GOIL 1Q2023 Results

Current rating **UNDER REVIEW**

Ghana | 15 May 2023

Profitability Pains: Earnings and Margins Take a Hit

Ghana Oil Company Limited ("GOIL" or the "Group") released its unaudited 1Q2023 financial results today, posting a 30.2% y/y decrease in net profit to GHS 31.8mn. In our view, the decrease in net profit was as a result of GOIL's elevated cost of sales and operating expenses, which stem from the elevated inflationary pressures, higher utility costs, and lingering FX challenges the country faces.

Performance: Margin and Earnings Decline

- GOIL's profit-after-tax decreased by 30.2% y/y to GHS 31.8mn on the back of the significant rise in cost of sales and operating expense
- Cost of sales increased by 105.1% y/y to GHS 5.9bn, on the back of the elevated inflationary pressures characterized by forex challenges, supply chain bottlenecks and higher utility costs
- Revenue increased by 99.7% y/y to GHS 6.1bn, owing primarily to increases in ex-pump fuel prices
- GOIL's average indicative ex-pump prices for petrol and diesel increased by 67.1%* and 68.4%*, respectively, in 1Q2023 when compared to the same period last year
- In the same vein, GOIL's BDC's average indicative ex-refinery price for petrol and diesel also increased by 108.0%* and 123.0%* respectively, in 1Q2023 when compared to 1Q2022
- The growth in GOIL's ex-pump and ex-refinery price was supported by the 21.6%* average depreciation of the Cedi against the US Dollar in 1Q2023
- Despite the strong growth in revenue, gross margins contracted by 2.5pps to 2.7% in 1Q2023, on the back of the elevated cost of sales
- The Group's sales volume also declined by 4.3% y/y in 1Q2023, as it appears GOIL discarded its strategy of holding prices for some time, before aligning with domestic price trends
- Operating expenses increased by 24.0% y/y to GHS 117.8mn, mainly driven by inflationary and forex pressures
- Resultantly, operating margin and net profit margin slipped by 1.3pps and 1.0pps to 0.9% and 0.5%, respectively, in 1Q2023

Outlook: Margins to decline further

- We remain bullish on GOIL's sales outturn in the coming quarters on the back of the Group's large distribution network and benefits derived from its BDC, coupled with the sustained demand for petroleum products.
- On the cost front, we anticipate stable global crude prices, as we observed in 1Q2023. However, we still expect GOIL's input cost and operating expenses to remain jacked up due to the country's pressing macroeconomic challenges such as elevated inflation, higher utility costs, and the Cedi's uncertain outlook against major currencies
- Lastly, owing to our anticipation of elevated inflationary pressures, we expect GOIL's margins to contract further in the coming quarters

Valuation: Under Review

- GOIL is currently trading at a trailing 12-month P/E of 5.3x and EV/EBITDA of 0.32x
- 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**

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