Unilever Plc. 1Q2023 Results

Current rating **UNDER REVIEW**

Ghana | 27 April 2023

Driving Forward

Unilever Ghana ("UNIL") released its unaudited 1Q2023 financial results yesterday, and contrary to our expectations, the large manufacturer posted a strong profit outturn of GHS 28.5mn, reflecting a 455.6% y/y improvement over the previous comparable year's loss of GHS 8.0mn. From our rudimentary analysis, UNIL's performance was largely driven by its strong double-digit revenue growth, which was sufficient to offset the rise in cost of sales and operating expenses. More interestingly, we are impressed that UNIL posted profits for a second straight quarter despite the prevailing macroeconomic challenges.

Performance: Consecutive profits for the second time in a row

- UNIL's net profit improved from a loss of GHS 8.0mn in 1Q2022 to a profit of GHS 28.5mn in 1Q2023
- We attribute this surge in earnings to the robust double-digit growth in revenue and the tolerable cost management, which kept costs well below inflation levels
- UNIL's revenue increased by 60.7% y/y to GHS 241.9mn, largely due to the upward price adjustments implemented across most brands in 1Q2023 and the brand marketing campaigns carried out throughout 2022 and 1Q2023
- On account of the strong revenue outturn, gross profit tripled to GHS 84.6mn and gross margin increased by 16.4pps to 35.0% in 1Q2023
- On the cost front, UNIL kept its input costs (+28.3% y/y) well below the average inflation levels (+50.5% y/y) for 1Q2023
- This tolerable cost containment was aided by a 44.0% y/y decline in global palm oil prices - a key input material for UNIL. For a deeper context, global palm oil prices increased by 22.6% in 1Q2022 but decreased by 7.9% in 1Q2023
- On the other hand, operating expenses increased closely in line with inflation, registering a 43.7% y/y rise to GHS 51.8mn. This rise was mainly driven by a 42.9% y/y increase in administration expenses and a 172.5% y/y increase in branding & marketing expenses in 1Q2023
- Despite this, operating profit improved from a loss of GHS 6.3mn in 1Q2022 to a profit of GHS 34.8mn in 1Q2023, on the back of the strong gross profit outturn
- Resultantly, net profit margin increased by 17.1pps y/y to 11.8% in 1Q2023

Outlook: Can momentum be maintained?

- In our previous publication, we asserted that UNIL's ability to sustain its profits would depend on implementing tight cost control and posting strong double-digit revenue growth
- While our assumptions were right, we did not anticipate UNIL to achieve this magnitude of revenue growth
- Looking ahead, we have mixed sentiments towards the sustainability of UNIL's revenue growth as we opine that a huge chunk of the revenue growth was price-induced as opposed to volume, given that UNIL implemented series of price adjustments on its brands in 1Q2023
- As a result, we maintain our opinion that price adjustments without substantial growth in sales volume cannot sufficiently sustain revenue growth in the medium-to-long term. Therefore, we do not expect UNIL to post such high levels of revenue growth at least, in the coming quarters
- Moreover, our concerns about inflation have not yet subsided. We still expect the prevailing inflationary pressures to continue to squeeze consumers' disposable income, causing them to seek out cheaper alternatives in a highly competitive market
- On the cost front, we continue to be optimistic about the sustainability of UNIL's cost-cutting measures in the short-to-medium term, as we have seen its effectiveness over the past quarters
- Overall, we are impressed by UNIL's performance and are cautiously optimistic about future performance

Valuation: Under review

- UNIL is currently trading at a P/E of 9.7x and an EV/EBIT of 7.4x
- We are in the process of re-initiating coverage on UNIL and have therefore placed our recommendation under review

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