Wonderwoman in Theatres Now! – Kengen FY17/18 Results

A Low Voltage Year for the Country

Growth in electricity unit sales is closely tied to GDP growth. Kenya's economy expanded by 4.9% in 2017, the slowest rate in 5 years. While buildout has soared in 2018, it is hard to score a disproportionately large number of goals in the second half of a match. Private sector credit growth has also been paltry like my tithe outflows (God I promise to give you more if you boost the economy). Low private sector credit growth prevents risk taking, investment and expansion activities.

The CfC Stanbic Bank PMI measures the degree of expansion or contraction of activity across a large number of sectors, derived from a survey of 400 companies. A figure below 50 indicates contraction, while a good figure above 50 (which is hard to maintain given the sedentary lifestyles we lead and our aversion to working out) shows expansion. As an example, this reliable metric was indicating contraction from October 2017 up to February 2018.

Revenue

During the period under review, total revenue grew 4% to Kshs. 45.29 billion. Revenue net of reimbursable expenses increased by 4% from Kshs 34,452 million in the year ending 30th June 2017 to Kshs 35,884 million for the period ended 30 June 2018.

Hydroelectricity unit sales decreased marginally by 152 GWhs as geothermal surged by 585 GWhs to 3,867 GWHs. Total electricity unit sales came in at 7,989 GWhs (+5.73%). The slower growth in electricity revenue of 4% instantly shows us that Kengen is trying its best to provide cheaper electricity. Despite a punishing drought in the first three quarters of the financial year, thermal electricity unit sales only grew by 1.8%. This is truly remarkable and shows how the pivot to geothermal is providing succor when meteorologically unfavorable times fall upon the country.

Steam revenue soared 20% to Kshs. 6.222 billion. Geothermal revenue grew 6% to 17.112 billion but is expected to soar in the financial year 2019/2020 as a 165.4 MW plant comes online in July 2019.

58% of electricity revenue was geothermal, up from 54% in a similar period. Fuel margin improved to 3.9% from 2.8%, while steam margin deteriorated to 42.95% from 46.12%.

Kengen has a market share of about 69% and that is a great POSITION to be in! The market leader is also expanding solely on clean energy.

Operating Profit

Operating profit decreased 15.5% to Kshs. 11.442 billion due to a 9.8% increase in depreciation and amortization, the slight deterioration in the steam margin mentioned above and a Kshs. 1 billion loss in the other losses section. Operating profit margin came in at 25.3% from 31.2%.

Profit before tax and KRA's cut

Finance income soared 150.6% to Kshs. 3.341 billion resulting in a commendable 2.5% increase in profit before tax to Kshs. 11.746 billion in a defensive year. Prudent management of cheap borrowings is an important skill, necessary to protect profitability. Unfortunately, KRA pigged out resulting in a 57% jump in tax expenses due to the fact that no new plants came online during the period and generous tax incentives were not available. Profit after tax fell 12.4% to Kshs. 7.891b. Basic and diluted EPS Kshs. 1.20 vs. Kshs. 1.37 (-12.4%).

Ratios

Return on capital employed, which is dependent on profit before interest and tax (operating profit in this case), came in at 3.19% against 3.8% in the previous financial year. Asset turnover was however, 0.13 in comparison to 0.12 reported in the financial year ended 30th June 2017. The assets of the business were thus actually utilized better during the financial year ended 30th June 2018.

Total debt to equity ratio was 99.6%, down significantly from 106%; this obvious debt reduction payment also reduced the cash flow balance as at the financial year end to Kshs. 3.383b from Kshs. 7.831b. Kengen's average cost of debt is 3.10%!

The power generator's current ratio is quite stable at around 1.5, making it an attractive customer. This can also be an indication of sagacious procurement management.

Kenya Power as the Sole Customer

Although trade receivables from Kenya Power stood at Kshs 21,883 million as at 30 June 2018, at the time of releasing the results (post balance sheet), Kshs 18,573 million had been received, thereby reducing the trade receivables to Kshs 3,310 million.

Future Outlook

With an additional 248.7 MW of generating capacity expected to be brought on board by 2021, coupled with reducing debt and a strengthening economy, we expect Kengen to significantly improve its profits in the medium term. Ignoring inflation and currency related attenuation, investors getting in at current levels of Kshs. 7.50 are likely to double their money within the next 3 years, including dividends.

FY17/18 Dividend

Kshs. 0.40 dividend has been proposed (33% payout ratio) with books closure slated for 6th December 2018; payment on or about 7th February 2019.

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