

We update our coverage of Centum and revise our target price upwards from KES 56.07 to KES 60.68, adjusting for a growth in NAV from KES 59.10 to KES 67.34. This gives an upside of 46.21% over the current price of KES 41.50 (as at 18<sup>th</sup> July 2017). Since our [last update](#), the discount to NAV has widened from 29.1% to 42.5%. The company has been trading at a discount to NAV since September 2015.

### **FY17 Performance Highlights**

The company delivered a 14% increase in NAV from KES 39.3 bn to KES 44.8 bn as compared to a 23% growth in the previous financial year. This translates to an increase in NAV per share from KES 59.1 to KES 67.3, which was slightly lower than our estimate of KES 67.9. Despite falling short of their 35% target, the company still outperformed the NSE 20 by 36%.

Key performance drivers include:

- Slight increase in realized gains on exits from KES 990 mn (22% stake in AON Insurance brokers) to a KES 1.1 bn gain on the exit of a 26% exit in Kenya Wines and Agencies Ltd (KWAL).
- Dividend income from the portfolio companies declined in line with our expectations, from KES 2.7 bn to KES 1.8 bn, mainly due to the absence of KES 1.4 bn that was received from Centum Exotics, the Company's marketable securities portfolio. This line item was boosted by KES 432 mn from Kilele Holdings, as a result of the sale of an 8% stake in Platcorp Holdings.
- Interest income increased from KES 676 mn to KES 1.3 bn as a result of increased shareholder loans advanced to portfolio companies from KES 8.3 bn to KES 12.7 bn.
- Other income increased from KES 8 mn to KES 146 mn.
- Portfolio administration costs reduced from KES 877 mn to KES 798 mn, which represents 1.3% of total assets, consistent with their objective of maintaining costs below 2.0%.
- Finance cost increased to KES 1.8 bn from KES 1.5 bn following an increase in borrowings from KES 10.5 bn to KES 14.7 bn.

These culminated in a 16% decline in Profit after Tax (PAT) from KES 1.9 bn to KES 1.6 bn. The company's ROE (excluding unrealized gains) therefore declined from 4.75% to 3.51%.

#### **RATING: BUY**

<b>Bloomberg ticker</b>	<b>CENTUM KN</b>
<b>Last close (KES)</b>	41.00
<b>Target Price (KES)</b>	60.68
<b>NAV per share (KES)</b>	67.34
<b>Discount to NAV</b>	38.36%
<b>Market cap (KES bn)</b>	27.28
<b>Dividend Yield</b>	2.93%
<b>52-week range</b>	30.50 – 45.50
<b>Year End</b>	31 <sup>st</sup> March

#### **Centum at a glance**

Centum is a regional investment holding company with investments across real estate, financial services, FMCG, power, education and agribusiness sectors.

The Company is listed on the Nairobi Securities Exchange and cross-listed on the Uganda Securities Exchange. Its portfolio consists of over 20 investee companies, consisting of wholly and partly owned subsidiaries, associate companies and unquoted investments and a marketable securities portfolio.

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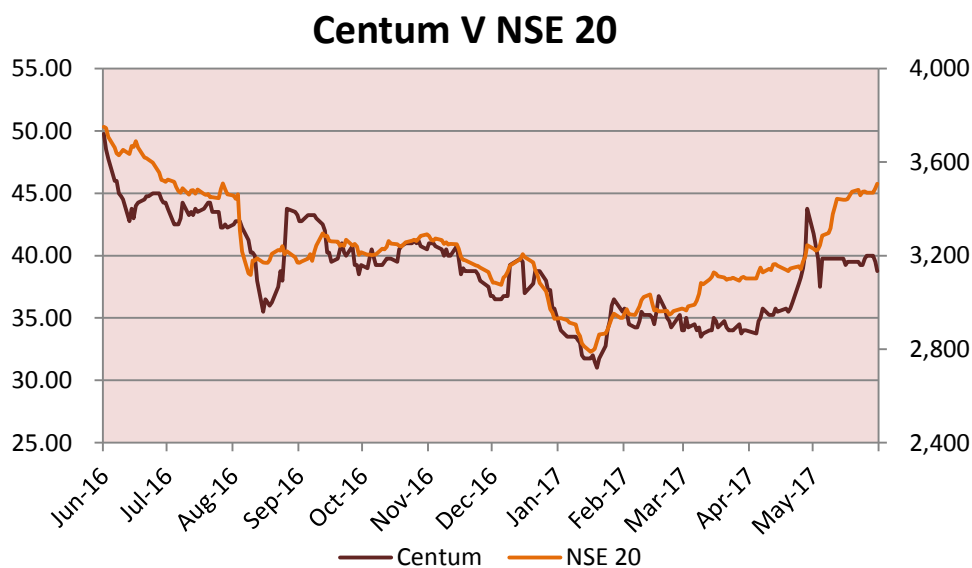
Unrealized gains declined from KES 5.8 bn to KES 4.9 bn, which resulted in a Total Return (NAV growth) of KES 6.2 bn, against the previous year’s 7.4 bn.

