EAST AFRICAN BREWERIES LTD – 1H2013 RESULTS NOTE

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EABL 1H2013 Results Analysis

EABL Income Statement KES '000,000	Dec-11	Dec-12	% Change
Revenue	27,777	30,633	10.28%
Cost of sales	(14,321)	(16,234)	13.36%
Gross Profit	**13,456**	**14,399**	**7.01%**
Gross Margin	**48.4%**	**47.0%**	
Selling and distribution costs	(2,311)	(2,541)	9.95%
Administrative expenses	(3,699)	(3,564)	-3.65%
Other expenses	(134)	(436)	225.37%
Total Expenses	*(6,144)*	*(6,541)*	*6.46%*
Operating profit	**7,312**	**7,858**	**7.47%**
Operating profit margin	**26.3%**	**25.7%**	
Net finance costs	(642)	(2,061)	221.03%
Profit before income tax	**6,670**	**5,797**	**-13.09%**
Income tax expense	(1,793)	(1,815)	1.23%
Profit for the period	***4,877***	***3,982***	***-18.35%***
Attributable to:			
Equity holders of the company	4,389	3,755	-14.45%
Non-controlling interest	488	227	-53.48%
	4,877	**3,982**	**-18.35%**
EPS for profit attributable to equity holders of the company	***5.55***	***4.75***	***-14.41%***

Balance Sheet	Jun-12	Dec-12	% Change
Shareholders Equity			
Share capital and reserves	6,541	5,233	-20.00%
Non-controlling interest	2,175	2,325	6.90%
Total equity	***8,716***	***7,558***	***-13.29%***
Noncurrent liabilities			
Total non-current liabilities	***23,384***	***23,211***	***-0.74%***
Total equity and non-current liabilities	***32,100***	***30,769***	***-4.15%***
Noncurrent assets			
Property, plant and equipment	31,247	32,450	3.85%
Deferred income tax asset	868	1,538	77.19%
Total Non Current Assets	**36,526**	**38,333**	**4.95%**
Current assets			
Cash and cash equivalents	997	2,914	192.28%
Total Current Assets	**18,056**	**21,339**	**18.18%**
Current liabilities			
Current income tax	492	110	-77.64%
Short term bank borrowings	6,048	8,597	42.15%
Total Current Liabilities	**22,482**	**28,903**	**28.56%**
Net current liabilities	**(4,426)**	**(7,564)**	**70.90%**
Total	***32,100***	***30,769***	***-4.15%***

Income Statement

EABL profit before tax dropped by 13.1%

East African Breweries Limited (EABL) released its 1H2013 results for the period ended 31st December 2012, which showed a 13.1% drop in profit before tax to KES 5.8 billion compared to KES 6.7 billion recorded during the first half of the previous financial year. This drop can be attributed to the increase in finance costs of the firm to KES 2.1 billion from KES 642 million recorded in 1H2012.

Revenues went up by 10.3%

The group revenues went up by 10.3% to KES 30.6 billion compared to KES 27.8 billion recorded in 1H2012. The sales growth of the various subsidiaries was as follows; Kenya was up by 12.0%, Uganda was up by 3.0% while Tanzania and EABLi were up by 16.0% and 28.0% respectively.

Beer net sales went up by 11.0%

In terms of product offering, beer net sales went up by 11.0% while spirits went up by 9.0%. The growth in beer sales was attributed to the emerging new brands i.e. Balozi, Kibo Gold, Senator and Allsops which recorded a growth of 22.0% in net sales. Premium brands such as Tusker Lite and Guiness net sales grew by 19.0% while mainstream brands such as Tusker, Serengeti and Bell recorded a modest 1.0%.

Capacity constraints in Uganda

The modest growth recorded in Uganda was attributed to capacity constraints as the new mash filter was brought in. The management also noted that sales in Tanzania were below expectation given the significant tax increases in the country.

Premium vodka grew by 45.0%

The premium category of spirits such as Jonny Walker and Smirnoff vodka, recorded a 45.0% growth in net sales while mainstream brands such as Uganda Waragi and emerging brands such as Jabel recorded a 5% growth and a 5% decline in net sales respectively.

It is worthy to note that during the same period the previous financial year, EABL was the only brewer that was selling spirits in glass bottles in line with the new regulations. However, during the review period other brewers conformed to the regulation thereby increasing competition in this area.

High input costs resulted in depressed gross margins

Due to high input cost, imported malt coupled with increased distribution cost, the gross margin dropped slightly to 47.0% compared to a gross profit margin of 48.4% recorded in 1H2012. Going forward, the company intends to boost this margin through various initiatives such as; local sourcing of sorghum and the local production of Guiness, Tusker Malt lager and Senator in the country of consumption. We see these gains achievable in the medium to long term period given the high capital requirement for these projects.

Total expenses went up by 6.5%

Total expenses went up by 6.5% to KES 6.5 billion compared to KES 6.1 billion recorded during the first half of the previous financial year. Other operating expenses went up by 225.4% to KES 6.5 billion compared to KES 6.1 billion recorded in 1H2012. This increase was attributed to foreign exchange losses the firm recorded in the Tanzania and Uganda operations.

Operating profit went up by 7.5% to KES 7.9 billion compared to KES 7.3 billion recorded during the previous financial year.

Net finance costs went up by 221.0%

Net finance costs went up by 221.0% to KES 2.1 billion compared to KES 642 million recorded during the previous financial year. This can be attributed to the KES 19 billion shareholder loan given to EABL by the parent Diageo to buy the

20% stake in KBL from SAB Miller. This loan was acquired at the cost of the 364 day T-bill rate plus 1.5%.

Balance Sheet

Total assets grew by 9.3%

The total assets for the brewer grew by 9.3% to KES 59.7 billion compared to an asset base of KES 54.6 billion recorded during the end of the previous financial year, 30th June 2012. This was driven by a 77.2% increase in deferred income tax asset to KES 1.5 billion coupled with a 192.3% increase in cash and cash equivalents to KES 2.9 billion during the six months under review.

Current liabilities went up by 28.6%

The current liabilities went up by 28.6% to KES 28.9 billion compared to KES 22.5 billion recorded in FY2012. This can be attributed to a 42.2% increase in short term bank borrowings to KES 8.6 billion compared to KES 6.0 billion recorded in FY2012.

Outlook

Modest topline growth going forward

Going forward, we are likely to see modest topline growth of the company buoyed by the new brands introduced by the company. Furthermore, we are likely to see the Uganda sales pick up in the second half of the financial year as sales in Tanzania continue to be affected by the new tax regime.

Furthermore, we expect to see the loan repayment of the KES 19.0 billion shareholder loan from Diageo apply pressure on net margins in the short to medium term.

We are NEUTRAL

We are NEUTRAL on EABL given the relatively high PE of the firm, which stands at 21.92X against an average sector PE of 18.46X.