OMS Africa

KENYA PIPELINE COMPANY – IPO NOTE

OMS Africa Research

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Executive Summary

This valuation report provides an analysis of **Kenya Pipeline Company (KPC)**, a **state-owned entity** in Kenya's **energy infrastructure** sector. By drawing on historical financial data from **FY2019** to **FY2025**, forecasts through **FY2030**, and macroeconomic context, the report evaluates KPC's performance, growth prospects, and risks.

It incorporates insights from publicly available information from KPC's **official sources** and recent **IPO prospectus**. The analysis highlights KPC's defensive positioning amid regional energy demands, while addressing uncertainties in tariffs, diversification, and geopolitics.

Key highlights include KPC's resilient recovery post-COVID, projected 5-yr revenue **CAGR of ~18%** through **FY2030**, and a capital-intensive phase with cumulative capex of approximately KES **~93-110 billion**. The ongoing IPO, launched on **January 19, 2026**, seeks to raise **KES 106.3Bn** by selling a **65%** stake at **KES 9 per share**, implying a total valuation of **KES 163.6Bn**. This would position KPC as the fifth-largest company on the Nairobi Securities Exchange (NSE) upon listing on **March 9, 2026.**

Macroeconomic Outlook

The early 2026 environment presents cautious optimism for infrastructure assets like KPC, with lower financing costs easing capex funding and resilient regional growth supporting petroleum demand.

Trade fragmentation and **geopolitical risks** (Russia/Ukraine, Venezuela, Greenland, Middle East) could disrupt supply chains, but less-than-expected tariff shocks and resilient US growth mitigate impacts.

US: Strong economy, ***persistent* trade tariffs**, new **Fed Chair,** and **midterm elections.**

China: Slower growth; **AI-driven productivity gains**; **high public debt**; **TACO trades** (technology, agriculture, commodities, outsourcing).

Kenya-Specific Themes

- **Growth**: Public sector-led, resilient services, lower financing costs; private consumption remains robust despite cyclical pressures; favorable weather and exports; imports may pressure KES.

- **Fiscal**: Policy implementation challenges amid politics; fiscal illiquidity and high debt burden; external financing shortfalls.

- **Others**: Stable key prices; continued monetary easing; credit growth recovery; NPL ratio potentially below 14%; high domestic liquidity.

This backdrop favors KPC's monopoly-like position, as regional GDP growth (e.g., 10% in Kenya correlating to 6-7% fuel demand rise; nearly 1:1 in Uganda) drives throughput volumes.

Company Overview

Kenya Pipeline Company, established in **1973** and commencing operations in **1978**, operates as Kenya's dominant midstream petroleum player with a **91%** market share.

KPC is a **government-owned entity** {pre-IPO 100% state-held) specializing in petroleum transportation and storage. Up until the ongoing listing, the business was a state corporation wholly owned by the Government of Kenya, with **99.9%** shareholding by the **National Treasury** and a fraction less than **0.1%** by the **Ministry of Energy and Petroleum.**

Its infrastructure includes a **1,342 km** pipeline network from **Mombasa** to key inland depots (**Nairobi**, **Nakuru**, **Kisumu**, **Eldoret**) and storage capacity of **880,000 m3**, handling up to **14 billion** liters annually. In 2023, KPC acquired **Kenya Petroleum Refineries Limited** (**KPRL**), adding **253 acres** of strategic land in Mombasa for future expansions.

Historically, revenues grew at an **8.4% CAGR** from FY2021 **(KES 28.0Bn)** to FY2025 **(KES 38.6Bn),** driven by post-2020 volume recovery and regional exports. EBITDA margins averaged **~40%,** reflecting operational leverage. Forecasts project revenues reaching **KES 89.8Bn** by FY2030 **(18.5% CAGR),** with EBITDA margins expanding to **46.3%** and net profits at **15.4%** CAGR to **KES 16.4Bn.**

KPC's IPO represents Kenya's first major equity sale in over a decade, with the government retaining **35% ownership**. Proceeds will fund a new infrastructure development kitty for **roads, ports, airports,** and **energy projects**. Risks include **tariff delays**, **Uganda's refinery commissioning** by **2029-2030**, and execution challenges on **capex**. Overall, KPC offers *stable, infrastructure-backed* returns amid East Africa's energy transition. As East Africa's primary transit hub for landlocked neighbors, it benefits from a defensive infrastructure model, offsetting domestic volatility with steady regional exports **(Uganda: 65% of transit; South Sudan: 15%; Rwanda: 1%}.**

Core assets:

- Pipeline: **1,342 km** multi-product system from **Mombasa**.
- Storage: **880,000 m3** capacity across depots.
- Utilization: Pipeline **~90%;** storage improved from **59%** (FY2022) to **high-70s%** (FY2025).
- Revenues: **98%** from regulated transport/storage tariffs; minor from ancillary services.

