



STERLING INVESTMENT BANK  
Members of the Nairobi Stock Exchange

**KPLC FY09 Results:  
Shareholder value markedly  
improves.**

October 29 2009

KPLC has announced its FY2009 results, with an impressive 74.6% rise in PBT, an 82.7% rise in PAT and a 533.95% increase in the company's end-year cash position. The significant jump was clearly signaled during the company's HY results announcement in which the company registered a 49% growth in PBT. Below we take a peek at these results and attempt to mull over the future of this monopsonistic power utility.

## The Results

**Impressive FY09 results:** KPLC's **top-line** was up by 52.4% from Ksh23.92b to Ksh36.46b yoy, on the back of an electricity tariff increase from July 2008, a reduction in system losses and enhanced operating efficiency through implementation of distribution reinforcement & upgrade projects, improved planning for materials and a new customer connection policy allowing for payment by instalments for Rural Electrification customers, among others.

Fuel cost recovered registered a 72% rise from Ksh16.43b to Ksh28.27 attributable to high fuel prices in the global markets. In the interim, the country will most likely continue to rely on the expensive thermal power to meet its needs.

The company's **bottom-line** recorded an 82.7% jump chiefly due to the increase in retail tariffs affected on July 1 2008. It is also important to note that, Fuel cost recovered from customers and the rise in revenue (excluding fuel cost recovered) accounted for up to 97.69% of the total revenue (2008 – 96.61%). We reckon that as hydrology improves, the fuel cost recovered component will most likely significantly fluctuate, as the use of thermal power sources is reduced. However, this will be a function of weather patterns that are highly unpredictable.

Following the signing of a new Power Purchase Agreement with KenGen and other generators, KPLC's power purchase costs rose by 56.90% to Ksh 18.78b from Ksh 11.96b, while power generation fuel cost rose by 70.09% - these were recovered as provided for in the approved tariff structure.

Transmission and distribution costs were up by 41.14% yoy, as a result of an additional provision for bad and doubtful debts to match increased turnover and increased cost of maintenance of the power utility's installations and facilities. Depreciation and staff costs rose in line with business growth.

**Net assets** registered a 28.3% increase as a result of the company's investment in power system upgrade aimed at improving the quality of power supply and increasing the company's customer base.

## Important Information

**KPLC and Telecoms:** KPLC already has a license to enter telecoms business from Communications Commission of Kenya (CCK). The Network Facility Provider - Tier 2 license will enable the utility to lease excess capacity of its fibre to licensed telecommunications service providers. KPLC is currently installing about 1,500 kms of high quality fibre optic cable on its countrywide transmission network primarily for its own use, in a USD 33 million System Control and Data Acquisition (SCADA) project. The licence will allow KPLC to lease the excess capacity of the fibre to firms licensed to provide telecommunications services in Kenya or to provide transit services through Kenya from neighbouring states for transmission of voice, data, TV and radio signals, internet, video and telecommunication services. This network will be built progressively and released for use between August 2009 and January 2010.

**KPLC Unbundling:** In 2008, the Kenya government created the Kenya Electricity Transmission Company Limited (KETRACO), to be responsible for building new electricity transmission infrastructure. As start-up capital, the company received Kshs. 790m in FY2009 to help it get set up. The existing transmission infrastructure still belongs to KPLC and KPLC's asset portfolio and share value remains intact.

**KPLC Preference Shares:** In KPLC's books are a number of preference shares. There are non-cumulative non-redeemable preference shares worth Kshs. 15.90b with a 7.85% dividend obligation to be paid if and when the company registers a PBT of Kshs 2.8b and above (PBT in 2009 is Kshs. 4.78b, well above the dividend payment threshold amount). KPLC also has issued 350,000 7% cumulative preference shares worth Kshs. 7m and 1,800,000 4% cumulative preference shares worth Kshs 43m. In total, in FY2009 the company's preferential share and ordinary share dividend obligations will take up about Kshs. 1.88b. Admittedly, preferential shares will be having a significant dilutive impact on the company's ordinary shareholder dividend. The company has to find a way of retiring some of this preferential dividend to create more ordinary shareholder value.

