

EQUITY RESEARCH

Sector: Utilities

19th June 2025

Market Price: KES 11.90

Buyout est.: KES 32.82

Est. upside: +175.8%

Farewell to the Concession, Hello to Arbitration

Umeme's 20-year electricity distribution concession in Uganda officially ended on 31st March 2025, following the government of Uganda's decision not to renew its concession agreement with Umeme. Post concession, Umeme's distribution assets and operations were to be handed over to the state-owned Uganda Electricity Distribution Company Limited (UEDCL) following a buyout, but the road to the buyout has been rocky and is the beginning of a potentially long and arduous journey of arbitration in London expected to take one to three years.

FY24 Performance Highlights

Umeme announced FY24 Results on 13th June 2025. The performance was mixed. First, revenues from contact with customers grew by 5.4%/y/y to UGX 2.3tn. The growth was driven by 10.8%/y/y increase in electricity sales volume to 4,674 GWh – likely supported by the 14.5%/y/y growth in new connections. Reduced energy losses, from 16.2% in FY23 to 16.0% in FY24, also played a part in the topline growth, noting that tariffs eased by 5.6%/y/y.

Operating costs for the period under review advanced by 31.0%/y/y to UGX 343.1bn, which was attributed to higher network repairs and maintenance costs (+23.4%/y/y to UGX 63.3bn) and growth in business operations and end of concession activities (+32.9%/y/y to UGX 279.8bn).

Expected credit losses climbed to UGX 360.9bn (*up from UGX 1.6bn in FY23*). Management linked this to conservative accounting provisions by IFRS on other financial assets of UGX 329bn – in relation to the concession end (*this is part of the amount the company seeks to recover through the arbitration process*). Likewise, amortization charge jumped 58.1% y/y to UGX 699.1bn, on account of the IFRS requirement to align asset amortization to the remaining period of the contract term.

Finance costs eased 34.8%/y/y to UGX 29.2bn, partly due to the repayment of all term loans in December 2023 and working capital management. The company posted an after-tax loss of UGX 510.6bn from a profit of UGX 11.5bn in FY23.

The money on the line

No dividend was declared. This was despite a portion of the contested buyout amount being settled by the Ugandan government. We think management may need part of the resources to pursue closeout activities for the concession, as well as pursuing the settlement.

While we do not have sight of the concession agreement, we think the bone of contention could be as a result of the interpretation of modifications and investment, which brings the concessionaire's amount to c. USD 410m against the government's figure of USD 118m.

	Amount (USD, m)
Umeme's Buyout Claim	410.00
Ugandan Government Auditor General Valuation (Amount is already paid)	118.00
Dispute Buyout Amount (Subject to arbitration)	292.00

Source: Management FY24 Earnings Call

Important highlights of the buyout

According to Umeme's 2023 annual report, the buyout amount is computed as the gross accumulated capital investments less the cumulative capital recovery charges expected to be allowed in the tariffs by the time of transferring the Distribution Network to UEDCL and discounted over the remaining concession period using the pre-tax return on investment that varies between investments verified and approved by Electricity Regulatory Authority (ERA) and investments not approved by ERA.

Worth noting, until such time as the buyout amount is paid by the Government of Uganda (GoU) to Umeme and the Distribution System is transferred back to UEDCL, GoU is obliged to pay interest on the buyout amount equal to 10% per annum, for the period 30 days to 45 days after the concession termination date, increasing to 15 % per annum for the period from 46 days to 90 days after the concession termination date, **and then 20% per annum, after 90 days until the buyout amount is ultimately paid in full** by the GoU. This could prove quite costly for GoU if the matter persists and the decision is found in favour of Umeme since we aver that the interest may be calculated on the entire amount (*rather than the balance that would be payable – if any*).