The increase in borrowings was a result of the securing of a short term USD 30 mn facility with Rand Merchant Bank and a bank overdraft facility of KES 975 mn. This increased the company’s gearing from 17% to 27% as debt to equity. Management is targeting 25% for FY18. The Company also has on their books a 5 year corporate bond of KES 4.2 bn maturing in September 2017. Management expects to finance this through borrowings and internally generated funds.

The Board has recommended a dividend payment of KES 1.20 per share, a 20% increase from the previous year’s KES 1.00 per share.

At Group level, PAT declined by 16% from KES 9.9 bn to KES 8.3 bn. The results were characterized by:

- Consolidation of Longhorn Publishers Limited’s financial results for the first time, following acquisition of control in May 2016.
- Improved operating profits in the Group’s trading subsidiaries from KES 679 mn to KES 1.2 bn. Almasi Beverages’ EBITDA grew by 28% to KES 2 bn.
- Reduced operating profits in the Group’s financial services subsidiaries from KES 584 mn to KES 190 mn. This was driven by a loss of KES 131 mn for the 12 month period ended March 2017 as compared to a profit of KES 355 mn in the similar previous period, due to a one-off restructuring cost of around KES 400 mn and lower performance as a consequence of the interest rate cap. Nabo Capital also made a loss of KES 26.4 mn for the year ended December 2016.
- Lower finance costs for the Group as a result of reduced forex losses on USD denominated borrowings and capitalization of interest during construction of real estate projects.



Source: NSE, AIB Research

Centum’s share price has gained 12.2% YTD compared to the NSE 20 Index’s gain of 15.5%. The company is currently trading at a Price to Book ratio of 0.62.

## Portfolio Developments

During the year, the Company deployed a total of KES 5.5 bn in debt and equity capital expenditure, up from KES 3.2 bn in FY16.

*Source: Company filings*

Capex - FY17 (KES mn)	
Real Estate	2,498
FMCG	1,090
Financial Services	596
Energy	343
Education	297
Agribusiness	145
Other	510
<b>Total</b>	<b>5,479</b>

Major developments include in the various sectors include:

### Real Estate

- Completion of Phase 1 of Two Rivers Development and launch of Two Rivers Mall in February 2017. The mall is currently 70% let and management expects this to increase to 86% by December 2017.
- Completion of master planning of Vipingo Development. Phase 1 development to begin in FY18.

### FMCG

- Deployment of KES 1 bn to Almasi Beverages through the subsidiary's successful rights issue (160% subscription) for capex, with new capacity expected to be commissioned in Dec 2017.
- Full exit of 26.4% stake in Kenya Wine Agencies Limited (KWAL), realizing a gain of KES 1.1 billion.

### Marketable Securities

- Increased exposure in equities to 40% of the marketable securities portfolio from 23%.

### Agribusiness

- Investment in Green Blade Growers a 100% owned 120-acre farm in Ol Kalou for the export of herbs to EU markets.
- Acquisition of 14,000 acres in Uganda (post year-end) for large scale agricultural production.

### Financial services

- Partial exit of 8% stake in Platcorp Holdings Limited, through through wholly owned Kilele Holdings, lowering Centum's effective stake in Platcorp from 45% to 37%. Centum realized a gain of KES 432 million, which has been reported by the company as dividend income.

### Education

- Initiated the development of their first school under Ace, a consortium with Sabis and Investbridge Capital. The target first intake is September 2018.