KPC's acquisition of KPRL enhances strategic value, enabling upgrades and diversification. Post-IPO, governance will emphasize board independence to balance commercial and policy objectives.

Historical Financial Performance

KPC's financials reflect a sharp 2020 downturn due to COVID-19, followed by robust recovery.

Revenue Trends - Revenues declined **68.4%** YoY in **FY2020** to **KES 26.1 Bn** amid global demand slump but rebounded: **FY2021**: **+7.3%** to **KES 28.0Bn**, **FY2022**: Stable growth, **FY2023: +17.7%** to **KES 30.9Bn** (export surge), **FY2024: +14.6%** to **KES 35.4Bn** and FY2025: **+9.1%** to **KES 38.6Bn.**

CAGR FY2021-2025: **8.4%,** underscoring resilience in ***regional*** petroleum transit.

Profitability Metrics

EBITDA margins fluctuated but averaged **~40%: FY2021**: **33.8%, FY2022**: **44.3%, FY2023**: **28.8%** (elevated other expenses +102.2% to KES 14,214), **FY2024: 47.7**% and **FY2025: 43.4%.**

Operating leverage from fixed assets kept cost of sales growth below revenues in recovery years.

Fiscal Year	Revenue (KES Mn)	YoY Growth (%)	EBITDA Margin (%)	Net Profit (KES Mn)
2020	26,082	(68.40)	49.2	8,181
2021	27,987	7.30	33.8	-1,738
2022	26,213	(6.34)	44.3	4,237
2023	30,857	17.72	28.8	3,297
2024	35,369	14.62	47.7	7,406
2025	38,594	9.12	43.4	7,491

Financial Projections and Outlook

Forecasts align with regional GDP growth, tariff adjustments, and volume increases, positioning KPC for steady gains.

- **Revenue and Growth** - Projected CAGR: **18.5%,** from **KES 45.5Bn (FY2026)** to **KES 89.8Bn (FY2030).** Drivers: Export demand (e.g., Uganda), gradual tariff hikes.
- **Margins and Profits** - EBITDA margins rise from **42.4% (FY2026)** to **46.3% (FY2030),** with gross margin averaging **~75%**
- **Net profits:** 15.4% CAGR to **KES 16.4Bn (FY2030).**
- **Net margins averaging** ~18.0%, aided by zero finance costs post-debt payoff and **~30% tax rate.**

Dividends

Post-IPO policy: **Minimum 50% payout**.

Projected: **15.4% CAGR** from **KES 4,613 (FY2026)** to **KES 8,192 (FY2030).**

Fiscal Year	Revenue (KES Mn)	EBITDA Margin (%)	Net Profit (KES Mn)	Dividends (KES Mn)
2026	45,525	42.4	9,227	4,613
2027	53,838	42.7	9,731	4,865
2028	63,700	43.9	11,645	5,823
2029	75,595	46.4	12,890	6,445
2030	89,831	46.3	16,384	8,192

Capital Expenditure and Growth Projects

KPC enters a capital-intensive phase, with cumulative capex projected at KES 93-110 billion (FY2026-2030), up from KES 9 billion (FY2021-2025), to enhance capacity and efficiency.

Funding: **30/70 debt-equity** mix. Key projects:

- **Mombasa-Nairobi Pipeline (Line 7):** Capacity expansion/replacement.
- **Eldoret-Malaba Pipeline**: Regional transit extension.
- **LPG Storage**/Handling: **Mombasa** facility for clean energy demand.
- KPRL Upgrades: ***Legacy*** infrastructure modernization.
- **Fibre Optic Expansion**: Leasing to telecoms (e.g., Safaricom, Airtel) for non-fuel revenue. This shift transforms KPC into a broader energy logistics provider, with capex mirroring revenue growth.

Revenue Diversification

To reduce reliance on petroleum transport/storage **(98% of revenues),** KPC leverages existing assets and KPRL acquisition for contingent revenue lines. The company wants to achieve a **20/80 revenue** diversification with reliance dropping to **~80% from 98%.**

Key Initiatives:

- LPG Business: **Dedicated Mombasa facility** to capture regional clean cooking demand.
- **Fibre Optic Cable (FOC) Network:** "Lighting" dark fibre along pipelines for high-margin leasing to telecom providers.
- Crude Oil Logistics: "Last-mile" involvement in Turkana reserves **(560 million barrels),** including rail from Kisumu/Eldoret, post-Auron Energy's field development.
- **Line 7 Infrastructure:** Long-term throughput dominance.

