

Unilever Plc. FY2022 Results

Current rating **UNDER REVIEW**

Ghana | 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

Analyst:

Clevert Boateng: +233 30 825 0051

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

Disclaimer:

This report is designed to be utilized by qualified institutional and professional investors only. Private investors must consult their investment adviser or broker for professional advice before seeking to act on the contents of this report. This advice has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. IC Securities’ investment research reports are provided for informational purposes only. All information provided in this report is the intellectual property of IC Securities, is for the use of intended recipients only, and may not be reproduced in any form whatsoever without the express written consent of IC Securities. Descriptions are not intended to be complete and cannot be guaranteed to be accurate; therefore, IC Securities does not assume any legal liability or responsibility for any inaccuracies or misrepresentations contained in this report. Neither IC Securities nor its management, officers or employees accept responsibility or liability for, or

make any representation, statement or expression of opinion or warranty, express or implied, with respect to the accuracy or completeness of the information or any oral communication in connection therewith. There may be regulatory or confidentiality obligations which prevent IC Securities from disclosing information, material or otherwise, which would normally be expected to be included in this report. The price of any securities stated in this report is the reported market price as of the date indicated, taken from sources IC Securities believes to be reliable. IC Securities does not represent that this price may be achieved in any transaction. Due to the inherently illiquid and relatively opaque nature of most of the Firm's coverage markets, any price stated in this report may not reflect the true trading price of the security referenced. This document does not constitute an offer by, or on behalf IC Securities to enter into any transaction with you and will not form the basis of a contract for any such transactions. This report does not constitute an offer to sell or solicitation of a purchase order in respect of any securities, derivative or other instrument by the Firm.