## Future prospects

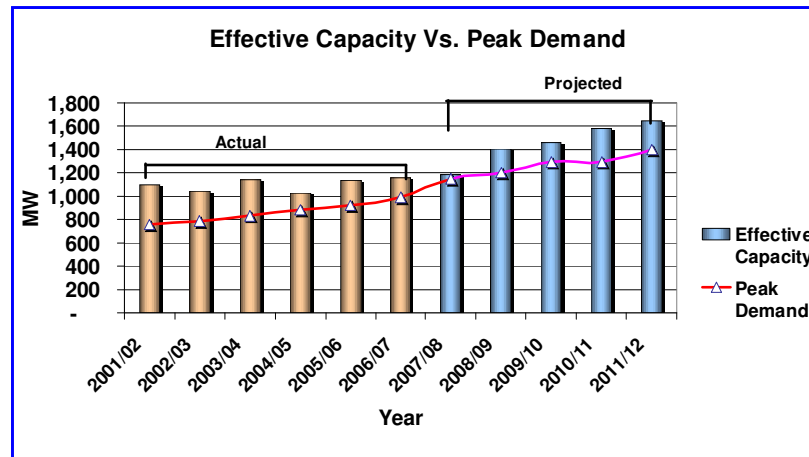
**Growth Drivers:** Kenya currently generates about 1,248 megawatts of power, including 150MW from temporary emergency sources, against a peak demand of 1,070 megawatts, leaving a reserve margin of only 14 per cent. Going forward, the country's energy sufficiency challenges are likely to remain; guaranteeing the power utility's long-term growth prospects. In addition, KPLC is Kenya's only electricity buyer that then transmits and distributes power in Kenya. The company appears to have good future prospects as a quasi government entity whose 40.42% stake is held by the Kenya government.

*“KPLC will continue to register sterling results for as long as demand for power outstrips supply of power in Kenya”*

*“The telecoms business license will enable the utility to lease excess capacity of its fibre to licensed telecommunications service providers”.*

### Disclaimer

All facts and figures used here are from sources deemed reliable and believed to be accurate. They have been prepared from data available as at the date of preparation and may have since changed. Past performance does not guarantee future results. This document should not be misconstrued to be an express recommendation for a buy, sell or hold position on any security. The investor should consider their investment objective and risk tolerance before taking any investment action.



Source: KPLC

### KPLC's Income Statement for FY2009

| INCOME STATEMENT                   | FY2009        | FY2009        |                |
|------------------------------------|---------------|---------------|----------------|
| Revenue:                           | Kshs. m       | Kshs. m       | %Δ             |
| Revenue - Excl. FCR                | 36,459        | 23,917        | 52.44%         |
| Fuel Cost Recovered                | 28,269        | 16,433        | 72.03%         |
| Foreign Exchange Recovered         | 481           | 450           | 6.89%          |
| Other Revenue                      | 1,154         | 966           | 19.46%         |
| <b>Total Revenue</b>               | <b>66,363</b> | <b>41,766</b> | <b>58.89%</b>  |
| <b>Operating Expenditure:</b>      |               |               |                |
| Power Purchases - Excl. Fuel Costs | 18,770        | 11,963        | 56.90%         |
| Fuel Costs - power generation      | 28,348        | 16,666        | 70.09%         |
| Transmission & Distribution Costs  | 13,571        | 9,615         | 41.14%         |
| Total Operating Costs              | 60,689        | 38,244        | 58.69%         |
| Operating Profit                   | 5,674         | 3,522         | 61.10%         |
| Finance Income                     | 153           | 89            | 71.91%         |
| Finance Costs                      | (1,045)       | -873          | 19.70%         |
| Profit Before Tax                  | 4,782         | 2,738         | 74.65%         |
| Income Tax Expense                 | (1,557)       | (973)         | 60.02%         |
| <b>Profit After Tax</b>            | <b>3,225</b>  | <b>1,765</b>  | <b>82.72%</b>  |
| <b>EPS</b>                         | <b>40.78</b>  | <b>22.30</b>  | <b>82.87%</b>  |
| <b>DPS</b>                         | <b>8.00</b>   | <b>4.00</b>   | <b>100.00%</b> |

Note: FCR – Fuel Cost Recovered

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