KESTREL CAPITAL

Member of the Nairobi Stock Exchange

November 2010

KenolKobil Limited : "FUELLING PROFITS"

Recommendation: BUY

We re-initiate coverage of KenolKobil with a **BUY** recommendation based on a fair value of **KES 16.50,** coupled with significant earnings upside**.** We anticipate significant medium term earnings upside for the downstream oil marketer driven by margin expansion, surge in regional fuel demand, increased profitability from its various subsidiaries in Africa (ex-Kenya), and improvements in oil storage and transportation infrastructure and costs. Further, KenolKobil is trading at an attractive FY11F P/E of 6.9x and a significant discount of 65.0% (on a trailing 12 months basis) to the NSE market average.

- The company has a strong sub-Saharan presence, and the growing presence in the Southern Africa region is a likely catalyst for future growth. We also expect that KenolKobil will remain a dominant player (20% market share) in the country, supported by its large distribution network and strategic asset base. Despite the current under-investment and inefficiencies associated with petroleum storage and transportation infrastructure in Kenya, we believe that ongoing sector reforms and privatization plans for state corporations in the petroleum supply chain will provide a more favourable environment for oil marketers in Kenya.
- While Kenyan government reforms and privatization continue along with industry consolidation in Kenya's oil sector, we expect that this will provide a more stable operating environment for oil marketers. Further, we note that KenolKobil's dependence on Kenya is declining with rising geo-diversity within the continent, given that it now has subsidiaries in six countries in Africa. We expect subsidiaries to account for 45% of operating profits in FY10E, up from 37% in FY09.
- KenolKobil is experiencing growth in all its markets as a result of strong regional economic growth. We expect that expansions into markets with high growth potential will be a key driver for future profitability. More specifically, we are positive about the company's move to Southern African markets (such as Zambia and Mozambique), which have historically yielded higher margins than East African markets.
- Our key sector risks are margin volatility and government infrastructure inefficiency costs, which invariably impact growth and profitability. However, with regard to inefficiency costs, we hold the view that KenolKobil will in the medium term benefit from sector reforms, and privatization of the Kenya Petroleum Refinery Ltd (KPRL) and, eventually, Kenya Pipeline Company (KPC), which both control the country's key petroleum infrastructure. From our discussions with management, we don't expect the recent claims by the KPRL to have an impact on FY10 earnings since the settlement has been fully provided for. Also, we don't expect any impact on earnings if KPC wins the appeal against the KES 4.6bn arbitration award in favour of KenolKobil since the award had not been recognized. However, it is likely that the two disputes resulted in additional operating costs during the 2H10 period when KenolKobil was barred from the refinery and participating in oil import tenders.
- We expect ROE to recover 230bps in FY10 and 560bps over the next three years; our revenue targets support this growth in ROE's, which will be driven by margin recovery, increased fuel sales, and cost stabilization.

Key Statistics	FY09	FY10E	FY11F	FY12F
EPS (KES)	0.88	1.14	1.48	1.78
Growth (%)	15.5	29.5	29.7	20.5
DPS (KES)	0.3	0.4	0.5	0.6
Growth (%)	-61.0	16.8	29.7	20.5
P/E x	11.5	8.9	6.9	5.7
P/B x	1.3	1.2	1.1	0.9
Div Yield (%)	3.2	3.7	4.8	5.8
ROA (%)	5.8	6.1	6.8	7.2
ROE (%)	11.6	13.9	16.2	17.2

Source: Company, Kestrel estimates

Bloomberg Ticker :	KNOC KN
Reuters Ticker:	KOCL.NR

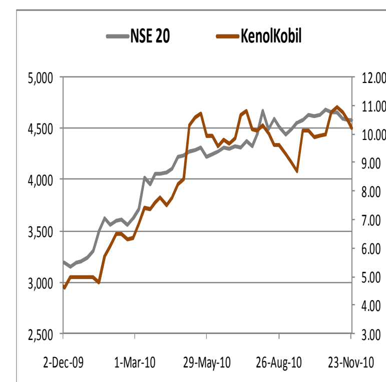
Share Statistics

Fair Value (KES)	16.50
Price (KES)	10.15
Issued shares (m)	1,471.8
Market cap (KES bn)	15..4
Market cap (USD m)	192.0
Year end	Dec
Free Float %	30.0
Av daily trading vol (USD)	159,234

