## Fan Milk Plc FY2022 Results

Current rating **UNDER REVIEW**

Ghana | 10 February 2023

### Costs erodes topline gains

**Fan Milk Plc ("FML") released its unaudited FY2022 financial results yesterday and, in line with our expectations, increased its loss position. While FML posted decent double-digit increase in topline on the back of 4Q2022 festivities as well as strategies implemented to grow the outdoor business and accelerate indoor distribution, macroeconomic headwinds pushed up FML's costs, eroding any topline gains. This resulted in the company posting a 270.0% increase in net loss from GHS 13.4mn in FY2021 to a loss of GHS 49.7mn in FY2022. From our rudimentary analysis, these macro headwinds include the soaring inflation and the depreciation of the Cedi against the major international currencies.**

### Performance: Losses increase on rising costs

- FML reported a net loss of GHS 49.7mn in FY2022 as against a loss of GHS 13.4mn in FY2021
- Management ascribed the higher loss to higher input costs caused by the adverse economic climate
- Input costs increased by 22.1% y/y to GHS 421.1mn, mainly driven by inflation which jumped from 13.9% in January 2022 to hit 54.1% in December 2022, and partly due to the Cedi's 30.0% and 25.3% depreciation against the US Dollar and Euro, respectively
- For more colour, the Cedi depreciated by 54.4% and 49.7% in the year to November 2022, against the US Dollar and Euro, respectively, before cooling off to 30.0% and 25.3% in December 2022
- According to management, the company suffered a net exchange loss of GHS 39.4mn due to the steep depreciation of the local currency against the USD and the EURO in FY2022
- As a result of these macroeconomic pressures, revenue which increased by 14.7% y/y to GHS 536.9mn did not help much as cost of sales outpaced total revenue by 7.4pps, causing gross margin to fall by 4.8pps y/y to 21.6% in FY2022
- The growth in revenue was mainly driven by the year-end festivities in 4Q2022 (revenue grew by 25.7% q/q in 4Q2022), upward price adjustments and improved trade networks
- FML controlled its OPEX in FY2022, keeping it flat at GHS 116.2mn. This was spurred by a 0.7% y/y decrease in distribution cost to GHS 96.4mn and a 2.2% y/y marginal increase in administrative expenses to GHS 53.2mn
- Despite the OPEX containment, operating loss margin increased by 1.3pps y/y from -4.3% in FY2021 to -5.6% in FY2022, largely due to the 6.0% y/y fall in gross profit
- In spite of the loss, a tax bill of GHS 16.1mn was incurred owing to a tax re-assessment resulting from tax audits
- Resultantly, net loss margin increased from -2.9% in FY2021 to -9.3% in FY2022

### Outlook: Cost to remain jacked up, revenue to grow sluggishly

- In our previous publication, we indicated that we did not expect FML to post profits in FY2022. Our outlook remains unchanged for FY2023
- This is because we believe that the factors that drove FML into the red are still lingering and will not alter much in FY2023
- For instance, we continue to expect cost of sales to remain high in the short-to-medium term due to rising input material costs, surging inflation, higher utility costs and local currency weakness
- With the Cedi already depreciating by 20.6% and 20.1% in January 2023 against the US Dollar and Euro respectively, and with increases in electricity and water tariffs of 30.0% and 8.3%, respectively, in February 2023, we anticipate a significant increase in FML's costs and further margin compression in the coming quarters
- On the OPEX front, however, we are optimistic that FML will keep a tight lid on operating expenses
- Our outlook on FML's sales outturn also remains gloomy. We are of the opinion that, given the elevated consumer inflation coupled with the 15.0% to 20.0% price hikes across pouches in 1Q2023, FML's sales volume outturn will be impacted in the near term as consumers' purse strings tighten
- The above notwithstanding, we expect FML to aggressively pursue the necessary marketing initiatives to help drive sales volumes

### Valuation: Under Review

- We are in the process of re-initiating coverage on FML and have therefore placed our recommendation under review
- FML is trading at a P/B of 1.5x and EV/SALES of 0.6x

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