



Member of Uganda Securities Exchange  
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## EAST AFRICAN BREWERIES LIMITED (EABL) RESEARCH NOTE

No 1.04

### THE GROUP

- EABL is the group holding company for what is now the largest brewing concern in East Africa with operations in Kenya and Uganda.
- The Company was founded in 1922 in Nairobi, Kenya.
- In Kenya, EABL owns 46.32% of United Distillers and Vintners (UDV) Kenya Limited, 80% of Kenya Breweries Limited (KBL), 100% of Central Glass Industries Limited, 100% of Kenya Maltings Limited and 100% Castle Breweries (K) Limited (CBK). The latter is not a going concern, but EABL has acquired its issued share capital and fixed assets. CBK is therefore a non-trading subsidiary.
- In Uganda, it owns 98% of Uganda Breweries Limited (incorporated in 1946), and 100% of International Distillers Uganda (IDU).
- In Tanzania, EABL has re-acquired 20% of Tanzania Breweries Limited. TBL was formed in 1964 but was nationalised in 1967. The Group remained minority shareholder until 1980. Prior to 1967, TBL had been wholly owned by the Group. TBL was listed on the Dar-es-Salaam Stock Exchange in 1998.
- June 2002 marked 80 years of EABL's existence in the brewing business.
- In 2004, EABL was again voted the "Most Respected Company in East Africa" for the 4<sup>th</sup> successive year.

### LISTING :

#### -At the Nairobi Stock Exchange (NSE)

- EABL was first listed in 1972.
- As at 19<sup>th</sup> December 2003, EABL had a Market Capitalisation of KES 46.56 billion and was ranked 2<sup>nd</sup> at the NSE. Barclays Bank of Kenya is 1<sup>st</sup> with a Market Capitalisation of KES 55.40 billion.
- The share price at the NSE has surged to record levels in recent months and even after going ex-dividend in October 2003, the price has continued to spiral upwards. It is currently trading at KES 445 as at 30<sup>th</sup> June 2004.

#### At the Uganda Stock Exchange (USE)

- EABL was cross-listed on 27<sup>th</sup> March 2001.
- Trading volumes have been remained low but is expected to rise in the coming months.

#### • EABL Shareholding as at 31 December 2003: Top 5 Shareholders

	Shares	%
Guinness Kenya Limited	46,630,325	42.76%
National Social Security Fund	6,474,287	5.93%
Diageo Holdings Netherlands B.V	4,993,389	4.57%
Barclays (K) Nominees Ltd	3,275,036	3.00%
Guinness Overseas Limited	2,865,112	2.62%

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END YEAR RATIOS				
Figures in KES (Kenya Shillings)				
	2001	2002	2003	2004F
June				
EPS	14.88	21.28	13.76	24.50
DPS	9.00	11.50	15.00	17.00
PER	5.34	3.88	16.42	18.16
DY%	11.32	13.94	6.64	3.82
NAV	92.07	102.47	101.69	103.72
Share Price	79.50	82.50	226.00	445.00

Source: : mbea Research Department

Note: Past performance is not necessarily an indicator of future performance

### NATURE OF BUSINESS

- Breweries and Malters in Kenya and in Uganda, through Uganda Breweries Limited. Also sells beer, alcoholic spirits, manufactures and sells bottles.

### THE BEER MARKET

- Performance of the industry in East Africa tends to reflect the overall performance of the economies of the respective countries.
- In Kenya for example, the beer market declined from 3.3 million hectolitres in 1992 to 2.3 million hectolitres in 2001. In Tanzania, the figures were 1.8 million hectolitres in 2000 to 1.7 million hectolitres in 2001.
- In Kenya, this has been due to reduced purchasing power owing to the recession over the last six years. In Uganda, the market has enjoyed considerable growth whereas in Tanzania the trend has been downward.

