

TOTAL FY2022 Results

Current rating **UNDER REVIEW**

Ghana | 31 January 2023

Strong topline growth drives bottom-line performance

TotalEnergies Marketing Ghana Plc (“TOTAL”) released its unaudited FY2022 financial results yesterday, posting a significant improvement in profit-after-tax on the back of strong growth in topline and a substantial rise in other income. However, as expected, cost of sales and operating expenses increased due to rising inflationary pressures and lingering FX challenges, as well as high fuel costs and soaring utility expenses, dragging margins down for the period.

Performance: Strong revenue and other income improves earnings

- TOTAL’s bottom-line increased by 51.8% y/y to GHS 165.0mn, on the back of strong revenue growth and a significant rise in other income
- The company’s topline increased by 76.2% y/y to GHS 5.9bn, owing primarily to increases in ex-pump fuel prices
- TOTAL’s indicative ex-pump prices for petrol and diesel increased by 120.2%* and 171.4%*, respectively, in FY2022
- This increase was mainly driven by the high successive increases in global crude oil prices for the first two quarters of the year (+38.7% in 1Q2022, +10.0% in 2Q2022), before tumbling by 21.1% in 3Q2022 and 7.0% in 4Q2022
- The growth in TOTAL’s ex-pump price was also supported by the 24.7% average depreciation of the Cedi against the US Dollar in FY2022. For more context, the Cedi depreciated by 15.6% in 1Q2022, 1.6% in 2Q2022, 24.7% in 3Q2022 and appreciated by 12.0% in 4Q2022. Moreover, as at November 2022, the Cedi had depreciated by 54.4% on a year-to-date basis
- Despite the growth in revenue, gross profit margin decreased by 146.0bps y/y to 8.6% in FY2022 on the back of a decline in sales volume and high cost of sales
- TOTAL’s sales volume declined marginally by 3.7% y/y from January to November* 2022. We attribute this fall to consumers switching to OMCs with cheaper fuel prices, as TOTAL’s pricing is among the top two highest in the market
- Cost of sales increased by 79.1% y/y to GHS 5.2bn, owing to the rising inflationary pressures characterized by the rising global crude prices, forex challenges and supply chain bottlenecks
- Operating costs also increased by 42.8% y/y to GHS 293.7mn, dragging operating margin down by 40.0bps y/y to 4.2%
- However, operating profit increased by 60.9% y/y to GHS 240.8mn, influenced by a 47.8% y/y rise in other income to GHS 43.1mn
- 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, true to our last publication, net profit margin contracted by 47.0bps y/y to settle at 2.9% while net profit increased to GHS 165.0mn in FY2022

Outlook: Cost to largely influence performance

- Despite the US Energy Information Administration expecting an 18.0% drop in the price of Brent crude in 2023, we remain confident about TOTAL’s revenue performance. We hypothesize that the anticipated price fall will moderately drive consumption, resulting in an increase in TOTAL’s sales volume
- The above notwithstanding, we are concerned that the “upper class only” tag on TOTAL as well as TOTAL’s prices being among the top two highest in the market could constrain volume growth, as price-sensitive consumers will switch to OMCs with relatively cheaper prices
- On the cost front, while we anticipate a decrease in global crude prices, we still expect TOTAL’s input cost and operating expenses to remain jacked up on the back of the country’s pressing macroeconomic challenges such as rising inflation, elevated utility costs, and the Cedi’s performance against major currencies
- With the Cedi already depreciating by 19.1% in January 2023 coupled with hikes in electricity and water tariffs by 30.0% and 8.3%, respectively, in February 2023, we foresee a substantial rise in TOTAL’s costs in 2023
- Lastly, owing to our anticipation of sluggish sales volume growth and the prevailing inflationary pressures, we expect TOTAL’s margins to compress further in the coming quarters. However, we expect the decent earnings growth to continue in the quarters ahead

Valuation: Under Review

- TOTAL is currently trading at a P/E of 2.7x and EV/EBIT of 2.0x
- We are in the process of re-initiating coverage on TOTAL and have therefore placed our recommendation under review

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

*Volume data for December 2022 has not yet been published

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