

## Bamburi Cement Earnings Update

Bamburi Cement released FY2018 results, recording a 69% decline in its profit after tax mainly on account of higher operating costs.

Key highlight:

- **Stronger sales growth in 2H18:** In 2H18, turnover was up 8% supported by increased production following the completion the first phase of the expansion project which increased cement capacity by 1.7mt in both Kenya and Uganda.
- **20% yoy increase in 2H18 operating costs:** Increased capacity was accompanied by higher costs which lead to an operating loss in 2H19. Management attributed this increase to higher energy costs, imported clinker and raw material input prices. Operating profit is likely to remain low as the company's fixed cost have increased as a result of the capacity expansion while utilization rates are likely to be low due to muted cement demand growth. Due to increased capacity, demand for imported clinker has also risen (as the increased cement production depends on imported clinker) which will negatively impact the company in the current environment of rising clinker prices.
- **Kenya cement consumption growth expected to remain muted:** According to official figures from KNBS, the country's cement production was down 3% (versus a 7% decline in 2017) while consumption was up 1% (versus a 7% decrease in 2017). This is a trend that is likely to continue into 2019 as the latest figures (January) show a decrease in both consumption and production.

**Date: 15th April 2019**

FY18 EPS: 2.45

P/E: 8.1 x

ROA: 1.3%

ROE: 2.1%

Dividend Yield: 4.1%

Market Cap: KES 45,369.9 Mn

Latest Results: FY2018



Analyst

Sarah Wang

+254711047105

wangas@aibcapital.com

- **Tough operating environment in Uganda:** Difficulties experienced at the Uganda/Rwanda border have impacted exports to Rwanda. The conflict between the two countries can be summed up as: Rwanda accuses Uganda of sheltering rebels, while Uganda accuses Rwanda of planting spies in its security departments. This has negatively affected revenue as in 2017, c.30% of total cement volumes were exported to Rwanda where cement prices are higher.

## 2019 Outlook

The business is likely to continue to struggle in 2019. Competitive pressures are expected to be maintained which could exert downward pressure on Cement prices.

Costs are likely to remain elevated as global clinker prices have risen in the first few months of the year. This trend could, however, reverse later on in the year as there is currently an oversupply in the market.

In Kenya, cement demand growth is expected to remain muted as the property market slows down and government spending on key infrastructure projects reduces. Meanwhile, costs are likely to remain elevated due to high coal and electricity prices.

The Uganda's performance is likely to deteriorate further in 1H19 as the border issues intensify. The relationship between the two countries has worsened in 2019 and Rwanda went as far as closing its main border with Uganda.

## Income Statement (KES Mn)

	1H17	2H17	2017	1H18	2H18	2018	Growth YoY
Turnover	18,589	17,385	35,974	18,556	18,706	37,262	3.6%
Total operating costs	-15,933	-15,812	-31,745	-17,392	-19,035	-36,427	14.7%
Operating Profit	2,656	1,573	4,229	1,164	-329	835	-80.3%
Finance income	35	115	150	-393	496	103	-31.3%
Finance costs	-28	-235	-263	-49	-209	-258	-1.9%
Finance costs net	7	-120	-113	-442	287	-155	37.2%
Profit before tax	2,663	1,453	4,116	722	-42	680	-83.5%
Taxation	-824	-1,319	-2,143	-323	257	-66	-96.9%
Profit for the year	1,839	134	1,973	399	215	614	-68.9%

## CONTACTS:

### Research Desk

**Sarah Wang**

[wangas@aibcapital.com](mailto:wangas@aibcapital.com)

(+254) 711047105

Victor Koech

[koechv@aibcapital.com](mailto:koechv@aibcapital.com)

(+254) 711047133

### Equities Dealing

**Bernard Kung'u**

[kungub@aibcapital.com](mailto:kungub@aibcapital.com)

(+254) 711047108

**Benard Gichuru**

[gichurub@aibcapital.com](mailto:gichurub@aibcapital.com)

(+254) 711047111

**Brian Tanui**

[tanuib@aibcapital.com](mailto:tanuib@aibcapital.com)

(+254) 711047124

### Bond Dealing

**Crispus Otieno**

[otienoc@aibcapital.com](mailto:otienoc@aibcapital.com)

(+254) 711047113

**Titus Marenye**

[marenyet@aibcapital.com](mailto:marenyet@aibcapital.com)

(+254) 711047118

---

### Disclaimer:

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein. The views expressed in this report are solely those of the Research Department and are subject to change without notice.

LXM USA LLP assumes responsibility for the research report's content in regards to Research distributed in the US. US recipients of this research who wish to effect transactions in any security covered by this report must do so with or through LXM USA LLP. Transactions in such securities by recipients of the report are to be effected only through LXM USA

LLP in accordance with Rule 15a-6.1. The research analysts preparing the research report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.