

## Guinness Ghana 1Q2023/24 Results

Current rating **UNDER REVIEW**

Ghana | 03 November 2023

### Adapting to changing market dynamics

**Guinness Ghana Breweries (“GGBL”) released its unaudited 1Q2023/24 financial results on Monday 30 October 2023, expectedly posting a profit-after-tax of GHS 10.6mn in 1Q2023/24<sup>1</sup>. The profit outturn, which was anchored on outsized revenue growth and cost containment, represents a year-on-year improvement over the previous comparable year’s loss of GHS 23.5mn. From our analysis GGBL’s earnings performance was largely driven by a 44.9% y/y growth in revenue which more than offset the 32.5% y/y rise in cost of sales to significantly boost gross profit by 150.3% y/y to GHS 88.7mn in 1Q2023/24. While we maintain our bullish outlook on revenue growth and profitability, we are wary of the near-term impact of recent hikes in excise taxes on sweetened beverages and alcoholic drinks above Spirits on input cost**

#### Performance: Strong revenue growth underpins profitability

- GGBL’s earnings increased from a loss of GHS 23.5mn in 1Q2022/23 to a profit of GHS 10.6mn in 1Q2023/24, sustaining its return to profitability
- The earnings performance was on the back of a 44.9% y/y increase in revenue to GHS486.7mn in 1Q2023/24
- Cost of sales also increased by 32.5% y/y to GHS 398.0mn in 1Q2023/24, largely attributable to the 22.9% depreciation of the Ghanaian Cedi against the US Dollar and partly to the hike in excise tax on sweetened beverages and alcoholic drinks above spirits
- As a result of the stronger growth in revenue for the period, gross profit increased by 150.3% y/y to GHS 88.7mn
- Consequently, gross margin widened by 767bps y/y to 18.2%
- Operationally, Selling, General & Administration expense witnessed a 27.6% y/y surge, largely as a result of the prevailing high inflation which averaged 40.4% between July to September 2023.
- Notably, we observed that GGBL successfully increased revenue (+44.9% y/y) above the average inflation while managing cost increases below the average inflation
- As a result, operating profit increased from a loss of GHS 10.1mn in 1Q2022/23 to a profit of GHS 30.5mn in 1Q2023/24
- Operating margin followed suit, increasing by 929bps y/y to 6.3% in 1Q2023/24
- Finance charges surged by 31.8% to GHS 17.6mn, arising from 155.0% y/y increase in bank overdraft
- Despite the rise in finance cost, net profit margin spiked by 917bps y/y to close the period at 2.2%, helped by the robust revenue growth amidst operational cost controls

#### Outlook: Bright prospects for healthy revenue growth

- In 2Q2023/24, we anticipate that the impending festive season will increase demand for the company’s diverse product portfolio amidst the brand activation campaigns. These events should sustain the robust top-line growth with a trickle down to profitability.
- As a result, we foresee improvement in margins in the short term, if GGBL sustains the tight lid on OPEX as well as input cost. However, the elevated but moderating inflationary pressures amidst the recent hike in excise taxes on sweetened beverages and alcoholic drinks remain a downside risk to margins improvement in the quarters ahead
- We expect GGBL to continue to increase its reliance on locally sourced material to reduce the impact of the cedi depreciation while partial use of low-cost clean energy will soften the impact of quarterly hikes in electricity tariff
- Amidst the difficult economic climate, we remain optimistic about GGBL’s revenue growth. We think that over the short-term, revenue growth will be sustained by the company’s wide and diverse product line, brand loyalty, and marketing campaign investments

#### Valuation: Under review

- We are in the process of re-initiating coverage on GGBL and have therefore placed our recommendation under review
- GGBL is trading at a P/sales of 2.15x and EV/SALES of 2.2x

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<sup>1</sup> GGBL's financial year begins from 01 July and ends on 30 June the next year.