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Below is a chronology of recent developments

- **26th March 2025** – Umeme issued a public notice on matters relating to the end of the concession. In the public notice, they **estimated a buyout amount of USD 234m**, and highlighted that the buyout amount, as stipulated in the concession agreements, was to be paid **within 30 days** from 31st March 2025, and that the distribution systems would only be transferred to UEDCL **upon receipt** of the buyout amount. More, [here](#).
- **27th March 2025** – The government of Uganda, through the office of the Auditor General (OAG), tabled its final audit report to parliament, indicating a **buyout amount of USD 118.4m** plus excluded costs of USD 9.8m pending verification. More, [here](#)
- **30th March 2025** – Umeme issued a public notice highlighting that they had **invoiced for and received the government's admitted sum of USD 118.4m**. Umeme further noted that **they disputed the OAG's buyout figure** and were committed to resolving the dispute through good faith negotiations or an arbitral tribunal in London. More, [here](#).
- **31st March 2025** – Umeme shares were **suspended from trading** until 11th April 2025. More [here](#). Further, they were compelled to transfer assets to UEDCL in line with the Concession Agreements.
- **11th April 2025** – Umeme served the government of Uganda, through the Ministry of Finance, Planning, and Economic Development, **a notice of dispute**, which was to be followed by good faith negotiations. More [here](#).
- **14th April 2025** – **extension of suspension** of Umeme shares from trading until 12th May 2025. More [here](#).
- **1st May 2025** – Umeme issued a public notice highlighting the **extension of the financial results publication** date to 31st May 2025, as good faith negotiations on the buyout amount were ongoing. More [here](#).
- **14th May 2025** – Umeme issued a public notice highlighting the **extension of good-faith negotiations** by 10 days from the expiration date of 10th May 2025 to 20th May 2025. More, [here](#).
- **2nd June 2025** – Umeme issued a public notice highlighting that **no resolution was reached on the buyout amount**, with Umeme's claim at USD 292m. Umeme further noted that they had resolved to pursue the full recovery of all outstanding sums due through Arbitration in London. They received a further extension for the release of their financial results to 12th June 2025. More, [here](#).
- **13th June 2025** – **Umeme released their FY24 audited results**. More [here](#). **The counter resumed trading** after c. 48-trading-day pause.
Management highlighted in their FY24 earnings call that, in line with the 2nd June 2025 public notice, they were committed to recovering the balance of the outstanding buyout amount payable to it in the sum of USD 292m – plus contractual interest (*which may augment up to c. 20% p.a*) through the international arbitration route. Management also noted that they are pursuing alternative business opportunities; that said, this is subject to shareholder approvals.

The Dollar Divide: An opportunity for risk-on investors?

We see an opportunity for risk-on investors to unlock north of c. 175.8% returns (*less contractual interest*). While clarity on the process following the international arbitration route is hopeful, but not fully clear, we opine that the current market price is at a discount to the estimated buyout value, thus a **BUY recommendation** for investors willing to wait through the arbitration – which we think management has the upper hand in the interpretation of the buyout amount.

The implied value per share of the USD 118.4m already paid is **KES 9.48** (20.4% below the current share price). Shy of arbitration costs and contractual interest, the value in dispute is an estimated **KES 23.35** – likely to be higher on contractual interests. This brings the estimated buyout price north of **KES 32.82** which is an upside of at least 176% from the current market price in the best-case scenario for shareholders.

Umeme: The Buyout Battle Over Valuation

Estimated Buyout Value Per Share (KES)

Current share price	11.90
Value of the amount paid to Umeme per share	9.48
Upside/ Downside from the current share price	-20.36%
Disputed Payout less contractual interest (USD, m) per share	23.35
Upside/ Downside from the current share price	96.18%
Expected final buyout value per share less contractual interest and arbitration cost	32.82
Upside/ Downside from the current share price	175.82%

Source: SIB Estimates, NSE, Umeme Management

We have our reservations about the materialization of alternative business opportunities in the near term, which, even on possible prospects, will have high capital requirements unless the services are restricted to technical advisory. Management highlighted the scouting of potential concessions in Ghana, Sierra Leone and Zanzibar, which remains subject to shareholder approval in the next AGM or EGM.

