TOTAL 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 24 July 2023

All Quiet on the Western Front

TotalEnergies Marketing Ghana Plc ("TOTAL") released its unaudited 1H2023 financial results late last week, posting a significant improvement in profit-after-tax on the back of substantial growth in revenue and other income. As anticipated, the company also experienced higher cost of sales and operating expenses, influenced by elevated inflation rates, increased utility expenses, and lingering foreign exchange challenges.

Performance: Strong revenue and other income improves earnings

- TOTAL's bottom-line increased by 46.3% y/y to GHS 83.2mn, on the back of strong revenue growth and a decent rise in other income
- The company's topline increased by 29.3% y/y to GHS 3.2bn, owing primarily to increases in ex-pump fuel prices
- TOTAL's average indicative ex-pump prices for petrol and diesel increased by 50.1%* and 41.4%*, respectively, in 1H2023 when compared to the same period last year
- The growth in TOTAL's ex-pump price was supported by the 22.0%* average depreciation of the Cedi against the US Dollar in 1H2023
- Cost of sales increased by 26.4% y/y to GHS 2.9bn, owing to the elevated inflationary pressures characterized by forex challenges, supply chain bottlenecks and higher utility costs
- Despite the high cost of sales, gross profit margin increased by 210bps to 9.5% on account of the robust revenue outturn
- Operating costs also increased by 42.8% y/y to GHS 176.3mn spurred by the elevated inflationary pressures
- However, operating margin increased by 160bps y/y to 4.8% on account of the 66.0% y/y growth in gross profit
- Resultantly, operating profit increased by 91.9% y/y to GHS 153.3mn, influenced by a 30.9% y/y rise in other income to GHS 29.9mn and a higher gross profit outturn
- TOTAL's net finance costs increased by 19-fold to GHS 38.4mn on account of the rising interest rates and the 2.2-fold increase in overdraft facilities
- Overall, net profit margin increased by 30bps to 2.6% in 1H2023

Outlook: Decent earnings growth despite cost challenges

- Looking ahead, we hold a positive outlook on TOTAL's sales performance in the upcoming quarters. Our confidence stems from the company's extensive distribution network, enhanced efficiency, innovative offerings like the TotalEnergies Card, and the sustained demand for petroleum products.
- However, we have concerns regarding TOTAL's pricing strategy, as it currently holds one of the top two highest prices in the market. This could potentially lead price-sensitive consumers to switch to other Oil Marketing Companies (OMCs) that offer relatively cheaper prices, thereby constraining TOTAL's volume growth.
- On the cost front, despite the significant decline of 23.5% y/y in the average price of global crude oil in 1H2023 compared to the same period last year, we still anticipate that TOTAL's input costs and operating expenses will remain elevated
- Our reasoning is based on the prevailing macroeconomic challenges in the country, including heightened inflationary pressures, rising utility costs, and the uncertain outlook of the Cedi against major currencies. We expect these factors to drive up TOTAL's cost of sales and operating expenses
- Despite the above cost challenges, we maintain our expectation that TOTAL will achieve decent earnings growth and margin expansion in the forthcoming quarters

Valuation: Under Review

- TOTAL is currently trading at a P/E of 9.0x (TTM P/E of 3.9x) and EV/EBIT of 3.2x (TTM EV/EBIT of 2.5x)

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***Rates are from the Bank of Ghana**
***Indicative prices are from the National Petroleum Agency's website**

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