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# Bamburi stake in ARM: Is it gone?

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Some observers had seen the Bamburi exit as a key shareholder in Athi River Mining (ARM) coming. The protracted battle between the two Cement manufacturers that worsened after the latter shelved a plan to construct a cement plant in Kitui and transferred the project to Tanzania appears to have culminated in Bamburi's sale of 10m shares (part of the 13.97m shares or 14.10% stake) at Kshs. 98.50 per share on 19 October 2009.

**Natural resource rivalry:** Bamburi & ARM have been embroiled in a court battle for control of a 180-square km piece of land endowed with limestone (a key input in cement manufacture) in Kitui District. Following the suit, ARM opted to build a Sh8.5 billion plant in Tanga. The plant, with a capacity of 4,000 tonnes per day, is anticipated to be the largest in East and Central Africa.

**Worsening relations:** ARM later lodged an appeal at the Court of Appeal for the control of the limestone field in Kitui. The case has been going on for three years now.

**Board restructuring:** In late 2008, ARM decided to speed up an internal restructuring programme to split the company into three entities dealing with cement, minerals and chemicals and fertilizer. The move may have been aimed at reducing Bamburi's control of the holding company. Each entity would have an independent board with the holding company, which would control 51 per cent stake in each of the three companies, being listed at the Nairobi and Dar es Salaam Stock exchanges. This way ARM would ensure that board members from Bamburi sit in the holding company and would not be directly involved in the cement business.

**Expansion ambitions:** "We are determined to expand our operations because the market in the region is growing," Pradeep Paurana, ARM managing director had said during the groundbreaking ceremony for the new plant in Tanzania in October 2008. Paurana said while the initial plan was to construct the plant in Kenya, the dispute with Bamburi occasioned the change of strategy. "We are looking at future demand of cement in the region and we want to be key players," explained Paurana. All the cement companies in East Africa have a capacity of about 5.2 million tonnes annually while forecasts indicate the whole region would require 11 million tonnes to meet demand that is growing at an annual rate of six per cent.

**Director vote-out:** In Athi River Mining Kenya's annual general meeting (AGM) on June 11 2009 at the Laico Regency Hotel, three directors were up for re-election – Bamburi Cement, Michael Gondwe and the deputy chairman H. Paurana (Mr. Gondwe of PTA, the company's bankers had given his apologies, while H. Paurana, though over 70 was described by other directors as being a key guide in day to day management of the company. Bamburi had not sent a representative. Later, the ARM Chairman recommended that shareholders vote against the re-election of Bamburi.. Shareholders present unanimously voted against the re-election of Bamburi as a director of the company. The two other directors, though absent, were re-elected unanimously.

## Summary of financials

- ARM –

**Turnover:** Latest HY09 results show that the company's turnover rose by 16% mainly on the back of relatively higher Cement and Fertilizer (mainly sold to tea farmers and is cheaper than fertilizer imported by KTDA and gives better yield) and good prices.

**Exports:** Roughly 26% of ARM sales revenue has been from exports, but could be affected by a strong shilling.

**Production and energy efficiency:** ARM now has the best margins in cement production in Kenya, ahead of Bamburi and a distant EAPC. Also, the East African region has experienced improved energy efficiency in cement production, the region saved 16% energy cost (about Kshs. 25m) in 2008 and expects to save about 50 million in 2009 – already international benchmarks have been achieved.

**Bottom-line:** the Company's bottom-line improved by about 32% y/y, rising from Kshs. 228m to Kshs. 300m. We are anticipating an end-year EPS of about Kshs. 5.56, 8.99% below the company's annualized EPS of Kshs. 6.06 per share.

**Capacity expansion:** ARM is building its own clinker plant in Tanzania, locally produced clinker is cheaper than imported clinker by about 1/3.

"The quiet rivalry between the two companies seems to have burst open after the disagreement over the limestone-rich parcel in Kitui"

"Bamburi has not been represented at the ARM board since the June 2009 AGM"

"Despite stiffening competition in the cement industr in the region, opportunities still abound"

### Disclaimer

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- Bamburi -

**Turnover:** Bamburi Cement is the leading cement producer in the East African region. In the latest HY09 results, the company registered a 41.5% rise in turnover, from Kshs. 11.4bn to Kshs. 16.2bn attributable to a strong increase in demand in Kenya as well as improved export sales in inland Africa markets.

**Production costs:** They increased by 52.2% primarily due to the surge in cost of fuel-oil, power and coal, the inflationary trends and exchange rate fluctuations.

**Capacity expansion:** The Company is in the process of constructing a Kshs.7bn clinker and cement plant in Uganda which is expected to be commissioned in mid-2010.

