

Fan Milk Plc 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 28 July 2023

Riding the waves of cost containment

Fan Milk Plc ("FML") released its unaudited 1H2023 financial results today, posting a better-than-expected earnings outturn. The large ice cream manufacturer posted a net profit outturn of GHS 15.8mn, reflecting a little over a 4-fold improvement over the previous comparable year's loss of GHS 4.8mn. From our analysis, the significant increase in FML's profit was primarily influenced by the decent double-digit revenue growth, the containment of cost of sales due to the decline in global skimmed milk powder prices, and the effective management of operating expenses.

Performance: Profits linger on cost containment

- FML's earnings improved from a loss of GHS 4.8mn in 1H2022 to a profit of GHS 15.8mn 1H2023
- We attribute the significant earnings growth to a decent double-digit increase in revenue, a containment of cost of sales due to the decline in global skimmed milk powder prices, and effective management of operating expenses
- Revenue increased by 14.0% y/y in 1H2023 to GHS 305.5mn
- In our view, FML's revenue growth was largely driven by upward price adjustments and marketing initiatives implemented over the course of 2H2022 to 1H2023
- FML's cost of sales increased marginally by 5.4% y/y to GHS 205.0mn
- Despite the high average inflation print (+46.2%) and the 23.8%* depreciation of the Ghanaian Cedi against the Euro in 1H2023, the 36.3% decline in the average price of global skimmed milk powder in 1H2023 compared to the same period last year helped tame cost of sales growth
- With cost of sales lagging behind revenue growth by 860bps, gross margin expanded by 544bps y/y to 32.9%
- Operating margin also improved by 840bps to 6.6%, on account of the containment of operating expenses
- FML implemented stringent operating cost controls, which saw operating expenses increase subtly by 2.4% y/y to GHS 80.3mn
- Administrative and Distribution expenses increased by 11.9% y/y and 0.8% y/y to GHS 19.3mn and GHS 17.3mn, respectively, in 1H2023
- Consequently, the net profit margin improved from -1.8% in 1H2022 to 5.2% in 1H2023

Outlook: Cautiously Optimistic

- Our outlook on FML's earnings for FY2023 remains cautiously optimistic, as it appears that the negative factors, especially concerning input costs, which were adversely impacting FML's performance are showing signs of abating
- Considering this, we expect cost of sales growth to remain restrained in the short-term as the outlook for global commodity prices such as skimmed milk powder is bearish on account of high stock levels and weak demand
- On the OPEX front, however, we remain optimistic that FML will keep a tight lid on its operating expenses
- Our revenue outlook for FML remains within the mid-teen to low-twenties boundary. This projection is based on FML's strategic focus on prioritizing outdoor growth recovery, improving the indoor channel, expanding the ice cream brand, and promoting its export business

Valuation: Under Review

- FML is trading at a current P/E of 9.7x and EV/EBITDA of 8.3x

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