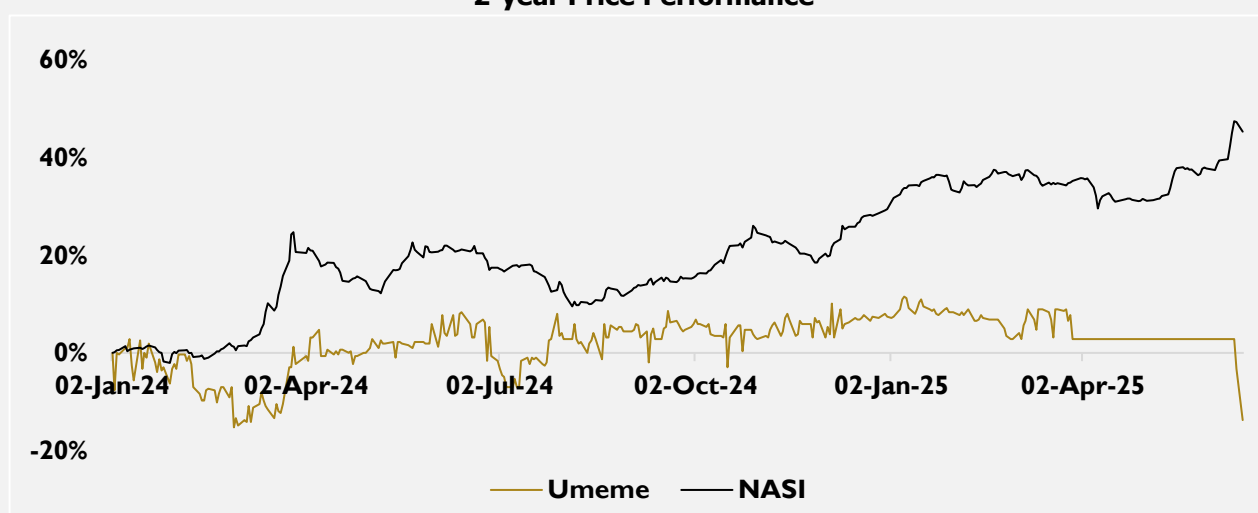
We remain cognizant of **the likelihood of a special dividend following the buyout process and foresee the bulk of the buyout proceeds channeled towards a special dividend offering**. Our rationale is in part informed by the top 10 shareholder structure of the company, mainly composed of fund managers, who, in our view, may likely incline towards closing the concession as opposed to pursuing alternative ventures (unless the proposition is compelling – and Umeme is best positioned to pursue the endeavor). There is a case for a portion of the buyout proceeds being settled ahead of the completion of the buyout arbitration process.

Umeme Top 10 Shareholding

Name	31 December 2023		31 December 2022	
	Number of shares	Percentage shareholding	Number of shares	Percentage shareholding
1. National Social Security Fund	379,912,288	23.40%	378,933,288	23.34%
2. Allan Gray	240,654,523	14.82%	240,654,523	14.82%
3. Kimberlite Frontier Africa Master Fund	144,564,483	8.90%	144,564,483	8.90%
4. Utilico Emerging Markets Limited	135,000,000	8.31%	135,900,000	8.37%
5. Coronation Global Opportunities Fund	95,606,506	5.89%	126,759,671	7.81%
6. Bnymysanv re bnymblb	67,100,000	4.13%	68,073,885	4.19%
7. International Finance Corporation	45,220,900	2.78%	45,220,900	2.78%
8. Kilimanjaro Frontier Africa Fund	43,529,629	2.68%	45,100,000	2.78%
9. Conrad and Hilton Foundation	31,327,420	1.93%	31,327,420	1.93%
10. Vanderbilt University	30,867,324	1.90%	30,867,324	1.90%
11. Others	410,094,932	25.25%	376,476,511	23.18%
Total	1,623,878,005	100.00%	1,623,878,005	100.00%

Source: Umeme 2023 Annual Report, [here](#)

