



# KPLC – 1H2013 Results Note

1<sup>st</sup> March, 2013

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## KPLC Earnings Update

STATEMENT OF COMPREHENSIVE INCOME			
	31.12.2011	31.12.2012	% Change
<b>Revenue</b>	<b>Shs '000</b>	<b>Shs '000</b>	
Electricity sales	22,071,664	23,260,415	5.4%
Foreign Exchange Adjustment	5,247,981	4,453,871	-15.1%
Fuel cost adjustment	23,155,668	16,541,324	-28.6%
	50,475,313	44,255,610	-12.3%
Other income	602,194	1,470,323	144.2%
Gross Profit	51,077,507	45,725,933	-10.5%
<b>Operating Expenses</b>			
<b>Power Purchase Costs</b>			
Non Fuel Power Purchase Costs	10,809,599	12,183,726	12.7%
Fuel Costs	23,871,316	16,686,476	-30.1%
Foreign exchange costs	3,948,804	2,170,898	-45.0%
	38,629,719	31,041,100	-19.6%
<b>Transmission &amp; Distribution Costs</b>			
Energy Transmission	924,826	1,146,369	24.0%
Administration	4,883,029	5,122,636	4.9%
Distribution	1,947,967	2,552,707	31.0%
Commercial services	1,070,495	1,440,481	34.6%
	8,826,317	10,262,193	16.3%
<b>Total Operating Expenses</b>	<b>47,456,036</b>	<b>41,303,293</b>	<b>-13.0%</b>
<b>OPERATING PROFIT</b>	<b>3,621,471</b>	<b>4,422,640</b>	<b>22.1%</b>
Finance Income	209,346	62,015	-70.4%
Finance cost	(426,619)	(1,064,722)	149.6%
Net Foreign Exchange gains	-	156,367	
<b>PROFIT BEFORE TAX</b>	<b>3,404,198</b>	<b>3,576,300</b>	<b>5.1%</b>
Income Tax expense	(1,120,015)	(478,826)	-57.2%
<b>PROFIT AFTER TAX</b>	<b>2,284,183</b>	<b>3,097,474</b>	<b>35.6%</b>
Earnings Per Share	1.17	1.59	35.9%

STATEMENT OF FINANCIAL POSITION AS AT 31.12.2012			
	30.06.2012	31.12.2012	% Change
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, Plant and Equipment	105,671,370	113,711,303	7.6%
<b>Current Assets</b>			
Inventories	10,286,376	12,880,700	25.2%
Trade and Other Receivables	14,211,800	14,338,708	0.9%
Investment in government securities	1,171,109	872,359	-25.5%
<b>Total Assets</b>	<b>134,131,983</b>	<b>144,062,091</b>	<b>7.4%</b>
<b>TOTAL EQUITY</b>	<b>43,511,553</b>	<b>46,023,587</b>	<b>5.8%</b>
<b>DEFERRED INCOME</b>	<b>12,362,327</b>	<b>14,128,386</b>	<b>14.3%</b>
<b>Non Current Liabilities</b>			
Trade and Other Payables	15,823,485	17,420,586	10.1%
Borrowings	21,512,025	21,107,431	-1.9%
<b>Current Liabilities</b>			
Trade and Other Payables	21,990,795	18,273,087	-16.9%
Borrowings	6,250,288	6,634,044	6.1%
Bank overdraft	1,689,607	8,627,023	410.6%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>134,131,983</b>	<b>144,062,091</b>	<b>7.4%</b>

KPLC posted 5.1% gain in Profit before Tax to KES 3.6 billion in 1H2013 from KES 3.4 billion in 1H2012.

### Income Statement Analysis

Electricity sales rose to KES 23.3 billion

Electricity sales rose to KES 23.3 billion in 1H2013 from KES 22.1 billion 1H2012 representing a 5.4% gain. However, foreign exchange and fuel cost adjustments fell by 15.1% and 28.6% to KES 4.5 billion and KES 16.5 billion respectively in 1H2013.

Other Income registered a 144.2% increase

Other Income registered a 144.2% increase to KES 1.5 billion in 1H2013 from KES 602 million in 1H2012. This is mainly attributable to large gains from miscellaneous sales to KES 168 million in 1H2012 from KES 65 million in 1H2013 and from deferred income which rose to KES 693 million in 1H2013 from KES 139 million in 1H2012.

Total operating expenses dropped by 13.0% to KES 41.3 billion

Total operating expenses dropped by 13.0% to KES 41.3 billion in 1H2013 from KES 47.5 billion in 1H2012. Total power purchase costs dropped to KES 31.0 billion in 1H2013 from KES 38.6 billion in 1H2012. Fuel costs declined by 30.1% to KES 16.7 billion in 1H2013 while foreign exchange costs dropped by 45.0% to KES 2.2 billion in the same period. Transmission and distribution costs however registered a 16.3% increase to KES 10.3 billion in 1H2013 from KES 8.8 billion in 1H2012. This is attributable to the 34.6% increase in commercial services to KES 1.4 billion and a 31.0% increase in distribution expense to KES 2.6 billion in 1H2013.

Finance Income dropped by 70.4% to KES 62 million

Finance Income (Interest income on bank and other deposits) dropped by 70.4% to KES 62 million in 1H2013 from KES 209 million in 1H2012. Finance costs increased by 149.6% to KES 1.1 billion in 1H2013 from KES 426 million in 1H2012. Finance costs were primarily driven up by a significant increase in interest incurred in bank overdrafts to KES 519 million in 1H2013 from KES 9 million in 1H2012 and a loss on sale of treasury bonds at KES 5 million in 1H2013.

### Balance Sheet Analysis

Total Assets grew by 7.4% to KES 144.1 billion

Total Assets grew by 7.4% to KES 144.1 billion in 1H2013 from KES 134.1 billion in FY2012. Property, plant and equipment rose by 7.6% to KES 113.7 billion in 1H2013. This is in line with the company's aim to deliver electricity supply through expanding, reinforcing and upgrading projects so as to provide reliable supply and accommodate new customer connections. This has led to investing in capital-intensive projects so as to meet this objective.

Inventories increased by 25.2% to KES 12.8 billion in 1H2013

Inventories increased by 25.2% to KES 12.8 billion in 1H2013 from KES 10.3 billion in FY2012. Non-current trade and other payables increased by 10.1% to KES 17.4 billion in 1H2013 while current trade and other payables dropped by 16.9% to KES 18.3 billion in 1H2013 from KES 21.9 billion in FY2012.

Total equity edged up 5.8% to KES 46.0 billion in 1H2013 from KES 43.5 billion in FY2012.

### Outlook

KPLC seeks to raise its tariff by 21% and 9% in March 2013 and July 2013 respectively in order to cover for rising expenses. Going forward, this would bolster revenues in the medium term.

We recommend a **LONG TERM BUY**

We remain positive about the future prospects of the company citing the steps taken to upgrade and expand infrastructure, cost containment through the use of prepaid meters and other measures and the impending demand for electricity following the devolution of the counties. We recommend a **LONG TERM BUY**.