Price Return

	Absolute	Excess
3m	5.2	5.5
6m	-0.5	-5.8
12m	118.3	74.2

Price Trend



Source: NSE

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1H10 earnings update

Un-Audited income statement for the period ended 30 June 2010

Income statement (KES m)	1H09	2H09	1H10	y-o-y ch%	h-o-h ch%
Sales	43,008	53,685	60,350	40.3	12.4
Cost of sales	41,359	49,296	56,085	35.6	13.8
Gross profit	1,649	4,389	4,264	158.6	-2.8
SGA expenses	1,938	2,020	1,887	-2.7	-6.6
Operating profit	(289)	2,676	2,378		
Finance income/costs	(322)	(132)	(646)	100.5	388.6
Profit before tax	(611)	2,544	1,732		
Taxation	(180)	(819)	(553)		
Attributable income	(431)	1,726	1,179		

Source: Company

KenolKobil released 1H10 earnings, posting KES 1.2bn in net earnings compared to a loss of KES 431m in 1H09. Profitability was driven by margin stabilization, profitability in export and aviation, tighter stock management, coupled with improved performance in all sectors and most subsidiaries. The following are key highlights from the results:

- Sales increased 40.3% y-o-y to KES 60.4bn, supported by stable oil prices during the period in contrast with 1H09 when the company suffered the negative effects of volatile oil prices that resulted in margin erosion. We hold the opinion that margins will remain the key driver for long term profitability and the recovery in margins (7.1% 1H10 compared to 3.8% 1H09) will be a key earnings driver in FY10.
- Distribution costs went up 19.1% while administration and other costs declined 9.4%. Finance costs increased 100.5% as a result of currency depreciations in 7 countries in which the company operates.
- KenolKobil's growth in sub-Saharan downstream oil markets is gaining momentum with the continued participation in buyouts and acquisitions; the company recently announced its intentions to invest in Mozambique and Zimbabwe.
- The structural inefficiencies in the oil sector have in the past stifled sectoral growth and have also invariably resulted in inefficiency costs. We expect that efforts to privatize and increase the efficiency at both the KPRL and the KPC will provide impetus for industry growth and will increasingly eliminate inefficiency costs (e.g. higher distribution costs due to the use of road transport to distribute oil products) incurred by oil marketers.
- Management expects overall strong results in FY10, especially driven by increased profitability from subsidiaries as the company continues to participate in acquisitions and buyout deals in sub-Saharan Africa. We anticipate positive benefits to materialize from increased geo-diversity in Southern African markets and the associated increase in trading activities in the region. We generally expect improved performance for the oil sector in 2010, mainly due to improvement in margins and increased fuel demand.
- We expect overall strong earnings growth in 2010. However, we also expect 2H10 to reflect added operating costs (transport and storage) associated with the recently settled disputes with KPRL.

Sector Overview

Since the liberalization of distribution and pricing of petroleum products (and partial liberalization of product supply in the mid 90's), the Kenyan oil sector has been facing several structural impediments that have resulted in inefficiencies and higher operating costs for oil marketers. Key among them, problems associated with the Kenya Petroleum Refinery ('KPRL'), and the Kenya Pipeline Company ('KPC'). The main problems have been the uneven allocation of ullage (storage space) within the pipeline system, leading to sporadic shortages in Kenya and other landlocked countries in the region that depend heavily on oil imports through Kenya. The primary problem has been a lack of sufficient pumping and storage capacity by KPC. In some instances, there have been concerns over preferential treatment of certain oil marketers being allocated unreasonably high ullage, disproportionate to their overall market shares. As a result, ships carrying oil products of other larger oil marketers remain in the high seas awaiting discharge, incurring high demurrage costs. While some bottlenecks have reduced, challenges still remain with regard to storage capacity, pipeline throughput, and yield shift losses at the refinery. To this end, several initiatives have been made by both KPRL and KPC.