### THE COMPANIES

#### In Kenya

- Kenya Breweries Limited** which began operations in 1922, is the group's largest production unit and produces over 7,500 hectolitres of beer per day at its Tusker Brewery in Ruaraka on the outskirts of Nairobi.
- Generates more than 90% of Group's operating profit.
- Brands include: Tusker the flagship brand, other members of the family include; Tusker Export, Tusker Malt Lager, Pilsner, Pilsner Ice, Pilsner Ice Light, White Cap, Citizen original, Citizen Special, Guinness Stout (brewed under license from Guinness), AllSopps and Smirnoff (produced in collaboration with UDV Kenya).

- Several KBL brands have won Global Awards. Citizen Lager has won two gold medals in the prestigious International Monde Selection beer competition.
  - Citizen Lager was pioneered as the world's first barley beer. Its formulation has been patented (2002) by the African Regional Intellectual Property Organisation, as well as in South Africa and Tanzania.
  - The awarding of the patent makes KBL the only brewer in the world to use this unique process.
  - **Central Glass Industries (CGIL)** was established in 1997 by EABL to produce glass containers in flint, amber and green to international required standards. It was recently awarded ISO 9001 – 2000 certification.
  - CGIL is the largest bottling facility between Cairo and Pretoria and is the only company in Africa with lightweight bottle technology.
  - The plant is a modern, fully integrated container glass manufacturing plant with additional printing facilities for bottle labelling.
  - It supplies the group and other local and regional companies. 50% of products are exported to Rwanda, Uganda, Burundi, Eritrea, Seychelles and Mauritius.
  - Exports grew by 34% over the previous year and new markets were opened up in Ethiopia and Democratic Republic of Congo. The export market now contributes 47% of its business volumes compared to 35% the previous year.
  - The company currently produces 100 million glass containers, in 73 different types each year. These include beer bottles, soda bottles, lightweight soda bottles, medicine bottles, bean jars etc. CGIL is able to tailor make any type of bottle to consumer specification.
  - After certification to the ISO 9001 2000 quality system, the company is now working on the Environmental Management System for certification to ISO 14001.
  - **Kenya Maltings Limited (KML)** processes barley used in the Group's breweries, which is purchased from out-growers. Its barley processing plant in the Industrial Area, Nairobi is the largest in East and Central Africa.
  - KML also exports to Uganda, Tanzania and the Seychelles.
  - KML produced 54000 tonnes of maltable barley down from 59,000 tonnes of barley produced in the previous year. This was still impressive given the introduction of a new barley variety in 2002.
  - Yields are expected to increase in coming years after the introduction of a new barley variety named KARNE. This strain is resistant to the destructive Barley Yellow Dwarf Virus.
  - KARNE has the additional advantage of reducing the needs for inputs at farm level, and is therefore of particular value in helping the farmers to maximise their financial yield from barley growing
  - In 2002, KML was awarded the ISO 9002 certification. This has enhanced its reputation for world-class quality and performance.
- UDV (Kenya)**  
EABL acquired a 46.32% interest in UDV (K) i.e. United Distillers and Vintners (Kenya). EABL was subsequently granted a management contract to manage the UDV(K) business.
- The route to market for UDV(K) products has been enhanced by integrating the sales, marketing and distribution functions of both UDV(K) and Kenya Breweries, with synergies being harvested in the form of cost savings and increased selling opportunities
  - Despite a depressed economic environment sales of premium products like Smirnoff Vodka and Johnnie Walker whisky have performed well.
- In Uganda**
- **Uganda Breweries Ltd** has been the dominant brewer in Uganda since it began operations in 1946.
  - In 1999, the Port Bell Brewery was completely modernised and its operating capacity was expanded.
  - Bell Lager is the company's flagship brand. Other brands are Pilsner Lager, Guinness Stout (under licence from Guinness) and Champion. UBL also holds the local distribution franchise for Carlsberg, one of Denmark's best known brands.
  - Tusker Malt Lager, Pilsner Ice, Smirnoff Ice and Hardys' Cider were successfully launched in the year.
  - **International Distillers Uganda Limited (IDU)** is the market leader in Uganda's alcoholic spirits business. Brands include the famous Waragi gin, Smirnoff vodka and Bond 7 whisky. IDU was owned by Selviac Nederland B.V, a subsidiary of Guinness UDV.
  - Since 1999, IDU had contracted UBL to produce, market and sell its products in the Uganda market. In July 2002, EABL paid KES 300 million in cash for the entire issued share capital of IDU.
- In Tanzania**
- In a deal approved by shareholders in an Extraordinary General Meeting on 24 June 2002, EABL acquired shares in **Tanzania Breweries Limited (TBL)** through an allotment of new ordinary representing 20% of TBL's issued share capital.
  - EABL also transferred 20% of the share capital of KBL to South African Breweries Miller International Africa (SAB Miller International), 100% of Kibo Breweries to TBL and also granted TBL the license to brew and distribute EABL and Guinness UDV brands in Tanzania.
  - In exchange, SAB Miller International transferred 100% of Castle Breweries Kenya Limited's (CBK) issued share capital to EABL and granted KBL a license to brew and distribute SAB Miller International brands in Kenya namely Castle Lager,