Tariff Framework and Regulation

KPC operates under a regulated model overseen by the Energy and Petroleum Regulatory Authority (EPRA). Tariffs for transport/storage are reviewed every three years.

- Current Status: Application submitted in 2025; awaiting approval. Forecasts assume new regime effective 2027.
- Process: Formal proposal, public participation, EPRA approval considering costs, investments, and consumer impacts.
- Implications: Export fees are KPC's largest line; delays risk revenue shortfalls.

Governance risk persists, as state objectives (e.g., fuel affordability, diplomacy) may override commercial maximization.

Risks and Challenges

Despite strong fundamentals, key risks include:

- **Tariff Risks**: Lower approvals in 2026-2029 cycle could dampen growth.
- **Uganda Refinery:** Commissioning in 2029-2030 may reduce transit volumes (Uganda: key market).
- **Governance/Policy Interference:** Post-IPO 35% state stake; board independence critical.
- **Funding/Execution:** Capex escalation or higher borrowing rates strain cash flows/dividends.
- **Regulatory Delays:** Non-automatic adjustments impact revenues.
- **Reinvestment Needs:** High capex limits near-term free cash flow.
- **Corridor Competition:** Geopolitics/alternative routes threaten transit (anchor revenue).
- **Crude Oil Uncertainty:** Limited current exposure; depends on Turkana development.

Valuation Analysis

To derive our fair value estimate for KPC, we have used a Discounted Cash Flow valuation model to arrive at a target price. Risk free rate is pegged on the 5-yr government rate. Our fair value of KES 8.20/share versus IPO share price of KES9.00 (Downside 9%) shows IPO price is valued higher.

KPC	Valuation assumptions
WACC	14.9%
Cost of equity	15.1%
Risk-free rate	10.9%
Terminal growth rate	6.0%
Equity risk premium	6%

	2026f	2027f	2028f	2029f	2030f
Ebit	12,829	13,392	16,246	18,497	23,618
Ebit x (1-t)	8,981	9,375	11,372	12,948	16,532
Add: Depreciation and Amortization	65,965	6,479	9,590	11,710	16,569
Less: changes in working capital	1,621	(136)	913	1,532	555
Less: capex	(4,552)	(13,460)	(22,295)	(34,018)	(17,966)
Free Cash Flow	**12,528**	**5,368**	**1,700**	**(2,968)**	**17,063**
Period	0	1	2	3	4
Discount Factor	0.95	0.82	0.72	0.62	0.54
Discounted free cashflow	**11,857**	**4,423**	**1,219**	**(1,853)**	**9,275**
Sum of Discounted Free Cash Flows	24,921				
Terminal Value	110,845				
Enterprise Value	**135,766**				
Net Debt	13,314				
Number of Shares	18,173				
Fair Value per Share	**KES 8.20**				
IPO Share Price	KES 9.00				
Upside/(Downside)	**-8.9%**				

Category	Details
Company	Kenya Pipeline Company PLC
Seller	Government of Kenya (via Cabinet Secretary to the Treasury and Economic Planning)
Offer Shares	11,812,644,350 ordinary shares (65% of issued shares)
Offer Price	KES 9.00 per share
Par Value	KES 0.02 per share
Total Issued Shares	18,173,299,000
Market & Listing Segment	Main Investment Market Segment (MIMS), Nairobi Securities Exchange (NSE)
Ticker Symbol	KPC.OOOO
Proposed Listing Date	09-Mar-26
Offer Opening Date & Time	19 January 2026, 9:00 a.m. (EAT)
Offer Closing Date & Time	19 February 2026, 5:00 p.m. (EAT)
Share Rights	Pari passu with existing shares; full dividend rights; one vote per share; freely transferable; no pre-emptive rights or restrictions
Offer Pools & Allocation	Kenyan Investors (40%); EAC Investors (20%); Oil Marketing Companies – OMCs (15%); KPC Employees (5%); International Investors (20%)

Sensitivity Analysis

Fair value | WACC and long-term growth rate

		WACC				
		12.9%	**13.9%**	**14.9%**	**15.9%**	**16.9%**
	5.0%	9.51	8.41	7.53	6.83	6.24
	5.5%	10.04	8.81	7.85	7.08	6.45
Long term growth	**6.0%**	10.66	9.27	**8.20**	7.36	6.67
	6.5%	11.37	9.79	8.60	7.67	6.92
	7.0%	12.20	10.39	9.04	8.01	7.19