The Mombasa refinery is the only oil refinery in Eastern Africa, with an annual capacity of 4m metric tonnes. KPRL currently produces LPG, gasoline, diesel, kerosene, fuel oil, bitumen and grease. The fuel products are then distributed in Kenya, Tanzania, Uganda, Rwanda, Burundi, Eastern Congo, and South Sudan. The increases in processing fees (approximately 23% in 2006 and 17% in 2008) by KPRL to oil marketers was the genesis of the dispute between KenolKobil and KPRL. According to KenolKobil, this was not in line with the processing agreement that stipulated that increases must be based on commercial basis and should be agreed with oil marketers. The inefficiencies in KPRL, poor quality and losses, had not justified the increment in fees in KenolKobil's opinion. The two parties agreed to discontinue all pending claims against each other, including debit notes and lawsuits; KenolKobil was claiming KES 5.3bn against KPRL's claim of KES 600m.

Kenya Petroleum Refinery Limited (KPRL)

Although the move to begin the privatization of KPRL was widely expected to have a positive impact on the oil sector, the recent dispute with KenolKobil presents a case for increased government divestiture and devolvement to allow for increased autonomy at the institution.

Essar Energy Ltd ('Essar') acquired a 50% stake in KPRL in 2009 and the complementary 50% stake is owned by the Government of Kenya. Essar won the bid to acquire the stake after the government agreed to cede its pre-emptive rights that would have disallowed Essar to own a significant stake in KPRL. Essar successfully bid for the combined shares of leading oil marketers (Shell, BP and Chevron) to obtain the 50% stake. It was then expected that the two stake holders would agree on how to finance the upgrade of the refinery. The main benefit of this acquisition is the upgrade of the refinery, which is expected to reduce the current inefficiencies associated with the refinery. Following the first major petroleum discovery in East Africa at Lake Albert, Uganda, there is also a need to construct better refineries in the region. The old refining technol-

ogy being used at the KPRL renders the refinery inefficient and uncompetitive on price and quality of oil products when compared with other global refineries. For instance, the refinery has been unable to produce low sulphur content petroleum products, resulting in yield shift losses and other product losses which occasionally exceed 5%, which is above the global tolerance range of 0.25%-0.5%. Also, the capacity utilization rate has declined due to competition from the importation of refined petroleum products, which are approximately USD 30 per ton cheaper than refining crude at KPRL.

All oil companies in Kenya are required to process 65% of their total product requirements through KPRL. Further, KPR is protected by a minimum base load processing of 1.6m tonnes of crude per year, which meets approximately 50% of the country's total petroleum demand. The oil marketers share this base load, pro-rated to their respective market shares by participating in an Open Tender System (OTS). Kenya's crude imports consists of 90% Murban crude oil, and 10% Arab Medium crude. The balance of the country's petroleum demand is met through importation of refined products; there is another OTS conducted for the importation of 35% of refined products.

Kenya Pipeline Company (KPC)

Kenya Pipeline Company is a state corporation under the Ministry of Energy with a mandate to provide storage and transportation of oil products. KPC operates the pipeline system that transports refined petroleum products from Mombasa to Nairobi and parts of western Kenya. KPC is at an advanced stage to upgrade and double the pipeline capacity to western Kenya. The pipeline, which is operating at full capacity, will have its throughput doubled to 880m^3 per hour . Improved capacity is expected to reduce intermittent shortages of petroleum products experienced in Kenya and other export markets which use Kenya as a gateway. The higher throughput is also expected to improve the supply chain of petroleum products, thus reducing road transportation and demurrage costs incurred by oil marketers due to delays when they are delivered at the port city of Mombasa. Increased capacity would greatly relieve the current storage constraints in western Kenya and benefit all the large oil marketers in general.

