



STERLING CAPITAL LIMITED

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EABL given 3 more years to meet terms of its KES.6Bn bond

- East African Breweries Limited (EABL) has received a three-year extension to remain in breach of terms attached to its KES.6Bn corporate bond, that required its current assets including cash to match short-term liabilities like supplier debt.
- The brewer was required to maintain a current ratio a measure of a company's ability to meet its short term obligations of at least 1 but this has proved elusive since last year, with Covid-19 complicating the situation.
- This has prompted EABL to make a fresh Capital Markets Authority (CMA) application to exempt it from keeping its current assets including cash balances at same level with short term liabilities such as bank overdrafts and supplier debt.
- EABL had last year received a one-year waiver to end of 2020 but this has now been extended to end of 2023, shielding it from the risk of the bond being classified as current liability.
- The ratio fell short at 0.63 partly due to the receipt of new bank loans in the period.
- EABL had KES.44.9Bn debt as at end of June with KES.8.0Bn classified as current liabilities, meaning repayable within 12 months.
- The current assets were valued at KES.5.1Bn during the review period, putting the current assets ratio at 0.63.

Our View:

- **The CMA exemption covers the entire remaining tenor of the bond and takes pressure off EABL whose business has suffered on state closure of bars to contain Covid-19 spread.**
- Although EABL is in breach of the current ratio, we do not see a risk to credit quality and believe that the company is in a good position to meet its debt obligations.
- We expect the group to continue aligning its capital expenditure with long term funding even as the economy gradually picks up.
- The company has increased its borrowing in recent years, partly to fund new capital expenditures such as the KES.14Bn investment in the Kisumu brewery in 2018.
- EABL issued a fixed medium term note of KES.5Bn in March 2015, followed by another one worth KES.6Bn in April 2017. The first one matured last March while the second tranche will mature in March 2022.
- The KES.6Bn outstanding bond is unsecured and has an annual interest rate of 14.17%.
- EABL announced a 39% drop in net profit to KES.7Bn the lowest in six years for the year ended June 2020 with sales taking a hit from closure of bars and weak spending among consumers.

Source: Business Daily and Sterling Research