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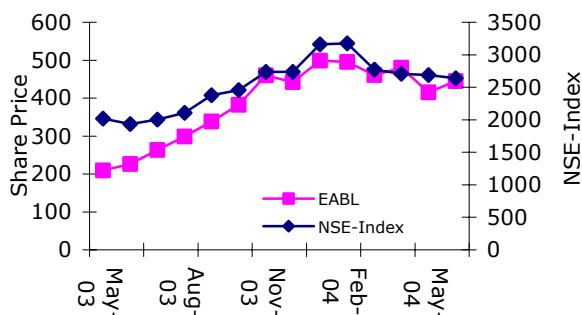
Ranger Special Lager, Trophy lager and Redds Premium Cold an alcoholic fruit beverage.

- SAB Miller International will also receive royalties on the sales value of its products brewed and sold in Kenya.
- Value of transaction to EABL was USD 47.4 Million represented by 58,985,693 TBL shares.

### COMPETITION

- 2002/3 witnessed an end to one of Africa's toughest beer turf wars, when EABL and SAB Miller International agreed to swap their brewing and beer distribution operations in Kenya and Tanzania to survive tightening demand and losses.
- The deal meant that SAB Miller International would dominate the Tanzanian market, and EABL would consolidate its hold on the Kenyan market. This effectively ended a turf war that was already proving costly especially to SAB Miller International's Kenyan operations through CBL, which had begun operations in Kenya in 1997.

**EABL Share Price vs NSE-Index  
May 2003 - June 2004**

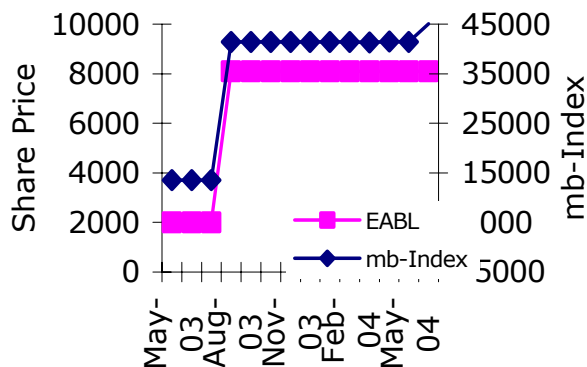


Source : mbea Research Department

Note: Past performance is not necessarily an indicator of future performance

The mb- Index below is MBEA's market capitalisation based Index for shares traded on the Uganda Securities Exchange (USE). The share has not traded at the USE since 26 August 2003.

