GOIL 9M2022 Results

Current rating **UNDER REVIEW**

Ghana | 11 November 2022

Margins Dwindle but Market Share Wins

Ghana Oil Company Limited ("GOIL" or the "Group") released its unaudited 9M2022 financial results yesterday, posting a 31.2% y/y increase in profit to GHS 103.6mn. GOIL reported a triple-digit growth in revenue on account of stronger volume growth and price increases. GOIL maintained its pricing strategy of holding prices for a period of time, before aligning with domestic market trend. This provided some cushion to customers, which helped increase sales volume, market share and profitability. However, the high cost of sales and operating expenses suppressed margins.

Performance: Margins compress despite strong earnings outturn

- GOIL's profit-after-tax increased by 31.2% y/y to GHS 103.6mn on the back of a strong revenue outturn
- Revenue increased by 172.2% y/y to GHS 13.9bn, owing to increases in ex-pump fuel prices and higher sales volume
- GOIL's ex-pump prices for petrol and diesel increased by 64.5%* and 118.0%*, respectively in 9M2022, mainly driven by the successive increases in global crude oil prices for the first three quarters of the year (+38.7% in 1Q2022, +47.6% in 1H2022, and +13.1% in 9M2022) and a 37.5%* USD/GHS depreciation in 9M2022
- Similarly, GOIL's BDC – Go Energy's ex-refinery price increased by 104.0%* for petrol and 199.0%* for diesel in 9M2022
- GOIL's revenue growth was also supported by a 25.8%* y/y increase in retail fuel consumption and a 22.7%* y/y rise in Go Energy's sales volume in 9M2022
- GOIL recorded strong sales volumes on the back of its strategy of holding prices for some time, before aligning with domestic price trends. As a result, GOIL's market share increased by 4.8pps y/y to 20.07% in 9M2022
- Cost of sales accounted for 98.7% of revenue in 9M2022, compared to a 3-year (FY2021, FY2020, FY2019) average of 93.4%. This reflects the increased inflationary and forex pressures experienced in 9M2022, and explains the fall in gross profit margin by 2.3pps y/y to 3.7%
- Operating expenses also increased by 63.4% y/y to GHS 341.5mn, mainly driven by inflationary and forex pressures
- Resultantly, operating margin and net profit margin slipped by 1.3pps and 0.8pps to 1.2% and 0.7%, respectively, in 9M2022

Outlook: Sales and margins to expand on bitumen production

- We expect GOIL to sustain its current pricing strategy with continued benefits for the Group's sales volume and market share in the coming quarters
- Our outlook is hinged on our view that consumers will continue to explore relatively cheaper quality fuel as the rising inflation and elevated energy prices continue to squeeze consumers' income
- On the cost front, we expect GOIL's input cost to remain elevated in the short-to-medium term, due to Ghana's prevailing macroeconomic challenges such as rising inflation and forex pressures. As a result, we expect margins to decrease further in the coming quarter
- However, management's plan to begin bitumen production in the near term should expand margins once export to neighbouring sub-regional countries commences

Valuation: Under Review

- GOIL is currently trading at a P/E of 6.6x and EV/EBITDA of 2.7x
- We are in the process of re-initiating coverage on GOIL and have therefore placed our recommendation under review

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***Currency rates are from the Bank of Ghana**
***Petroleum price and volume computation are from the National Petroleum Agency's website**