**Unilever Plc. FY2022 Results**

Current rating **UNDER REVIEW**

Ghana I 1 February 2023

**Finally, a breakthrough**

**Unilever Ghana ("UNIL") released its unaudited FY2022 financial results yesterday, and contrary to our expectations, the large manufacturer increased its net profit to GHS 14.9mn, reflecting a 4152.9% improvement over the previous comparable year's profit of GHS 0.3mn. From our analysis, UNIL's performance was driven mainly by effective control of cost of sales and operating expenses, as well as double-digit growth in revenue. Overall, we are impressed that despite the prevailing macroeconomic challenges, UNIL executed strict cost-cutting measures and posted decent earnings.**

Performance: Efficient cost control and double-digit revenue drives performance

- UNIL's net profit increased over 41-fold (+4152.9% y/y) from GHS 0.3mn in FY2021 to GHS 14.9mn in FY2022. We attribute this jump in earnings to efficient cost control and double-digit growth in revenue
- UNIL's revenue increased by 13.1% y/y to GHS 631.8mn, largely due to the upward price adjustments implemented across most brands in FY2022
- Despite the prevailing inflationary pressures, UNIL controlled its cost of sales, which increased marginally by 6.2% y/y to GHS 474.7mn.
- This cost containment was further aided by a 23.2% decline in palm oil prices (a key input material for UNIL) on the global market in FY2022. For a deeper context, palm oil's price increased by 23.3% in 1Q2022, decreased by 24.1% and 41.2% in 2Q2022 and 3Q2022, respectively, before increasing again by 39.4% in 4Q2022 on the global market
- With cost of sales contained and revenue increasing, gross margin improved by 490.0bps y/y to 24.2% in FY2022
- Operating expenses were, again, tightly controlled, falling by 7.1% y/y to GHS 135.7mn. This was influenced by a 15.2%, 14.7% and 14.6% y/y decreases in distribution, administration, and branding & marketing expenses, respectively, in FY2022
- Resultantly, operating profit increased over 10-fold (+1073.2% y/y) to GHS 32.3mn and operating margin improved by 461.0bps y/y to settle at 5.1% in FY2022
- Finance cost increased by 531.5% y/y to GHS 18.5mn, as bank overdraft jumped by 47.8% y/y to GHS 99.6mn
- Consequently, net profit margin increased by 230.0bps to 2.4%

Outlook: Are profits sustainable?

- In our last publication, while we did not foresee UNIL posting satisfactory profits, we expected the company's cost-cutting measures and price increases to improve margins
- In this publication, our outlook for UNIL is coiled with mixed sentiments as we believe that UNIL's profit sustainability is anchored on keeping costs tightly controlled and posting double-digit revenue growth
- On the cost front, we are confident that UNIL's aggressive cost-cutting measures are sustainable in the short-to-medium term, given their effectiveness in the previous four quarters
- The main headwind is on the revenue front. In our view, price adjustments without substantial growth in sales volume cannot sufficiently sustain revenue growth in the medium-to-long term
- As a result, we are doubtful that UNIL's revenue growth is sustainable as we expect the rising inflationary pressures and growing competition in the FMCG industry to weigh on UNIL's sales volume
- Our cautious 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
- Nevertheless, our outlook on UNIL's revenue outturn is subject to change once we see the company aggressively pursuing the necessary marketing initiatives to help drive sales volumes

Valuation: Under review

- UNIL is currently trading at a P/E of 10.3x and EV/EBIT of 6.6x
- We are in the process of re-initiating coverage on UNIL and have therefore placed our recommendation under review

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