### Other

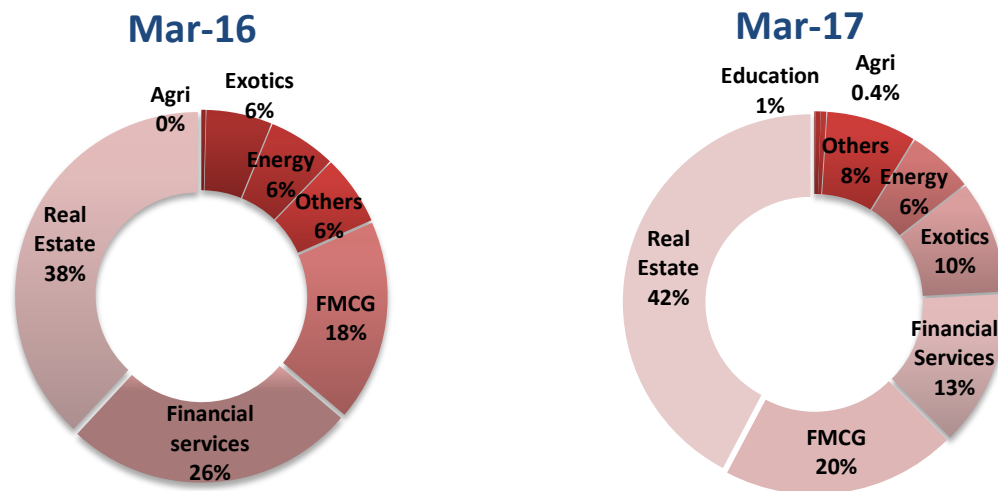
- Acquisition of effective control of Longhorn Publishers following a rights issue by the company, which resulted in Centum increasing its stake from 31% to 60% after investing KES 394 mn.

**Detailed NAV Breakdown**

	Equity	Debt	Total Assets	Valuation Basis for Equity component
Two Rivers Development	9,112	2,774	11,886	Independent Valuation
Two Rivers Lifestyle	4,221	-	4,221	Market transaction
Vipingo Development	5,040	672	5,713	Independent Valuation
Pearl Marina	861	3,317	4,178	Independent Valuation
Athena	25	1	26	NAV
Almasi Beverages	7,716	-	7,716	EBITDA multiple - 6.77x
Nairobi Bottlers	4,388	-	4,388	EBITDA multiple - 6.77x
King Beverage	-	310	310	Cost
Sidian Bank	3,233	-	3,233	Price to book multiple - 1.06x
Platcorp	2,117	534	2,651	Recent transaction
GenAfrica	Undisclosed		2,009	as a % of AUMs - 0.9%
Nabo Capital	411	354	765	NAV
Zohari Leasing	203	-	203	NAV
Amu Power	2,144	-	2,144	Cost
Akiira Geothermal	1,347	-	1,347	Cost
Longhorn	743	-	743	Market
NAS Servair	Undisclosed		765	EBITDA Multiple - 3.68x
General Motors	3,027	-	3,027	Recent transaction
ACE Holdings	295	-	295	Cost
Greenblade Growers	207	62	269	NAV
Marketable securities	3,234	-	3,234	Market
Cash	2,447	-	2,447	Cost
<b>Total Assets</b>			<b>61,570</b>	
<b>Total Liabilities</b>			<b>(16,762)</b>	
<b>NAV</b>			<b>44,808</b>	
<b>NAV per share</b>			<b>67.33</b>	

