Guinness Ghana 1Q2022/23 Results

Current rating **UNDER REVIEW**

Ghana | 26 October 2022

Prevailing economic environment enkindle losses

Guinness Ghana Breweries ("GGBL") released its unaudited 1Q2022/23 financial results today, posting a loss of GHS 23.5m. This loss, in our opinion, reflects the deteriorating economic environment characterized by rising inflationary pressures, higher material costs due to a weakening local currency, rising utility and fuel cost. Inflation soared to 37.2% in September 2022, up from 10.6% in September 2021. Additionally, the Cedi depreciated by 37.5% ytd against the US Dollar in 9M2022, while water and electricity tariffs were raised by 21.6% and 27.2%, respectively, in September 2022. These pressures had a significant impact on cost of sales and weighed on margins. The above notwithstanding, we were impressed by the company's success in containing OPEX, which decreased marginally by 0.2% y/y.

Performance: Losses stem from rising cost of sales

- GGBL's earnings declined by more than threefold (-311.9%) y/y, from a profit of GHS 11.0m in 1Q2021/22 to a loss of GHS 23.5m in 1Q2022/23
- The company's losses were largely due to the eroding effect of its high cost of sales, which we attribute to the challenging economic environment, characterized by forex challenges, soaring inflationary pressures, rising fuel and utility costs during 9M2022
- As a result of the tight operating environment, cost of sales surged by 37.6% y/y to GHS 300.4m, outpacing inflation by 0.5pps
- Consequently, gross margin decreased by 13.0pps to 10.6%, despite the decent revenue growth of 17.6% y/y
- Operating expense, however, was well-controlled as it decreased marginally by 0.2% y/y to GHS 45.6m
- In spite of the decrease in OPEX, operating margin fell by 10.6pps to -3.0% in 1Q2022/23 due to weaker gross profit growth
- Finance cost increased by 140.5% to GHS 13.3m, owing to a 96.6% y/y increase in overdraft. Per our understanding, the increase in overdraft is largely to enable GGBL acquire some raw materials in advance, in anticipation of future price increases and to guarantee production in the short-to-medium term
- Resultantly, net profit margin slumped by 11.0pps y/y to close the period at -7.0%

Outlook: Inflationary pressures to keep jacking up cost of sales

- We anticipate that GGBL's cost of sales will remain elevated in the short-to-medium term on the back of the upside risks to the prevailing inflationary pressures
- As a result, we foresee further margin deterioration in the coming quarters
- While we expect GGBL's use of local raw materials to decrease GGBL's reliance on imported cereals and reduce the impact of the Cedi's depreciation on cost, we do not believe it will be significant enough to control cost of sales.
- Instead, we expect GGBL to continue implementing upward price adjustments across its flagship products to partly offset the rising cost of sales
- In contrast to cost of sales, we anticipate sustained containment of OPEX in the short term. Our thesis is founded on the basis that management has implemented an initiative to postpone expenditures which do not critically contribute to top-line growth in the short term
- Despite the challenging economic environment, we remain bullish on GGBL's revenue growth. We believe that the company's large and diverse product portfolio, brand loyalty and investment in marketing campaigns will sustain revenue growth over the short-to-medium term

Valuation: Under review

- We are in the process of re-initiating coverage on GGBL and have therefore placed our recommendation under review
- GGBL is trading at an EV/SALES of 2.4x

U

Analyst:
Clevert Boateng: +233 30 825 0051

For further information, please contact our Research Team. T: 233 308-250051l +233 302-252517 Email: research@icsecurities.com