

Unilever Plc. 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 28 July 2023

Momentum appears sustained

Unilever Ghana (“UNIL”) released its unaudited 1H2023 financial results yesterday, and contrary to our expectations, the large consumer staple posted a strong profit outturn of GHS 70.5mn, reflecting a 9-fold improvement y/y over the previous comparable year’s loss of GHS 9.0mn. Moreover, UNIL’s margin also expanded significantly, backed by strong double digit revenue growth and cost savings from operational efficiency and discipline. More pressingly, we remain impressed that UNIL posted profits for the third straight quarter, despite the prevailing macroeconomic challenges.

Performance: Earnings grow stronger

- UNIL’s net profit improved from a loss of GHS 9.0mn in 1H2022 to a profit of GHS 70.5mn in 1H2023
- We attribute this growth in earnings to the robust double-digit revenue growth and efficient cost management, which effectively kept costs significantly below the average inflation level in 1H2023
- UNIL’s revenue increased by 57.7% y/y to GHS 480.7mn, largely due to the upward price adjustments implemented across most brands in 1H2023 and the aggressive marketing campaigns carried out in the period under review
- On account of the strong revenue outturn, gross profit increased by 184.9% y/y to GHS 179.5mn and gross margin increased by 16.7pps to 37.3% in 1H2023
- On the cost front, UNIL kept its input costs (+24.6% y/y) well below the average inflation levels (+46.2% y/y) for 1H2023
- This passable cost containment was aided by a 38.5% y/y decline in the average price of global palm oil in 1H2023 compared to the same period last year. Palm oil is a key input material for UNIL.
- Operating expenses, on the other hand, increased in line with inflation, recording a 48.2% y/y rise to GHS 107.8mn. This rise was mainly driven by a 40.0% y/y increase in administration expenses and a 147.2% y/y increase in branding & marketing expenses in 1H2023
- Despite this, operating profit improved from a loss of GHS 2.8mn in 1H2022 to a profit of GHS 77.6mn in 1H2023, on the back of the strong gross profit outturn
- Resultantly, operating margin and net profit margin increased by 17.1pps and 17.6pps y/y to 16.1% and 14.7%, respectively, in 1H2023

Outlook: Momentum will be maintained

- UNIL’s consistency in posting solid revenue growth has influenced us to review our outlook from bearish to cautiously bullish
- Furthermore, by implementing essential marketing initiatives such as the Pepsodent “talk to a dentist campaign,” Sunlight’s “Shero” contest, and introducing various versions of the renowned “Keysoap Bar,” we are confident that these campaigns will enhance the company’s brand visibility, ultimately leading to increased sales volume
- Nevertheless, our concerns about inflation have not yet subsided, as we still expect inflation to remain elevated and jack up cost of sales
- The above notwithstanding, we remain 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 optimistic about future performance

Valuation: Under review

- UNIL is currently trading at a current P/E of 6.0x (TTM of 5.5x) and an EV/EBIT of 4.1x (TTM of 3.0x)

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