**Bottom-line:** The Company's bottom-line improved by about 55% y/y, rising from Kshs. Kshs 2bn to Kshs. 3.1bn. We are expecting an end-year EPS of 13.95 17.42% below the Kshs. 16.38 per share annualized EPS for 2009 due to the fact that there is likely to be a slow-down in regional economies' expansion, a prolonged drought in Kenya (that could affect cement demand) that has just dissipated and a high cost of power due to the on-going use of thermal power sources in Kenya.

## Conclusion

**Prospects:** In the East African region, cement demand has been growing at grows at 2 times the GDP, and has been at about 15% p.a. for last few years. In 2009, we are seeing it growing at about 10%. Therefore, even with stiffer competition, opportunities abound.

**Bamburi is exiting:** With the sale of the 10m shares in ARM to a foreign investor, Bamburi appears to be keen on exiting as a shareholder in ARM. A complete exit through the sale of the remaining 3.96m shares could happen at some point in future. Also note, in the ARM AGM, there had been some shareholder concerns that if Bamburi were voted out and then dumped their shares, it would affect other investors; the ARM deputy MD had replied that shares would be snapped up quickly and said Bamburi rights as a shareholder and director were separate unrelated matters.

**Use of funds from the exit from ARM:** The use of the raised funds will depend on Bamburi's strategic interests. The cement manufacturer can buy a stake in the new cement manufacturer to be put up in Pokot - Cemtech Ltd, Sanghi Cement Group's local subsidiary, increase its shareholding in East African Portland Cement where it holds a 41.7% stake (by mutual consent with the Kenya government), invest in other cement manufacturing players in the region or even retain the funds to boost its reserves in preparation for future buy-outs or other shareholder value creation initiatives.

*"There's high demand for cement in this part of Africa for building work and for road construction – this is expected to drive growth for the companies in this industry in future."*

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## Bamburi's 2009 HY financial statements

<b>CONSOLIDATED INCOME STATEMENT</b>			
	KES Million	KES Million	%Δ
Turnover	16,199	11,447	41.51%
Profit before tax and minority interest	4,474	2,885	55.08%
Tax	(1,344)	(881)	52.55%
Profit after tax	3,130	2,004	56.19%
Profit attributable to:			
Equity holders of Parent	2,975	1,983	50.03%
Minority Interests	155	87	78.16%
Total	3,130	2,070	51.21%
Earnings Per Share(Basic & diluted)	8.19	5.28	55.11%

  

<b>CONSOLIDATED BALANCE SHEET</b>			
ASSETS	KES Million	KES Million	%Δ
Non-Current Assets	19,602	18,179	7.83%
<b>Working Capital</b>			
Current Assets	6,286	8,218	(23.51%)
Current Liabilities	(5,800)	(5,383)	7.75%
Cash and Bank balances	486	2,835	(82.86%)
<b>TOTAL ASSETS</b>	<b>4,666</b>	<b>4,593</b>	<b>1.59%</b>
<b>EQUITY AND LIABILITIES</b>			
Capital and Reserves			
Share Capital	1,815	1,815	0.00%
Reserves	15,434	13,681	12.81%
<b>Shareholders' funds</b>	<b>17,249</b>	<b>15,496</b>	<b>11.31%</b>
Minority Interests	1,195	1,106	8.05%
Non-Current Liabilities	5,824	6,170	(5.61%)
	7,019	7,276	(3.53%)
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>24,268</b>	<b>22,772</b>	<b>6.57%</b>

## ARM's 2009 HY financial statements

<b>CONSOLIDATED INCOME STATEMENT</b>			
	KES Million	KES Million	%Δ
Turnover	2,403	2,071	16.03%
Profit before tax	449	349	28.65%
Tax	(149)	(121)	23.14%
Profit after tax	300	228	31.58%
Earnings Per Share(Basic & diluted)	3.03	2.30	35.96%

  

<b>CONSOLIDATED BALANCE SHEET</b>			
ASSETS	KES Million	KES Million	%Δ
<b>Non-Current Assets</b>	<b>5,194</b>	<b>4,467</b>	<b>16.27%</b>
Current Assets	2,126	1,885	12.79%
Current Liabilities	1,949	1,842	5.81%
Net Working Capital	177	43	311.63%
<b>TOTAL ASSETS</b>	<b>5,371</b>	<b>4,509</b>	<b>19.12%</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share Capital	495	495	0.00%
Reserves	2,144	1,632	31.37%
<b>Shareholders' funds</b>	<b>2,639</b>	<b>2,127</b>	<b>24.07%</b>
Minority Interests	0	0	—
Non-Current Liabilities	2,731	2,382	14.65%
	2,731	2,382	14.65%
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>5,371</b>	<b>4,509</b>	<b>19.12%</b>

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