Although the government has in the past shown its intention to privatize KPC, not much progress has been made. We also expect ongoing efforts to privatise the Kenya-Uganda railway network through **Rift Valley Railways ('RVR')** to open up the region and greatly reduce transportation costs for the oil industry. The table below shows the historical throughput of KPC and we observe that in 2008, there was a decline of 2.8% in throughput, possibly due to the increased usage of road and railway network to transport petroleum products.

Year	Throughput (m^3)	% ch
2008	3,850,379	-2.8
2007	3,962,271	3.5
2006	3,829,494	8.6
2005	3,527,260	5.9
2004	3,329,482	12.4
2003	2,962,964	7.2
2002	2,764,446	

Source: Petroleum Institute of East Africa

Whereas improvements are being made, the full impact of the government sponsored infrastructure expansions can only be expected in 2011 onwards. Additional measures taken by the KPC include fast tracking of the construction of booster pump stations along the Mombasa-Nairobi pipeline and the Eldoret -Kampala pipeline. This will lead to lower transport costs for oil marketers, especially for KenolKobil, which has a large proportion of its market in the western parts of Kenya and in the Great Lakes Region. We expect the growing investments in the road and railway transportation networks in Kenya and around East Africa to support future operations for oil marketers in the region such as KenolKobil.

Industry consolidation and rationalization

KenolKobil has been taking advantage of the opportunities arising due to the pull out of major Multi-National Oil Corporations (MNC's) from the African downstream markets. KenolKobil has grown significantly via various acquisitions from MNC's exiting sub-Saharan downstream markets by acquiring their assets and operations. For instance, KenolKobil participated in the buyout of Shell's operations and assets in Ethiopia and Rwanda, respectively. KenolKobil, together with Engen International Holdings (Engen) had also planned to acquire Shell & BP in Zimbabwe before the National Indigenization Commission blocked the deal, citing the indigenization law. KenolKobil recently acquired Oil Burundi S.A from Engen.

Other exits by MNC's include Libya Oil's purchase of Mobil's retail petrol stations as the latter closed shop in 14 countries across the continent. BP and Agip also sold out to Shell Kenya, citing thin margins. Reliance Petroleum of India, which is particularly strong in refining, is also set to make entry into African markets. Reliance acquired Gulf Africa Petroleum Corporation ('GAPCO'), a fuel retailer in Tanzania. It has also been reported that Royal Dutch Shell Plc is in talks with a consortium led by Helios Investments Partners LLP and Vitol Group to sell its downstream business in 19 African countries. More recently, Chevron exited Kenya by selling its assets to Total Kenya, which has since seen its market share increase substantially after the acquisition. This move by Total has led to increased market consolidation and is expected to further professionalize and rationalize the industry, ensuring better returns to shareholders.

Lack of critical mass -a deterrent for MNC's

The main deterrent to MNC's in African markets is the lack of critical mass to service country wide operations across Africa. In addition to the frequent low margins in such markets, they also have to grapple with the additional costs of hiring expensive expatriates and setting up stations to international standards, which becomes unsustainable in the long term. Furthermore, these small African retail markets are generally not considered 'core businesses' for the large global oil companies, which are mainly involved in the high profile exploration and refining business, particularly in West Africa. In contrast, KenolKobil has garnered significant footholds in these markets and leverages off local expertise to run its operations across the region at significantly lower costs.

Despite the competitive environment that causes multinational oil companies to exit African downstream markets, KenolKobil has been increasing its operations in various African markets with the aim of being a major Pan African downstream oil marketer. The growth experienced by KenolKobil is supported by a large distribution network and ownership of strategic assets in the region (fuel depots, LPG plants, etc.) that provide a strong critical mass to service regional and country-wide operations at lower costs.

