Unilever Plc. 9M2022 Results

Current rating **UNDER REVIEW**

Ghana | 27 October 2022

Weak revenue performance but efficient cost control

Unilever Ghana ("UNIL") released its unaudited 9M2022 financial results today, reporting a loss of GHS 12.2m, which reflects a 41.5% improvement over the previous comparable year's loss of GHS 20.8m. Based on our analysis, the company's loss is due to weaker revenue growth, rising finance costs and restructuring expenses. Despite UNIL's loss, we were impressed with the company's ability to control cost of sales and operating expenses amidst the prevailing economic environment. However, we were underwhelmed with UNIL's revenue performance, as revenue increased by a single-digit y/y, despite implementing price increases across the majority of its brands. This suggests that the prevailing inflationary pressures have had a negative impact on UNIL's sales volume.

Performance: Efficient cost control not enough to churn out profits

- UNIL's earnings improved by 41.5% y/y, from a loss of GHS 20.8m in 9M2021 to a loss of GHS 12.2m in 9M2022. We attribute this loss to a weak revenue performance, a surge in finance costs and restructuring costs
- UNIL's revenue increased by 8.0% y/y to GHS 463.9m. We believe this subdued revenue performance is due to lower sales volume, as UNIL implemented upward price adjustments across most of its brands in 9M2022
- Despite the prevailing inflationary pressures, UNIL controlled its cost of sales which increased marginally by 4.3% y/y to GHS 361.2m
- With cost of sales contained, coupled with upward price adjustments, gross margin improved by 2.8pps y/y to 22.1% in 9M2022
- Operating expenses were also well contained as it increased marginally by 5.1% y/y, influenced by a 5.4% y/y decrease in distribution expenses and a 16.7% y/y decrease in branding and marketing expenses
- The tailwinds to OPEX were a 5.7% y/y increase in administration expenses and an GHS 8.7m restructuring costs in 9M2022
- Resultantly, operating loss narrowed by 88.8% y/y to a loss of GHS 2.2m. Operating loss margin improved by 4.1pps y/y, declining from -4.6% in 9M2021 to -0.5% in 9M2022
- Finance costs increased over sevenfold (+740.5% y/y) to GHS 11.0m, as bank overdraft jumped from GHS 31.1m in 9M2021 to GHS 68.3m in 9M2022. (+119.4% y/y)
- Consequently, net loss margin improved by 2.2pps, from -4.8% in 9M2021 to -2.6% in 9M2022

Outlook: Inflationary pressures to weigh on sales volume outturn, gross margins to keep improving on cost-saving strategies

- We continue to expect rising inflationary pressures and the growing competition in the FMCG industry to weigh on UNIL's sales volume performance in the near to medium term
- Our pessimistic outlook is hinged on the basis that, the prevailing inflationary pressures will continue to squeeze consumers' disposable income, causing them to seek out cheaper alternatives in a highly competitive market
- However, we anticipate UNIL to aggressively pursue the necessary marketing initiatives to help drive sales
- On the cost front, we are confident that UNIL's aggressive cost-cutting measures are sustainable in the short-to-medium term, given that they have been effective over the first three quarters of the year
- As a result, we expect UNIL to continue employing its demand-based distribution model for key distributors and engaging in secondary sales, as this has kept a tight lid on OPEX, especially distribution expenses
- In subsequent quarters, we expect these cost-cutting measures coupled with price increases to keep improving gross margins. However, we do not foresee the large manufacturer posting profits in the short-term

Valuation: Under review

- UNIL is currently trading at an EV/SALES of 0.8x, and we intend to re-initiate coverage in 1H2023

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