2-year Price Performance



Source: SIB Estimates, NSE

FY24 Financial Highlights – P&L and Cashflows

Profit and Loss Statement (UGX, m)	2,023	2,024	y/y
Revenue from contracts with customers	2,196,363	2,314,768	5.4%
Cost of sales	(1,449,641)	(1,492,892)	3.0%
Gross Profits	746,722	821,876	10.1%
Repair and maintenance expenses	(51,296)	(63,287)	23.4%
Administration expenses	(210,609)	(279,827)	32.9%
Net foreign exchange gains	1,108	2,344	111.6%
Increase in expected credit losses	(1,597)	(360,908)	22499.1%
Profit before amortisation, impairment Interest and tax	484,328	120,198	-75.2%
Amortisation, impairment and write off of intangible assets	(442,122)	(699,148)	58.1%
Operating Profit/ (Loss)	42,206	(578,950)	-1471.7%
Finance income	17,959	5,396	-70.0%
Finance costs	(44,781)	(29,218)	-34.8%
Profit/ (Loss) before tax	15,384	(602,772)	-4018.2%
Income tax credit/(charge)	(3,914)	92,204	-2455.7%
Profit/ (Loss) for the year	11,470	(510,568)	-4551.3%
Basic and Diluted EPS	7.06	(314.41)	-4551.3%

Source: Company Filing, SIB Estimates

Cash Flow Statement (UGX, m)	2,023	2,024	y/y
Cash generated from operating activities	582,009	424,064	-27.1%
Interest received from banks	336	282	-16.1%
Other financing costs paid	(29,994)	(28,815)	-3.9%
Current income tax paid	(80,000)	(103,755)	29.7%
Long- term borrowings interest paid	(11,410)	0	-100.0%
Net cash flows from operating activities	460,941	291,776	-36.7%
Investing activities			
Investment in the distribution network	(136,213)	(107,047)	-21.4%
Proceeds from sale of intangible assets	15	158	953.3%
Net cash flows used in investing activities	(136,198)	(106,889)	-21.5%
Financing activities			
Dividend paid	(103,751)	(169,208)	63.1%
Repayment of principal on long term borrowing facilities	(179,546)	0	-100.0%
Net cash flows used in financing activities	(283,297)	(169,208)	-40.3%
Net increase in cash and cash equivalents	41,446	15,679	-62.2%
Cash and cash equivalents at 1 January	(81,774)	(48,385)	-40.8%
Net foreign exchange differences	(8,057)	7,437	-192.3%
Cash and cash equivalents at 31December	(48,385)	(25,269)	-47.8%

Source: Company Filing, SIB Estimates

FY24 Financial Highlights – Balance Sheet

Balance Sheet (UGX, m)	2,023	2,024	y/y
Non-current assets			
Intangible assets	445,174	0	-100.0%
Other financial asset	1,074,678	0	-100.0%
Deferred tax asset	0	3,033	
	1,519,852	3,033	-99.8%
Current assets			
Intangible assets	0	145,300	-
Other financial asset	0	434,847	-
Concession financial asset	347,639	337,757	-2.8%
Inventories	73,294	69,535	-5.1%
Contract assets	42,678	60,616	42.0%
Trade and other receivables	307,574	296,304	-3.7%
Prepayments	13,380	8,354	-37.6%
Bank balances	42,818	32,973	-23.0%
	827,383	1,385,686	67.5%
Total Assets	2,347,235	1,388,719	-40.8%
Equity			
Issued capital	27,748	27,748	0.0%
Share premium	70,292	70,292	0.0%
Accumulated (losses)/profit	609,430	(70,346)	-111.5%
Translation reserve	229,911	213,788	-7.0%
	937,381	241,482	-74.2%
Non-current liabilities			
Deferred tax liability	173,708	0	-100.0%
Employee incentive plan liabilities	11,456	0	-100.0%
	185,164	0	-100.0%
Current liabilities			
Concession financial obligation	347,639	337,757	-2.8%
Employee incentive plan liabilities	0	44,011	-
Customer security deposits	11	0	-100.0%
Contract liabilities	86,163	46,401	-46.1%
Accrued expenses	14,335	33,515	133.8%
Provisions	1,913	1,213	-36.6%
Trade and other payables	663,626	625,505	-5.7%
Current income tax payable	19,811	593	-97.0%
Bank overdrafts	91,192	58,242	-36.1%
	1,224,690	1,147,237	-6.3%
Total Equity and Liabilities	2,347,235	1,388,719	-40.8%

Source: Company Filing, SIB Estimates

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