Increased industry rationalization as consolidation increases

As western multinationals exit Africa, there is increased industry consolidation As such, we expect more rational and fair pricing in the market to develop. This has mainly been achieved through the buyout of independent and other small players by the larger oil marketers. Subsequently, competition from the independent sector has been subsiding over time due to the increased market consolidation. Entry into the retail market also requires a substantial presence of outlets, which may be expensive to purchase or build.

The preference by retail consumers to purchase fuel from branded outlets continues to enhance market consolidation for large sector players such as KenolKobil. Independents and small scale are finding it increasingly difficult to operate, which has contributed to the prevalence of more rational pricing.

Company overview

KenolKobil has been investing aggressively in Sub-Saharan Africa with a vision to become a major player in Africa's downstream oil distribution. KenolKobil has subsidiaries in six countries; Uganda, Tanzania, Rwanda, Burundi, Ethiopia, and Zambia. The Rwanda subsidiary also includes a 16,000m³ fuel terminal (the largest depot in central Africa), located in Kigali. With continued infrastructure investment and economic growth across East Africa, we expect fuel sales to grow strongly over the next five years, especially benefiting from road and rail network developments as well as thermal power generation activities in the region.

KenolKobil currently trades in 12 countries across Africa with the aim of developing new markets in African countries, especially those that have no refining facilities for petroleum products. The trading desk has participated actively in tenders to supply petroleum products to Malawi, Sudan, Ethiopia, Mauritius and other countries in the region. The trading desk delivered 62% and 50% of the combined crude and refined product oil requirements for Kenya under the Open Tender System (OTS) in 2008 and 2009 respectively. KenolKobil also commands a market share of 13.5% in lubricants and 10.2% in Liquefied Petroleum Gas (LPG) business segments.

Subsidiaries in Africa

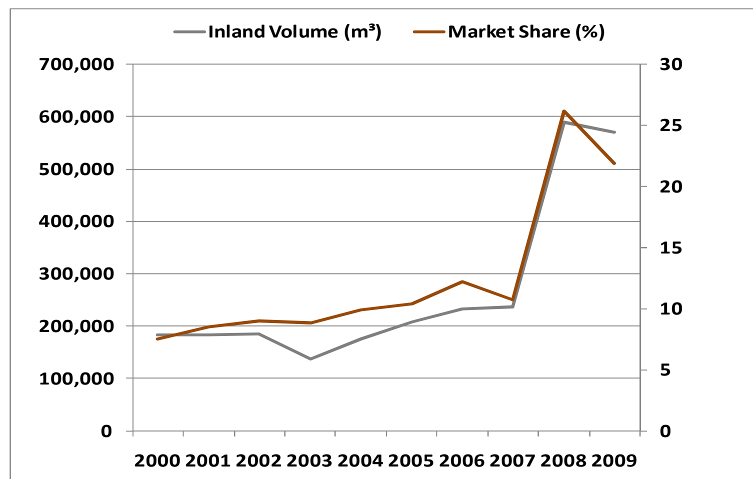
KenolKobil's subsidiaries accounted for approximately 37% of operating profits in 2009, which we expect to increase to 45% in FY10 with recent acquisitions and regional growth. KenolKobil has diversified its presence in African markets, which we expect to culminate in a good spread of country risk. Nevertheless, the company occasionally encounters market specific problems. For

instance, Ethiopia is a highly regulated market and high distribution costs are also experienced. KenolKobil acquired Shell's retail network of 63 Service Stations and a terminal in Addis Ababa with a storage capacity of 3,230m³. KenolKobil is aggressively selling high margin black fuel products (such as bitumen) in Ethiopia, awaiting better margins in a deregulated market regime. In 2006, KenolKobil acquired 17 Service stations and a 16,000m³ fuel terminal from Shell Rwanda SARL, followed by a string of acquisitions which added another 26 service stations to its retail network. KenolKobil also controls the fuel depot on behalf of the Government, which attracts residual revenues for the Rwanda subsidiary. The group plans to use Rwanda as a regional hub for the Great Lakes Region including Burundi and Eastern Congo, which is currently experiencing a surge in demand for oil products. The table below shows KenolKobil's distribution network in all its markets.

