

Guinness Ghana 1H2022/23 Results

Current rating **UNDER REVIEW**

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A good quarter but a bad half-year

Guinness Ghana Breweries Plc. (“GGBL”) released its unaudited 1H2022/23 financial results today, posting a half-year loss of GHS 9.9mn but a second-quarter profit of GHS 13.6mn. This indicates that GGBL performed admirably in 2Q2022/23, but its enormous loss position in 1Q2022/23 eroded the gains in 2Q2022/23. In our view, the year-end festivities last quarter, boosted GGBL’s revenue growth, but the high cost of sales outweighed any top line improvements, leaving the company in the red. Higher inflationary pressures on input and packaging materials, a depreciating cedi against major international currencies, and higher utility costs all contributed to the company’s high cost of sales.

Performance: Losses linger on higher input cost

- GGBL’s earnings decreased by 122.0% y/y, from a profit of GHS 45.3mn in 1H2021/22 to a loss of GHS 9.9mn in 1H2022/23
- The company’s losses were largely due to the eroding effect of its high cost of sales, which we attribute to the challenging economic environment, characterized by a significant depreciation of the Cedi, soaring inflationary pressures, rising utility costs and distribution-related expenses
- As a result, cost of sales surged by 33.5% y/y to GHS 632.3mn, outpacing revenue growth by 17.7pps
- Consequently, gross margin decreased by 11.1pps y/y to 16.5%, despite the 15.8% y/y growth in revenue to GHS 757.0mn
- Operating expense, however, was well-controlled as it decreased by 11.9% y/y to GHS 101.9mn in 1H2022/23
- In spite of the decrease in OPEX, operating margin fell by 6.8pps to -1.3% in 1H2022/23 due to the 30.7% y/y decrease in gross profit
- Finance cost more than doubled (+206.3% y/y) to GHS 32.6mn, owing to a 64.9% y/y increase in overdraft
- Resultantly, earnings margin slumped by 8.2pps y/y, from a net profit margin of 6.9% in 1H2021/22 to a net loss margin of -1.3% in 1H2022/23
- Although the above analysis depicts that GGBL had a substandard 1H2022/23 result, quarterly performance for 2Q2022/23 was quite impressive
- Revenue increased by 25.4% q/q, exceeding cost of sales growth of 10.5% q/q in 2Q2022/23. This resulted in a 151.8% q/q increase in gross profit to GHS 89.2mn
- Despite a 23.7% q/q increase in OPEX, operating profit grew from a loss of GHS 10.1mn in 1Q2022/23 to a profit of GHS 32.9mn in 2Q2022/23
- Resultantly, earnings for the second quarter rose from a net loss of GHS 23.5mn in 1Q2022/23 to a net profit of GHS 13.6mn in 2Q2022/23

Outlook: Inflationary pressures to keep jacking up cost of sales

- In the coming quarters, we are optimistic that GGBL will churn out decent double-digit revenue growth on the back of the company’s large and diverse product portfolio, productivity-enhancing investments in a new brewhouse, and brand activation campaigns
- On the cost front, we maintain an upside view on GGBL’s cost of sales as the upside risks to the prevailing inflationary pressures continue to pick up steam
- As a result, we foresee further margin deterioration in the coming quarters
- With GGBL working to increase its Local Raw Materials (“LRM”) usage from 61.0% to 70.0% in the next two years, we anticipate that this will assist in reducing the company’s reliance on imported cereals, lessening the impact of the Cedi’s depreciation on input costs in the subsequent quarters
- Despite the above, we believe that the rising inflation and utility cost will still jack up cost of sales, limiting the effect of increased LRM usage on input costs in the near term
- Management has postponed expenditures that do not critically and directly contribute to top-line growth in the near term. We are confident that this cost control measure will restrain OPEX, easing the downward pressure on operating margins in subsequent quarters

Valuation: Under review

- We are in the process of re-initiating coverage on GGBL and have therefore placed our recommendation under review
- GGBL is trading at a P/B of 1.8x and EV/SALES of 1.2x

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