



STERLING INVESTMENT BANK

Members of the Nairobi Stock Exchange



MARKET NEWS

Friday, May 29 2009

The sharp profit drop was mainly as a result of holding of expensive inventories at a time of falling prices, which hurt their earnings margins.

The company registered a net loss of Sh 109m in the first quarter, against the Sh 141 net profit in the quarter to March 2008.

Basic Statistics – Total Kenya

Company.....Total	Historical EPS Ksh.).....4.02
Issued Shares.....173,013,000	Historical P/E.....7.21X
Par Value (Kshs.).....5.00	DPS.....2.50
Current price (Kshs.).....29.00	Dividend yield.....8.62%
Market Cap (Kshs '000')...5,017,377	Payout Ratio.....62.19%

TOTAL'S PROFITS DROP BY 177% QR/QR.

Introduction

Total Kenya has registered a sharp drop in profits for the first quarter that ended in March 2009. The company attributed the sharp drop in international crude oil prices from August 2008. The company points out that the holding of expensive inventories at a time of falling prices hurt their earnings margins, with the situation being aggravated by public and government pressure on oil marketers to reduce pump prices, in response to falling world crude oil prices. In addition, the company reckons that supplies were affected by logistical constraints occasioned by insufficient pipeline pumping capacity and haulage allocation, sometimes leading to stock outs.

Operating Strategy

Total is one of the leading petroleum companies in Kenya, controlling about 20% of the local petroleum products market segment, after Kenol/Kobil. It has heavily invested in a wide outlet distribution network throughout the country. Over time, the company has established itself as a vendor of high quality products, which has enabled it to win favor with big consumers and corporate organizations.

The results

Income Statement

	31 March 2009	31 March 2008	%Δ
	Kshs. Million	Kshs. Million	
Turnover	8,926	11,214	(20.40%)
Indirect Taxes	(2,260)	(2,304)	(1.91%)
Net Turnover	6,666	8,910	(25.19%)
Cost of sales	(6,368)	(8,230)	(22.62%)
Gross Profit	298	680	(56.18%)
Depreciation & Amortization	(79)	(76)	3.95%
Operating Expenses	(302)	(281)	7.47%
Operating profit/loss	(83)	323	(125.70%)
Net finance charges	(88)	(84)	4.76%
Forex differences	8	(24)	(133.33%)
Profit/loss before tax	(163)	215	(175.81%)
Tax (corporate & deferred)	54	(74)	(172.97%)
Net loss/profit	(109)	141	(177.30%)

Source: Total Kenya

Turnover registered a 25% decline relative to a similar period in 2008 from Sh8.9bn to Shs 6.7bn, mainly as a result of reduced prices due to a decrease in product cost. This was however matched by a proportionate decrease in cost of sales.

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Operating profit decreased by Sh 406M due to reduced margins arising from stock effects and lower selling prices. Arising from the foregoing, a **net loss** of Sh109m was registered, compared to a profit of Sh141m in March 2008.

Balance Sheet

	31 March 2009	31 March 2008	%Δ
	Kshs. Million	Kshs. Million	
ASSETS			
Non Current Assets			
Property, Plant & Equipment	2,292	2,246	2.05%
Deferred taxation	78	48	62.50%
Goodwill	337	337	0.00%
Total Non Current Assets	2,707	2,631	2.89%
Current Assets			
Inventories	3,929	5,152	(23.74%)
Accounts receivable and other assets	6,837	5,027	36.01%
Cash and bank balances	180	1,184	(84.80%)
Total current assets	10,946	11,363	(3.67%)
Total Assets	13,653	13,994	(2.44%)
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	875	875	0.00%
Share Premium	1,968	1,968	0.00%
Revenue Reserve	2,066	2,050	0.78%
Shareholders' Equity	4,909	4,893	0.33%
Current liabilities			
Trade & other payables	3,990	4,555	(12.40%)
Short term borrowings	4,754	4,546	4.58%
Total current liabilities	8,744	9,101	(3.92%)
TOTAL EQUITY AND LIABILITIES	13,653	13,994	(2.44%)

Source: Total Kenya

The company's balance sheet weakened mainly due to a marked fall in cash and bank balances.

The company's balance sheet weakened marginally in the quarter, with **total assets** falling by 2.44 percent, mainly due to a 3.67 percent fall in current assets that was as a result of an 84.80 percent fall in cash and bank balances and a 23.74 percent drop in inventory levels.

The Challenges

Energy Bill: The recent passing of the energy bill seeking give the minister of energy power to regulate the pricing of oil in Kenya is likely to present new challenges to the industry as profit margins may be dictated by policy rather than demand and supply factors.

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Taxation: High taxes, custom duties and levies on oil products in Kenya are likely to continue to be a sticking issue affecting oil price in the near term. We do not anticipate a downward revision of these taxes any time soon. Infact, some players have already announced their intention to raise pump price. However, even as these prices are raised, opposition from the public and government is likely to be spirited.

Competition: Smaller and usually indigenou oil dealers who are operating in a friendlier environment that they know well are likely to continue eating into the major market players like Total.

Currency Fluctuations: Fluctuation of the Kenyan currency against the dollar has a direct influence on the effective crude oil prices. The company's margins are likely to face pressure for as long as the Kenya shilling remains volatile.

Looking ahead

In the foreseeable future, Total's margins are likely to face pressure. This is because of the fact that in addition to there being high chances of Kenyan economy registering modest growth; the company's inventory levels are still high since they were reduced by only 3.03 percent between December 2008 and March 2009. Also the supply bottlenecks occasioned by insufficient pipeline pumping capacity and haulage allocation have not been fully addressed. Further, public and government pressure on oil marketers to reduce pump prices will continue.

However, given that international prices of petroleum products have stabilized, the otherwise reverberating impact of international oil price fluctuations will most likely be minimized, leaving the company's performance to depend on management effort and Kenya's economic performance in key fuel consumption sectors like Agriculture, Tourism and Manufacturing

The company's performance will depend on management effort and fuel demand in key sectors like Agriculture, Tourism and Manufacturing

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