Country	Fuel stations	Estimated market share(%)
Kenya	157	20
Ethiopia	75	4
Uganda	61	12
Rwanda	43	35
Zambia	31	9
Tanzania	29	6
Burundi	14	10
Total	**410**	

Source: Company

The graph below shows KenolKobil's market historical shares and the corresponding inland volumes for Kenya.



Source: Company

KenolKobil recently acquired Oil Burundi S.A from Engen. Oil Burundi is a distributor of lubricants and white products in Burundi and now a 100% subsidiary of KenolKobil. Further, KenolKobil has also acquired service stations from independent players in the country to boost its retail network.

The Tanzania market has emerged as a strategic alternative route to market as witnessed during the post election violence. The port of Dar es Salaam has occasionally been used to import refined products, which can then be exported to serve landlocked countries such as Burundi.

KenolKobil commenced operations in Zambia through the acquisition of Jovenna Zambia in 2002. Operations in Zambia continue to benefit from lucrative contracts from the copper mines with increased mining activities in the copper belt. The expanding retail network is also expected to have a positive impact on overall volume growth in Zambia.

The recent acquisitions in Central and Southern Africa are expected to play a central role in building market share and pushing volumes to these markets by leveraging on existing business strengths such as existing supply agreements, large distribution network, and bulk imports pricing.

Earnings drivers

Margins

We expect the oil sector revenues to recover significantly in FY10, driven by recovery in margins with stable international crude prices. In hindsight, oil marketers posted losses in 1H09 as a result of the negative impact of revaluation of inventory, exacerbated by the inability to pass on pricing differentials to consumers.

Our revenue forecasts for FY10 show a 15.0% y-o-y growth in FY10 revenues on a gross margin of 6.4%. In our forecasts, we have also assumed that sales will grow at a sustainable rate of 10% p.a and gross margins will be stable within the 6.0-6.5% range. The table below shows key margins for KenolKobil:

Margins (%)	FY09	FY10E	FY11F	FY12F
Gross margin	6.2	6.4	6.4	6.4
Operating margin	2.5	2.5	2.7	2.9
EBT margin	2.0	2.2	2.4	2.7
Net margin	1.3	1.5	1.7	1.9

Source: Company, Kestrel estimates

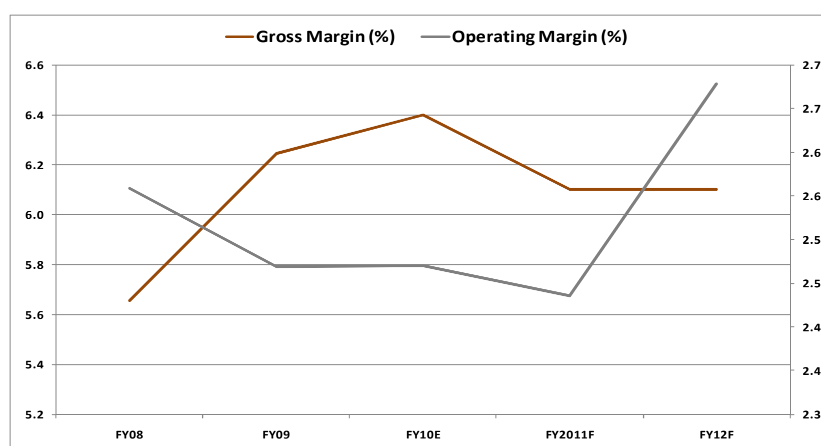
Despite the possibility of volatility in international crude oil prices, we maintain that margins will be the likely driver of long term profitability. Fuel demand in Kenya and the East African region has been growing consistently over the years and we present a base case scenario for medium term volume growth as a factor of GDP growth (1.5x). In the past, gross margins for oil sector players have come under pressure since the liberalisation of the petroleum industry owing to increased competitive pressures from the major oil multinationals and independent dealers making forays into trading and retail business. However, with the ongoing industry consolidation, we expect a more rationalized pricing to have a positive impact on margins.

