FAIDA INVESTMENT BANK

INVESTMENT RECOMMENDATIONS REPORT

23rd July 2021

Equity Recommendations

Overall Overview

In 2020, the COVID-19 pandemic saw prices on most counters decline significantly into bear market territory. The NASI, NSE20 and NSE25 declined by 8.6%, 29.6%, 16.7% to 152.11, 1,868.39 and 3,415.24 respectively at 31st December 2020.

The gradual easing of restrictions in the second half of year created expectations of economic recovery in 2021. This created some optimism in the NSE. As at 26th March 2021(the day of the announcement of the new containment measures), the NASI, NSE 20 Share NSE 25 Share were up by 9.4%, 1.9% and 4.2% to 166.48, 1,903.06 and 3,666.29 YTD respectively.

The third wave of the pandemic saw resumption in movement restrictions and limitations on business activities. These measures were relaxed on 1st May 2020 owing to a decline in the number of positive cases. This has seen the market extend its upward momentum. The NASI and NSE 25 were up by 12.5% and 9.1% while the NSE 20 was down by (0.3%) to 171.09, 3,725.72 and 1,862.50 YTD respectively as at 7th May 2021.

We expect the relaxation of the measures to boost economic recovery though at a gradual pace.

Opportunities exist for investors with a long term horizon and those who do not have liquidity constraints.

We highlight some of these opportunities in the next section.

EABL

We recommend a **LONG TERM BUY** on EABL. The counter is trading at KES 184.50 at a P/E multiple of 35.69x, with a dividend yield of 1.6% and ROE of 46.6% as at 23rd July 2021. **We recommend investors with a long term view to take buying positions in the counter**.

Given the business trajectory over the years and the group's agile adaptability to the current challenging operating environment, we are confident in the group's robust business strategy to return to strong growth in the medium term. We therefore expect a bounce back in performance, albeit gradually, towards pre-Covid levels. We remain confident in performance going forward given improved performance in 1H2021 compared to 2H2020 (following the ease of restrictions). Comparing the two periods:

- Volume grew by 45.0%
- Gross sales grew by 52.0% to KES 78.2 billion
- Gross profit grew by 73.0% to KES 19.3 billion
- Profit after tax grew by 55.5% to KES 3.8 billion

Growth Drivers

- **Changing business model** - In line with economic and consumer shifts, the group managed to shift its business model, adapting to e-commerce channels and growth in the off-trade business (increased product portfolio in supermarkets and retail outlets). We expect the company to continue delivering insight driven innovations to capture evolving consumer preferences.
    - In particular, we expect continued sustainable growth in the spirits category, particularly the premium segment. Spirits have consistently outperformed beers over the years, registering double digit growth (12.0% growth y/y in 1H2021)
    - The group expects continued growth in mainstream beer across East Africa given continued investment -- expected capacity expansion CAPEX of KES 1.6 billion.
- **Operational efficiencies** - We expect the group to continue reaping the benefits of its productivity and sustainability initiatives, cushioning the bottom line. This includes investments in renewable energy to improve production processes in water, energy and waste management. Additionally, in light of Covid-19, EABL has managed to optimize its selling and distribution costs (selling costs and administrative expenses declined by 43.0% and 6.0% y/y as at 1H2021).
- **Sustained growth in Tanzania** - Tanzania presents opportunity for growth in both the short and long term driven by the Serengeti brand (double digit growth the past 3 years -- +21.0% in FY2019, +19.0% in FY2020 and 16.0% in 1H2021.
- **Portfolio diversification** - The diversified product portfolio has insulated the firm from excessive losses during periods of uncertainty. Going forward, management expects premium brands and mainstream beers to drive growth. In particular, the group expects innovation around their gin portfolio (across different price points), that has gained traction the past 2 years.
- **Strong parent company** - Leveraging on Diageo's financial support and in particular the recovery fund to support pubs and bars post lockdown, we expect a quicker turnaround for the firm.

Risks

- With the new Covid-19 measures in place that have resulted in cessation of movement and closure of bars and restaurants in high risk zones country-wide, we expect depressed sales volumes in 2H2020 particularly in the on-trade business that remains the core revenue driver.
- We expect the pandemic's aftermath to have short term risk particularly on consumer purchasing power that has led to down trading of product portfolio consumption.
- Foreign currency fluctuations remain a risk given the group's operations across the East African region exacerbated by the Shilling depreciation, resulting in translational losses.

Summary

Counter	Recommendation	52-week High	52-week Low	Price as at 23rd July 2021	Target Price	Upside/(Downside)	Expected DPS	YTD Change
EABL	Long term Buy	193.75	148.25	184.50	*N/A	N/A	N/A	19.61%

****Not rated**

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Recommendation Guide:

LONG-TERM BUY: The company has strong fundamentals (strong financial performance, clear/reasonable strategy, competent management team etc.). However, there are certain investments or strategies that would require an investor to have a long-term view of the company to allow for capital appreciation. Also, the company may be facing head wings which we view as short term.

BUY: Strong fundamentals. Minimal risks to the catalysts/growth drivers

NEUTRAL: This is where the positives and negatives in a company almost balance out. You can accumulate for the long term.

SELL: Deteriorating fundamentals. Risks outweigh the catalyst/growth drivers.

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