Carbacid Investments Limited Company Review

- Carbacid Investments Limited, one of East Africa's leading producers of natural, food grade carbon dioxide has enjoyed handsome profits and profitability margins over the years, mainly attributable to increased demand for carbon dioxide and cost efficiencies at the group level.
- The firm has seen its **revenues** decrease over the years culminating in a negative compounded annual growth rate of 3% between 2015 and 2020, mainly attributable to increased competition from alcohol based carbon dioxide producers.
- Despite the foregoing medium term trend, the firm has seen a recovery in its trade revenues since 2018 with revenues growing from KES.565.5Mn in 2018 to KES.682.9Mn in 2020 mainly due to increased demand for carbon dioxide and the company's proactivity to capture new markets.
- Further, the firm continues to enjoy high **gross** and **after tax margins**, averaging 66% and 47% respectively between 2015 and 2020 due to cost efficiencies that have negated the need to increase their prices in the midst of turbulent business environments.
- The firm's administrative **expenses** have grown from KES.168.5Mn in 2015 to KES.186.8Mn in 2020 (representing a CAGR of 2%), mainly bolstered by increased mining royalties and high electricity costs due to frequent outages.
- Bottom line **profits** have decreased from a high of KES.393.9Mn in 2015 to 324.7Mn in 2020 mainly due to fair value losses on equity investments held at the Nairobi Securities Exchange (NSE) in light of the continued bear run.
- On the **asset book**, the firm's property, plant and equipment has reduced from a high of KES.991.5Mn in 2015 to 883.7Mn in 2020, mainly attributable to a reduction in inefficient assets.
- The firm has however increased its investments in financial assets such as equities, growing their portfolio from KES.677.7Mn in 2015 to KES.1.4Bn in 2020.
- The company has a robust cash and equivalents position, boasting of KES.819.7Mn in liquid cash and short term bank deposits. Further, the enterprise has no debt.
- In 2020, Carbacid announced a takeover bid for industrial and medical gases firm BOC Kenya, in a bid to combine the two entities into the region's leading choice for industrial, medical and special gases.
- The takeover bid which was priced at KES.63.5 per share, has since been objected in court by minority shareholders who cited the offer price as being too low, which was said to undervalue the entire enterprise.

FY2021 Outlook

- Carbacid has shown resilience over the years by overcoming reductions in customer purchasing power that have negatively impacted food grade demand for carbon dioxide in beverages, navigating through fierce competition from alcohol based producers, and recently sailing through the Covid-19 pandemic in stride to announce higher year-on-year (YOY) profits.
- In HY21, the firm continued its winning ways by announcing a 27% jump in turnover which translated into a 17.7% growth in net profits YoY, defying the effects of the Covid-19 pandemic. A trend likely to continue into FY21.
- With revenue prospects ever increasing due to an ever growing market and the firm's lean, cost effective operational structure, we expect Carbacid to continue announcing stellar top and bottom line results in the short to medium term.
- Due to the foregoing factors coupled with no debt, a cash rich balance sheet and a well-diversified financial asset portfolio, we are of the view that the company presents itself as a robust investment choice that will offer good capital gains and dividend income to its shareholders in the years to come.

- The outcome of the BOC takeover is still uncertain, however, if successful the combined entity will become one of the largest industrial and medical gas companies within the East Africa region.
- However, even if the takeover bid falls through, Carbacid's well-to-do asset and cash flow utilization strategy will continue to secure its position as the region's leading producer of food grade carbon dioxide.