Over the years, KenolKobil has maintained a leading market position in aviation and commercial reseller markets, which has contributed to lower margins (on high volumes). The company has however reduced its exposure in this business but occasionally enters the reseller market to reduce inventory. The company has also reduced its exposure in Jet A-1 (Aviation Turbine fuel)

business. This is primarily because profitability in jet fuel business has been under pressure due to the contraction in margins. This arises from the fact that airlines contract jet fuel using the Mediterranean Platts (Med) pricing while oil companies procure jet fuel with reference to the Arab Gulf (AG) quote. The spread between the two pricing methodologies has been declining and in some instances, the AG quote has been above the Med price, resulting in losses.

Cost Drivers

The main costs encountered by the company and oil marketers in general are distribution and finance costs. In FY10, we expect distribution costs to increase significantly as a result of higher storage, distribution, and demurrage costs incurred in 2H10 when KenolKobil and KPRL were involved in in a dispute. During the period, KPRL held KenolKobil's crude at the refinery without processing it, resulting in higher finance costs. The following chart shows the trend of operating margins compared to gross margins.



Source: Company, Kestrel estimates

Cash flow and Growth

KenolKobil has been on a steep growth trajectory in the past decade, which has necessitated substantial use of retained earnings to finance growth, both organic and through acquisitions. The company's FY10 capex plan is to spend USD 10m in refurbishments and upgrading service stations and other key assets. The company re-launched the Commercial Paper programme in the year amounting to KES 1.5bn. We expect the company to continue bidding for assets of exiting MNC's, the latest being BP. The company has indicated that it is keen to acquire operations, especially in countries where it has a low market share or no presence, particularly in southern African markets which are generally more profitable.

The sector's working capital requirements are high, which necessitates consistent short term borrowings to finance the purchase of inventory. Also, participation in the OTS necessitates heavy borrowings for any oil marketer who wins the import tenders, which increases the need for short term borrowings to finance the inventory.

Company SWOT analysis

Strengths	Weaknesses
- Largest independent oil marketer in Eastern Africa	- Exposure to country specific risk (e.g. Ethiopia)
- Good spread of country risk among African countries	- Low margins in aviation and commercial reseller markets
- Ownership of strategic assets in Eastern Africa	
- Strong regional growth in oil products	
- Experienced local management team	
- Improving regional infrastructure for transport and storage	
Opportunities	**Threats**
- Upside potential from new acquisitions and market entries	- Government interference and regulations
- Higher growth from new subsidiaries and markets	- Poor regulatory/ tax enforcement against smaller players
- Better margins likely with industry consolidation	
- Possible acquisition target as largest independent player	

