

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

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.