**EABL Share Price vs mb-Index  
May 2003 - June 2004**



Source : mbea Research Department

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### OUTLOOK

- Year to June 2003 final results indicate that the 2002 arrangements with SAB Miller International highlighted above, as well as the acquisitions of IDU and UDV Kenya, have already begun to bear fruit.
- The significant 35% decrease in net earnings from KES 2.3 billion in 2002 to KES 1.5 billion in 2003 was due to the large Group integration and reorganisation cost occasioned by discontinuing operations at Kibo Breweries in Tanzania that involved closure and impairment costs in addition to transaction costs including capital gains tax relative to the reorganisation.
- We can safely state that the above was a one off extraordinary item that may have dampened earnings from what was otherwise a record PBT.
- We therefore expect an even better performance for the year ending June 2004 on the back of: rationalisation of operating expenses within the Group; better capacity utilisation at KBL on account of SAB Miller International brands; cost rationalisation of no longer operating the Kibo Brewery in Tanzania; EABL's 20% share of future earnings and dividends of TBL; royalty income received on sales of EABL brands brewed and distributed in Tanzania by TBL; improved revenues from margins obtained on sales of SAB Miller International beers in Kenya.
- At the NSE, EABL's share price shot to an all time high of KES 520 on 13<sup>th</sup> February 2004 mirroring a general price rising market trend as renewed investor confidence in the country and capital market following the peaceful elections (December 2002) and transition of Government began to take effect.
- While the share remains relatively expensive, an Investor is most likely to be rewarded with significant capital gains if one opted to sell.
- Record dividends derived from earnings buoyed by the Kenyan market as consumers take advantage of increased purchasing power coupled with price cuts on some popular brands that were instituted across the board earlier in the year is most likely to characterise the year to June 2004.
- EABL's Dividend Yield for those purchasing at current KES 450 plus levels will most likely hover between 3-4% and this somewhat diminishes its attractiveness. However, investors with intent to profit from expected capital gains stand to benefit the most.
- EABL is a good buy on account of Group financial solidity and proven past yearly increase in share price and dividends. There is also the very real possibility shareholders may be rewarded with a bonus issue in 2004.

**Recommendation: BUY**

**EABL**

**Financial Review**

Balance Sheet	Jun-03	Jun-02	%Change
	KES- '000	KES-'000	
<b>ASSETS</b>			
Fixed Assets	8,857,830	8,329,691	6.34
Current Assets	<u>8,439,807</u>	<u>9,656,545</u>	-12.60
<b>Total Assets</b>	<b>17,297,637</b>	<b>17,986,236</b>	<b>-3.83</b>
<b>EQUITY AND LIABILITIES</b>			
Share Capital	1,090,305	1,090,305	
Reserves	8,687,625	9,050,012	-4.00
Proposed Dividend	<u>1,308,366</u>	<u>981,275</u>	33.33
<b>Shareholders Funds</b>	<b>11,086,296</b>	<b>11,121,592</b>	<b>-0.32</b>
<b>Minority Interest</b>	<b>1,504,826</b>	<b>26,318</b>	<b>5617.86</b>
<b>Non current Liabilities</b>			
Deferred income taxes	805,130	751,069	7.20
Provision for staff gratuity	456,419	430,542	6.01
<b>Current Liabilities</b>	<b>3,444,966</b>	<b>5,656,715</b>	<b>-39.10</b>
<b>Total Equity and Liabilities</b>	<b>17,297,637</b>	<b>17,986,236</b>	<b>-3.83</b>
<b>Income Statement</b>			
Gross Turnover	28,918,151	27,734,679	4.27
*Gross Profit	10,021,128	9,192,249	
Profit before Taxation	3,640,784	3,400,411	7.07
Taxation	1,676,638	1,099,617	52.47
Profit after Taxation	1,500,008	2,300,794	-34.80
Earnings per share	13.76	21.28	-35.34
Dividend per share	15.00	11.50	30.43

**Sources – mbea Research Department, Company Annual Reports and Prospectus**

**“Remember Share Prices can go up or down”**

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