Source: Company filings, AIB Research

**Sector exposure by assets**

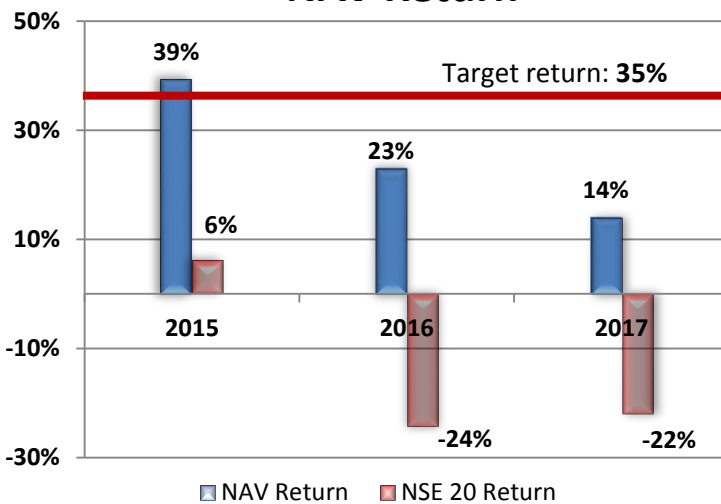


Source: Company filings, AIB Research

Strategy Objectives Vs FY17 Performance

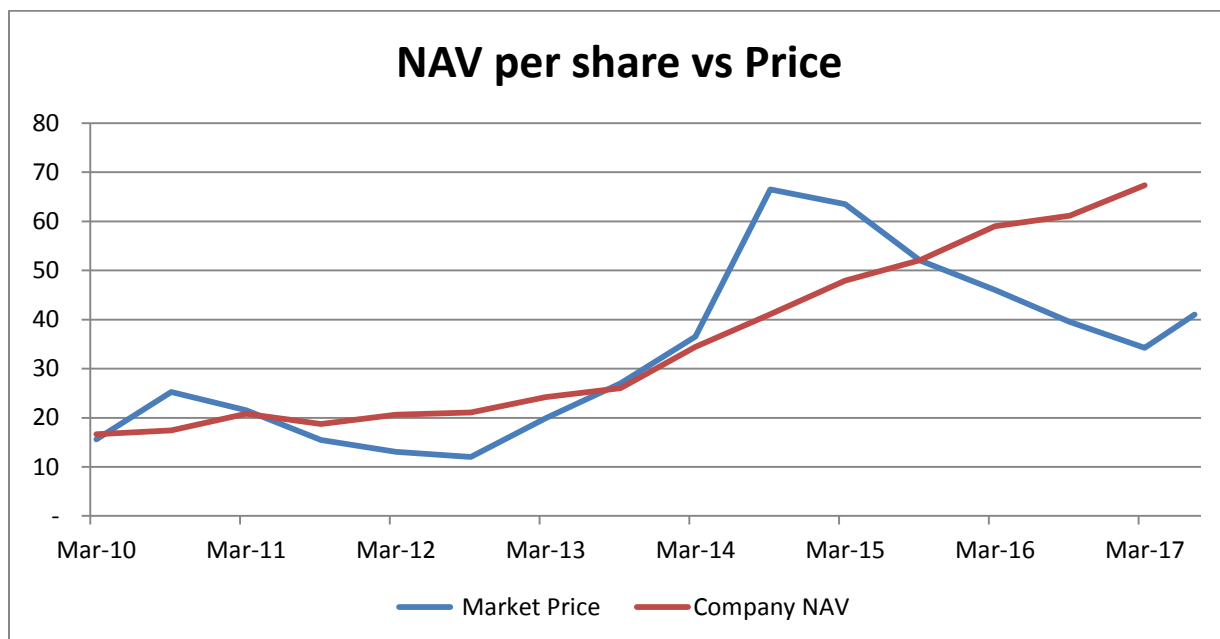
Centum 3.0 Objectives (for the period 2014 – 2019)	FY17 Performance
Generate 35% annualized return between FY14 and FY19 and consistently outperform the market	Delivered a return of 14% on NAV vs the NSE 20 return of -22% over the same period
Develop investment-grade assets in 8 sectors by 2019	Currently active in 6 sectors
Maintain costs below 2% of total assets	Achieved a cost efficiency of 1.3% of total assets
Grow total assets to KES 120 bn by 2019	Grew total assets from KES 51.5 bn to KES 61.6 bn

NAV Return



Over the three years, the company's Net Asset Value (NAV) has grown by a CAGR of 25.0% and has outperformed the market by an average of 40.2% as measured against the NSE 20 Index, which delivered an annualized return of -15.2% over the same period.

