GOIL FY2022 Results

Current rating **UNDER REVIEW**

Ghana | 15 February 2023

Margins drift downwards but earnings maintain positive course

Ghana Oil Company Limited ("GOIL" or the "Group") released its unaudited FY2022 financial results today, posting a 24.7% y/y increase in profit to GHS 127.5mn. GOIL reported a triple-digit growth in revenue on account of stronger volume growth and price increases. It appears GOIL maintained its strategy of holding prices for a period of time, before aligning with domestic market trend. This pricing strategy provided some cushion to customers and helped increase sales volume, market share, and profitability. However, the high cost of sales and operating expenses contracted margins.

Performance: Margins dwindle but market share wins

- GOIL's profit-after-tax increased by 24.7% y/y to GHS 127.5mn on the back of a strong revenue outturn
- Revenue increased by 175.3% y/y to GHS 20.7bn, owing to increases in ex-pump fuel prices and higher sales volume
- GOIL's ex-pump prices for petrol and diesel increased by 136.2% y/y* and 181.4% y/y*, respectively in FY2022, 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 1Q2022), before decreasing by 21.1% in 3Q2022 and 7.0% in 4Q2022
- The growth in GOIL'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, further weakening by 1.6% in 2Q2022, and 24.7% in 3Q2022 before appreciating by 12.0% in 4Q2022. Moreover, as at November 2022, the Cedi had depreciated by 54.4% cumulatively
- In the same vein, GOIL's BDC – Go Energy's ex-refinery price increased by 231.9%* for petrol and 306.9%* for diesel in FY2022
- GOIL's revenue growth was also supported by a 20.4%* y/y increase in retail fuel consumption and a 16.8%* y/y rise in Go Energy's sales volume in FY2022
- The Group recorded strong sales volumes on the back of its strategy of holding prices for some time, before aligning with domestic price trends. As a result, GOIL's market share increased by 4.9pps y/y to 20.19% in FY2022
- Cost of sales accounted for 97.0% of revenue in FY2022, compared to a 3-year (FY2021, FY2020, FY2019) average of 93.4%. This reflects the increased inflationary and forex pressures experienced in FY2022 and explains the fall in gross profit margin by 3.2pps y/y to 3.1%
- Operating expenses also increased by 43.3% y/y to GHS 478.7mn, mainly driven by inflationary and forex pressures
- Resultantly, operating margin and net profit margin slipped by 1.2pps and 0.7pps to 1.0% and 0.6%, respectively, in FY2022

Outlook: Margins to decrease, while earnings increase

- In the coming quarters, we expect GOIL's sales volume and market share to continue to increase on the back of benefits derived from its backward integration with GOENERGY. As a result, we remain bullish on GOIL's revenue outturn
- On the cost front, we expect GOIL's input and operating costs to remain elevated in the short-to-medium term, owing to Ghana's prevailing macroeconomic challenges such as elevated inflation, high utility costs and forex pressures.
- 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 further decrease in margins in the coming quarters on the back of the higher costs
- Despite the above, we expect that once GOIL's bitumen production begins, it should help to expand margins

Valuation: Under Review

- GOIL is currently trading at a P/E of 5.2x and EV/EBITDA of 3.6x
- We are in the process of re-initiating coverage on GOIL and have therefore placed our recommendation under review

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***Currency rates are from the Bank of Ghana**
***Petroleum price and volume computation are from the National Petroleum Agency's website**