

Valuation Summary

- We recommend a BUY for the Bamburi stock with a target price of Kshs 231.7 representing an upside of 46.5%, from the current price of Kshs 231.7, as at Friday, 26th August 2016, given a dividend yield of 7.8%
- Bamburi is currently trading at a EV/EBITDA of 6.5x versus an industry average of 9.1x and a P/E of 11.5x versus an industry average of 9.1x

Key highlights during the Half

- Lafarge Ecosystems, the environmental arm of Bamburi Cement, signed an MOU with Pwani University aimed at seeing the two institutions partner on an array of environmental conservation initiatives. Bamburi to benefit from research reports and publications from the university

Income Statement

- Core earnings per share decreased by 6.0% to Kshs. 8.0 from Kshs. 8.5 in H1'2015. This was driven by a Kshs. 95 mn foreign exchange losses on US dollar denominated liquid assets given the appreciation of the Kenyan Shilling against the US Dollar, from a Kshs. 397 mn gain in 2015
- Revenue declined by 1.1% to Kshs 19.1 bn from Kshs 19.3 bn driven by slow growth in the individual home builder segment that was largely affected by rising interest rates in Q4'2015 which affected 2016 construction activity
- Operating costs declined by 2.1% to Kshs 15.0 bn from Kshs 15.3 bn supported by prudent cost management and specialization with regards to operation of plant and machinery
- Investment income grew by 41.6% to Kshs 218.0 mn from Kshs 154.0 mn benefiting from the higher interest rate environment in 2015
- PBT declined by 5.1% to Kshs 4.3 bn from Kshs 4.5 bn while PAT grew by 6.0% to Kshs 2.9 bn from Kshs 3.1 bn

Balance Sheet

- The balance sheet recorded a contraction with total assets decreasing by 6.8% to Kshs 41.1 bn from Kshs 44.1 bn driven by an 8.6% decrease in cash to Kshs 10.5 bn from Kshs 11.4 bn. Total liabilities declined by 9.6% to Kshs 11.5 bn from Kshs 12.7 bn driven by a 19.0% decline in current liabilities to Kshs 6.9 bn from Kshs 8.6 bn. Shareholders' funds remained flat at Kshs 29.6 bn.

Bamburi's growth going forward will be propelled by:

- A strong cash position of Kshs 10.0 bn at their disposal that can be used to cushion any shocks and their expansion of the approved Phase 1 expansion project in Kenya and Uganda that will increase capacity by 1.7 mn tonnes. It is estimated that the project will cost Kshs. 8.3 bn
- The vibrant real estate and construction industry continues to grow driven by a large housing deficit and government infrastructural developments will benefit Bamburi going forward

Below is a summary of the key line items in the balance sheet and income statement

Figures in Kshs millions unless otherwise stated

Income Statement	H1'2015	H1'2016	y/y Change
Turnover	19,321.0	19,111.0	(1.1%)
Operating Expenses	(15,289.0)	(14,962.0)	(2.1%)
Operating Profit	4,032.0	4,149.0	2.9%
Investment Income	154.0	218.0	41.6%
Other gains and losses	397.0	(95.0)	(123.9%)
Restructuring Costs	(81.0)	-	-
Profit Before Tax	4,502.0	4,272.0	(5.1%)
Taxation	(1,419.0)	(1,373.0)	(3.2%)
Profit for the Period	3,083.0	2,899.0	(6.0%)
EPS	8.49	7.99	(6.0%)

Balance Sheet	H1'2015	H1'2016	y/y Change
Assets			
Non- Current Assets			
PPE	23,115.0	22,088.0	(4.4%)
Other Equity investments	657.0	425.0	(35.3%)
Goodwill	217.0	217.0	0.0%
Total Non-Current Assets	23,989.0	22,730.0	(5.2%)
Current Assets	8,650.0	10,465.0	21.0%
Cash	11,443.0	10,456.0	(8.6%)
Dividend Payable	-	(2,547.0)	-
Total Assets	44,082.0	41,104.0	(6.8%)
Equity and Liabilities			
Current Liabilities	8,559.0	6,937.0	(19.0%)
Non-Current Liabilities	4,109.0	4,515.0	9.9%
Total Liabilities	12,668.0	11,452.0	(9.6%)
Shareholder Funds	31,414.0	29,652.0	(5.6%)