NAV per share vs Price



Source: Company filings, AIB Research

## Peer Comparison

Name	Country	Market Cap	P/B	P/B 5Yr Avg LF	ROE LF	ROE Avg (5Yr)	Dvd Yld	YTD Total Return
AG Leventis & CO	Nigeria	0.68	0.32	0.29	(32.21)	(0.90)		(18.75)
Alteo	Mauritius	32.88	0.64	0.52	3.33	2.55	2.39	21.91
Belle Mare Holdings	Mauritius	5.74	0.68	0.59	35.70	12.88		12.59
Brimstone Investments	South Africa	28.21	1.29	1.33	6.89	7.93	3.23	2.98
<b>Centum Investment</b>	<b>Kenya</b>	<b>27.62</b>	<b>0.62</b>	<b>0.93</b>	<b>23.15</b>	<b>19.43</b>	<b>2.89</b>	<b>12.16</b>
Ciel	Mauritius	36.13	0.82	0.69	4.50	4.53		20.00
Deneb Investment	South Africa	5.48	0.39	0.54	3.92	6.29	-	(14.40)
ENL Commercial	Mauritius	1.21	0.57	0.77	(5.76)	(1.22)		9.85
Hosken Cons Investment	South Africa	97.00	0.73	0.84	7.67	10.05	1.64	(2.06)
Investec	South Africa	775.93	1.34	1.22	11.04	8.92	3.95	9.40
Phoenix Investment	Mauritius	4.91	1.64	1.07	11.04	12.94	-	10.88
PSG Group	South Africa	472.19	3.47	3.08	14.64	15.33	1.47	18.20
Rogers and Co	Mauritius	21.70	0.76	0.77	4.31	3.42	3.10	6.23
Sabvest	South Africa	9.64	0.29	0.93	0.25	19.74	1.93	(0.47)
Terra Mauritia	Mauritius	22.25	0.56	0.45	1.00	1.87		7.50
Trustco Group	Namibia	26.49	1.33	1.33	22.64	16.40	2.74	3.12
United Investment	Mauritius	5.88	0.75	0.95	(5.37)	7.11	-	(6.86)
<b>Average</b>		<b>92.58</b>	<b>0.95</b>	<b>0.96</b>	<b>6.28</b>	<b>8.66</b>	<b>1.95</b>	<b>5.43</b>
<b>Centum's Ranking</b>		<b>8</b>	<b>6</b>	<b>12</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>5</b>

## Valuation

## Adjusted NAV per share

Following management's decision to disclose the breakdown of NAV by portfolio companies, we compare these to our own estimates to arrive at an adjusted NAV per share. We start with management's disclosed estimates and make adjustments for some of the portfolio companies.

Below is a summary of adjusted valuations

	% ownership	Valuation	Change	Rationale
Vipingo Development	100%	3,000	(2,040)	We believe there has not been sufficient development on the land to justify an increase in value of 150% from the cost of KES 2 bn. We assume moderate increase in value driven by completion of master planning and obtaining of necessary approvals.
Sidian Bank	75%	2,412	(821)	Price to Book of 0.85 applied to Sidian's book value of KES 3.8 bn. Multiple arrived at by applying a 30% discount on Kenyan Industry average of 1.21 to adjust for liquidity, size and outlook for Tier 3 banks.
Longhorn	60%	821	78	Adjusted for increase in market price to KES 5.00
Net Adjustment			(2,783)	

Total assets	61,570
Net adjustment	(2,783)
Adjusted total assets	58,787
Total liabilities	(16,764)
NAV	42,023
<b>Adjusted NAV per share</b>	<b>63.15</b>

### Relative valuation

This approach involves the use of an average multiple of comparable companies to value Centum. We explore comparable companies across SSA listed equity markets to arrive at an average P/B ratio of 0.86. This is arrived at after excluding outliers such as AG Leventis, PSG Group and Sabvest from the sample of peers presented above.

Average PB (SSA - excluding outliers)	0.86
NAV per share (March 2017)	67.34
<b>Implied price per share</b>	<b>58.20</b>

The implied price per share based on the 2017 NAV per share of KES 67 comes to KES 58.20 per share. No discount or premium is applied to the average multiple because the various SSA companies have been selected on the basis of the number sectors in which they have investments in. All the selected companies have investments in at least three sectors.

### Fair value

We take a weighted average of the two methods to arrive at our fair value.

	Weight	Value
Adjusted NAV per share	50%	31.58
Relative valuation	50%	29.10
<b>Fair value</b>		<b>60.68</b>

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