.2%	11.2%	8.8%
Earnings Yield	7.2%	5.3%	4.7%	15.3%	9.8%	9.0%
Dividend Yield	4.2%	1.8%	0.0%	8.6%	3.5%	4.6%
Liquidity Ratios						
Current Ratio	0.9x	0.8x	0.9x	0.8x	1.0x	1.2x
Quick Ratio	0.5x	0.7x	0.7x	0.6x	0.8x	0.8x
DuPont Identity						
ROE	71.7%	50.8%	46.9%	59.0%	38.8%	29.6%
Net Income/EBT	65.0%	66.1%	64.1%	64.8%	65.9%	64.8%
EBT/EBIT	84.1%	73.7%	73.3%	85.0%	71.2%	58.2%
EBIT/Revenue	25.7%	19.4%	17.2%	25.8%	24.0%	23.2%
Revenue/Total Assets	94.8%	84.5%	85.9%	99.1%	82.7%	99.9%
Total Assets/Equity	5.4x	6.3x	6.7x	4.2x	4.2x	3.4x

CONTACTS

Research Desk

Ronny Chokaa

Senior Research Analyst

Stacy Makau

Research Analyst

Alex Sanja

Sheila Wambui

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Anthony Kiambati

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: trading@aib-axysafrica.com

Derivatives Trading

Anthony Kiambati

Email: Derivapplications@aib- axysafrica.com