Peer comparables: Oil and Gas companies in Africa

Name		P/E	P/B	P/S	EV/MC	ROA	ROE
ENGEN	Botswana	11.1	3.9	0.9	0.9	22.5	39.9
ALEXANDRIA MINERAL OILS	Egypt	6.0	2.1	0.7	1.0	23.9	36.4
MARIDIVE & OIL SERVICE		19.5	4.1	3.3	1.3	9.6	21.6
TOTAL GABON	Gabon	12.8	1.7	1.6	0.8	7.8	13.5
GHANA OIL	Ghana	9.6	1.8	0.1	1.2	5.4	19.6
TOTAL PETROLEUM GHAN		10.2	2.2	0.2	1.0	8.7	22.4
KENOLKOBIL	**Kenya**	**11.6**	**1.3**	**0.2**	**1.0**	**4.4**	**11.6**
TOTAL COTE D'IVOIRE SA	Ivory Coast	9.2	1.9	0.4	0.9	10.6	20.7
SHELL COTE D IVOIRE		15.6	1.5	0.2	1.7	4.1	8.4
AFRIQUIA GAZ	Morocco	15.9	3.2	1.7	1.0	6.5	21.5
AFRICAN PETROLEUM PLC		3.5	2.5	0.1	3.0	9.8	71.2
OANDO PLC	Nigeria	8.0	1.7	0.3	2.1	3.5	21.7
CONOIL PLC		9.8	2.1	0.3	1.5	7.1	22.3
CHEVRON OIL NIGERIA PLC		10.1	5.2	0.3	-	10.3	52.7
TOTAL NIGERIA PLC		18.4	10.4	0.4	1.1	8.7	55.7
MOBIL NIGERIA PLC		36.9	6.5	0.5	1.0	7.5	43.1
SASOL	South Africa	12.3	2.3	1.6	1.0	10.5	17.9
	Mean	**13.0**	**3.2**	**0.7**	**1.3**	**9.5**	**29.4**
	Median	**11.4**	**2.2**	**0.4**	**1.0**	**8.7**	**22.0**

Source: Bloomberg

Financial Summary

Income statement (KES m)	FY2009	FY2010E	FY2011F	FY2012F	y-o-y ch %	3yr CAGR %
Sales	96,693	111,197	127,876	140,664	15.0	13.3
Gross profit	6,038	7,117	8,184	9,002	17.9	14.2
Operating profit	2,387	2,746	3,497	4,102	15.1	19.8
Finance cost/income	(454)	(352)	(392)	(359)	-22.6	-7.5
Profit before tax	1,933	2,395	3,106	3,743	23.9	24.6
Taxation	(639)	(718)	(932)	(1,123)	12.4	20.7
Profit after tax	1,295	1,676	2,174	2,620	29.5	26.5
Attributable income	1,295	1,676	2,174	2,620	29.5	26.5
Balance sheet (KES m)						
Fixed assets	4,512	5,073	5,073	5,073	12.4	4.0
Other non-current assets	1,606	1,589	1,589	1,589	-1.0	-0.3
Current assets	25,171	29,423	33,589	37,441	16.9	14.2
Total Assets	31,289	36,085	40,251	44,102	15.3	12.1
Shareholders equity	11,455	12,653	14,268	16,163	10.5	12.2
Current liabilities	19,293	22,891	25,442	27,398	18.7	12.4
Total equity and liabilities	31,289	36,085	40,251	44,102	15.3	12.1
Cash flow statement (KES m)						
Cash generated by operations	2,741	3,160	3,911	4,516	15.3	18.1
Working capital (Increase)/Decrease	2,809	(942)	(1,109)	(850)	-133.5	-167.1
Operating Cash Flow	5,551	2,218	2,803	3,666	-60.0	-12.9
Net interest received/(paid)	(319)	(352)	(392)	(359)	10.1	4.0
Cash taxes	(794)	(718)	(932)	(1,123)	-9.5	12.2
Net cashflow before investing	4,437	1,148	1,479	2,184	-74.1	-21.0
Net cash invested	(161)	(814)	(414)	(414)	407.0	37.1
Free cash flow	4,277	334	1,065	1,770	-92.2	-25.5
Net financing cash flow	(4,277)	(334)	(1,065)	(1,770)	-92.2	-25.5
Net cash flow for the year	1,194	1,236	506	1,046	3.5	-4.3
Opening cash balance	2,438	3,678	4,914	5,420	50.9	30.5
Closing cash balance	3,678	4,914	5,420	6,466	33.6	20.7

Source: Company, Kestrel estimates

Recommendation guide

STRONG BUY:	Highly undervalued/ strong fundamentals
BUY:	Good value/ strong fundamentals
ACCUMULATE:	Buy on price dips
HOLD:	Correctly valued with little pricing upside or downside
LIGHTEN:	Overvalued by the market/ Reduce exposure/Declining fundamentals/ industry concerns
SELL:	Weak fundamentals and challenging operating environment/Highly overpriced

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