

TOTAL 9M2022 Results

Current rating **UNDER REVIEW**

Ghana | 28 October 2022

Profit Increases but Margins Dip

Total Petroleum Ghana (“TOTAL”) released its unaudited 9M2022 financial results yesterday, posting a 17.3% y/y improvement in profit-after-tax on the back of a significant increase in topline and supported by a substantial rise in other income. However, in line with our expectations, cost of sales and operating expenses soared on the back of rising inflationary pressures, high fuel costs coupled with the depreciation of the local currency and rising utility expenses. This lowered margins for the period.

Performance: Margins continue to shrink but profits increased

- TOTAL’s bottom-line increased by 17.3% y/y to GHS 103.7m, on the back of a strong revenue growth and a significant rise in other income
- The company’s revenue increased by 70.2% y/y to GHS 3.9b, owing primarily to increases in ex-pump fuel prices
- TOTAL’s indicative ex-pump prices for petrol and diesel increased by 58.9%* and 104.9%*, respectively, in 9M2022.
- This increase was mainly driven by the high 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). TOTAL’s price was also supported by the Cedi’s 37.5%* depreciation against the US Dollar in 9M2022
- Despite the growth in revenue, gross profit margin decreased by 2.6pps y/y to 8.0% in 9M2022 on the back of a sluggish sales volume growth and high cost of sales
- TOTAL’s sales volume grew marginally by 2.4% y/y from January to August* 2022. We attribute this low volume growth to customers switching to OMCs with cheaper fuel prices, given that TOTAL’s pricing is among the top two highest in the market
- Cost of sales skyrocketed by 75.1% y/y to GHS 3.6b, owing to an increase in global crude oil prices and inflationary pressures characterized by supply chain bottlenecks, forex challenges, shipping and transportation constraints
- Operating costs also increased by 25.8% y/y to GHS 189.4m, dragging operating margin down by 1.3pps y/y to 3.8%
- However, operating profit increased by 27.2% y/y to GHS 150.5m, influenced by a 67.6% y/y rise in other income to GHS 36.1m
- We believe the increase in other income is due to an increase in TOTAL’s fees for rental spaces and services such as car washes and repairs at its network stations
- Consequently, net profit increased to GHS 103.7m, but net profit margin contracted by 1.2pps y/y to settle at 2.6% in 9M2022

Outlook: Margins to compress further but profits could increase

- We remain bullish on TOTAL’s revenue performance due to our expectation of increases in global crude price in the short-to-medium term, with the inelastic nature of fuel consumption moderately supporting topline growth amidst competition
- However, given that TOTAL’s pricing is among the top two highest in the market, we expect sales volume outturn to remain sluggish
- Our modest outlook is hinged on our view that the current global and country macro scenarios will prevail in the short-to-medium term. As a result, we expect consumers to remain price-sensitive, switching to OMCs with relatively cheaper prices
- Furthermore, we expect TOTAL’s input cost to remain hoisted in the short-to-medium term, given Ghana’s pressing macroeconomic challenges such as rising inflation, elevated utility costs, and the Cedi’s depreciation
- On the back of weak growth in sales volume coupled with the prevailing inflationary pressures, we expect TOTAL’s margins to compress further in the coming quarters
- As expected in our previous publication, TOTAL’s strategy of relying on its brand and customer loyalty to drive sales while swiftly adjusting its prices to align with global trends did increase earnings but not margins. In the near term, we expect this to hold unless TOTAL changes this strategy

Valuation: Under Review

- TOTAL is currently trading at a P/E of 4.3x and EV/EBIT of 2.9x
- We are in the process of re-initiating coverage on TOTAL and have therefore placed our recommendation under review

Analyst:

Clevert Boateng: +233 30 825 0051

***Rates are from the Bank of Ghana and the National Petroleum Agency’s website**

***Volume data for September 2022 has not yet been published**

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

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