

## BAT Kenya HY19 Earnings Update

BAT Kenya has announced a 26% increase in Profit after tax (PAT) to KES 2.5Bn in 1H19 from KES 1.8 Bn registered in HY18 supported by increased revenues and productivity savings.

This growth is in line with our expectations and we maintain our **BUY** recommendation on the counter with a target price of 643.36.

- Excise-led pricing in Kenya and Somalia enabled the company to record a 10% growth in gross revenues to 19.2Bn from 17.5Bn: Cut rag sales to Sudan also increased the group's revenues.
- Volumes in Kenya and DRC decline due to higher prices and tough operating environment: Last year, BATK increased the RRP of its most popular brands by more than 15% this is expected to have led to a decrease in volumes. Furthermore, the Kenyan market has been affected by the sale of cheap cigarettes of which duty hasn't been paid.
- The excise duty and VAT was up 3% to 7.9Bn from 7.7Bn in HY18 while operating margins increased by 2.2% to 33.1%. This supported by excise-led pricing in Kenya and Somalia as the prices were increased more than the increase in excise duty.
- The profit before tax rose 25.81% to 3.6Bn from 2.9Bn recorded previously. This was attributed to the 23.2% rise in the operating profit to 3.7Bn from the previous 3Bn and a 23% drop in the finance costs. The EPS increased to KES 25 in HY19 from KES 20 in HY18.
- The Net cash from operating activities improved to 2Bn from the 21Mn deficit in HY18. This as driven by the improvements in the working capital management .
- The company has recommended an interim of KES 3.50 per share in HY19.

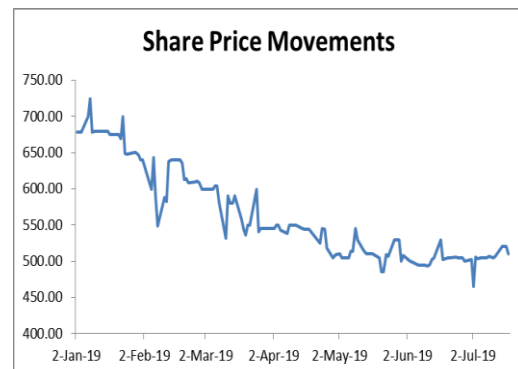
**Date: 19<sup>th</sup> July 2019**

Target Price: **KES 643.36**

52 week range: KES 500 to KES 725

TtM EPS: KES 40.85

Latest Results: HY19 2019,  
KES 2,528Mn



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<b>Income statement "Millions"</b>	<b>HY19</b>	<b>HY18</b>	<b>% change</b>
Gross Revenue	19,228	17,472	10.05%
Excise duty and VAT	(7,939)	(7,655)	3.71%
Net Revenue	11,289	9,817	14.99%
operating profit	3738	3035	23.16%
Finance costs	(126)	(164)	-23.17%
Profit before tax	3,612	2,871	25.81%
Income tax expense	(1,084)	(857)	26.49%
<b>Profit after tax</b>	<b>2,528</b>	<b>2,014</b>	<b>25.52%</b>
other comprehensive income	6	57	-89.47%
Total comprehensive income	2,534	2,071	22.36%
interim dividend	350	350	0.00%
Basic and diluted EPS	25	20	25.52%

<b>Balance sheet "Millions"</b>	<b>HY19</b>	<b>HY18</b>	<b>% change</b>
Non currents	9,830	9,161	7.30%
working capital			
current assets	8,258	8,865	-6.85%
current liabilities	5,914	6,978	-15.25%
Net working capital	2,344	1,887	24.22%
<b>Total</b>	<b>12,174</b>	<b>11,048</b>	<b>10.19%</b>
Capital and reserves			
share capital			
share holders funds	8,693	7,661	13.47%
Non current liabilities	3,481	3,387	2.78%
<b>Total</b>	<b>12,174</b>	<b>11,048</b>	<b>10.19%</b>

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