Summarized Financials

In KES Mn	2024A	2025A	2026f	2027f	2028f	2029f	2030f
Income Statement							
Revenue	**35,369**	**38,594**	**45,525**	**53,838**	**63,700**	**75,595**	**89,831**
Gross Profit	25,344	28,590	34,009	40,258	47,602	56,704	66,812
EBITDA	16,854	16,752	19,308	22,982	27,955	35,067	41,559
EBIT	12,361	12,023	12,829	13,392	16,246	18,497	23,618
Taxes	(3,133)	(4,527)	(3,954)	(4,170)	(4,991)	(5,524)	(7,022)
Net Income	**7,406**	**7,491**	**9,227**	**9,731**	**11,645**	**12,890**	**16,384**
Balance Sheet							
Total Assets	133,060	139,008	146,081	153,440	161,328	170,531	182,840
Total liabilities	41,071	40,613	43,073	45,566	47,632	50,391	54,508
Total Equity	91,988	98,395	103,008	107,874	113,696	120,141	128,333
Net Debt	(645)	(8,395)	(13,314)	(14,445)	(8,769)	3,767	(3,846)
Total Capital	91,279	89,917	89,611	93,346	104,844	123,825	124,404
Cashflow Statement							
Net cash from operations	11,300	14,262	14,085	19,457	22,442	27,927	33,770
Net cash invested	(4,320)	(509)	(4,553)	(13,460)	(22,295)	(34,018)	(17,966)
Net cash financed	(12,133)	(8,537)	(4,613)	(4,865)	(5,823)	(6,445)	(8,192)
Net change in cash	(5,153)	5,217	4,919	1,131	(5,676)	(12,536)	7,612
	2024A	**2025A**	**2026f**	**2027f**	**2028f**	**2029f**	**2030f**
Per share summary							
EPS (KES)	407.50	412.21	507.70	535.45	640.79	709.25	901.53
DPS (KES)	0.39	0.32	0.25	0.27	0.32	0.35	0.45
BVPS (KES)	5.06	5.41	5.67	5.94	6.26	6.61	7.06
Value metrics							
Price to earnings	22.1x	21.8x	17.7x	16.8x	14.0x	12.7x	10.0x
Price to book	1.8x	1.7x	1.6x	1.5x	1.4x	1.4x	1.3x
Dividend yield	4.3%	3.6%	2.8%	3.0%	3.6%	3.9%	5.0%
EV/EBITDA	9.7x	9.3x	7.8x	6.5x	5.5x	4.8x	3.8x
EV/Sales	4.6x	4.0x	3.3x	2.8x	2.4x	2.2x	1.8x
ROaA	5.7%	5.5%	6.5%	6.5%	7.4%	7.8%	9.3%
ROaE	8.2%	7.9%	9.2%	9.2%	10.5%	11.0%	13.2%
Performance Indicators							
Revenue growth	**14.6%**	**9.1%**	18.0%	18.3%	18.3%	18.7%	18.8%
EBITDA growth (YoY)	**90.0%**	**-0.6%**	15.3%	19.0%	21.6%	25.4%	18.5%
Gross profit margin	**71.7%**	**74.1%**	74.7%	74.8%	74.7%	75.0%	74.4%
EBITDA margin	**47.7%**	**43.4%**	42.4%	42.7%	43.9%	46.4%	46.3%
EBIT margin	**34.9%**	**31.2%**	28.2%	24.9%	25.5%	24.5%	26.3%
Net Debt/EBITDA (x)	**(0.04)**	**(0.50)**	(0.69)	(0.63)	(0.31)	0.11	(0.09)

Source: Company filings, OMS Estimates

Conclusion

This document does not constitute an investment recommendation to buy or sell KPC shares and should be treated solely as a warning highlighting key risks, including concerns that the IPO offer price appears elevated relative to intrinsic value, uncertainty around post-listing price performance given the lack of trading history, a relatively low dividend yield, and the price outcomes ultimately dependent on post-IPO demand and supply dynamics despite KPC's historical and forward-looking financials appearing strong.

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- **Strong Buy**: FV more than 30% above CSP
- **Buy**: FV between 20% and 30% above CSP
- **Accumulate**: FV between 10% and 20% above CSP
- **Hold**: FV between -10% and 10% around CSP
- **Lighten**: FV between 10% and 20% below CSP
- **Sell**: FV more than 20% below CSP

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