

## TOTAL 9M2023 Results

Current rating **UNDER REVIEW**

Ghana | 07 November 2023

### Resilient Earnings amid Cost Hurdles

**TotalEnergies Marketing Ghana Plc (“TOTAL”) released its unaudited 9M2023 financial results last week, posting a 22.1% y/y improvement in profit-after-tax to GHS 126.6mn. The growth in earnings was on the back of an 18.1% y/y increase in revenue and a noteworthy improvement in impairment gain on trade receivables. However, operating expense increased by 37.5% y/y to GHS 260.3mn, due to the elevated inflation, rising utility costs and the cedi depreciation, while finance expense escalated by more than 7-fold to GHS 60.6mn. Overall, TOTAL’s earnings outturn did not disappoint although the anticipated spike in finance cost combined with the elevated operating expenses to cap the growth in bottom-line.**

Performance: Earnings rise on revenue and impairment gain

- TOTAL’s bottom-line surged by 22.1% y/y to GHS 126.6mn, on the back of revenue growth and a significant improvement in impairment on trade receivables
- TOTAL’s topline increased by 18.1% y/y to GHS 4.6bn, attributable to increases in ex-pump fuel prices during 9M2023
- This increase was underpinned by an 8.4% y/y rise in global crude oil prices in 9M2023 despite the y/y decline in the previous two quarters (-26.1% in 1Q2023, -34.8% in 1H2023).
- TOTAL’s price was also supported by the Cedi’s 22.9% depreciation against the US Dollar in 9M2023
- Cost of sales increased by 15.7% y/y, impressively contained below inflation of 38.1% in September 2023 (vs 37.2% in September 2022) and the Cedi’s depreciation
- As a result of the growth in revenue, which outpaced the growth in cost of sales, gross profit increased by 46.5%y/y to GHS458.1mn
- Resultantly, gross margin increased by 1.9pp y/y to 9.9% in 9M2023
- Impairment on trade receivables significantly improved from a loss of GHS 8.9mn in 9M2022 to a gain of GHS 0.96mn in 9M2023
- Operating expense increased by 31.3% y/y to GHS 260.3mn, driven by General, administrative and selling expense which increased by 37.5% y/y. Encouragingly, we note management’s effort to contain OPEX growth below inflation of 38.1% in September 2023
- Consequently, operating profit surged by 57.5% y/y to GHS 237.0mn, improving TOTAL’s operating margin by 1.3pp y/y to 5.1%
- Finance expense swelled by 660.3% y/y to GHS 60.6mn, owing to 136.8% increase in bank overdraft, long, and short-term loans which amounted to a combined value of GHS 431.7mn
- Other income increased by 6.2% y/y to GHS 38.3mn
- As a result, profit-after-tax increased by 22.1% to GHS 126.6mn and net profit margin slightly increased by 0.1pp y/y to 2.7%.

Outlook: A promising outlook for increase in profitability in the next quarter

- We perceive lingering upside risk to global crude oil price in the short-term as supply-side concerns over the ongoing Middle East conflict offsets a potentially weaker demand from softening economic conditions in major oil consumers. The decision by Saudi Arabia and Russia to extend voluntary output cuts to year-end 2023 will add extra near-term support. We expect this upside risk to sustain TOTAL’s topline performance with the inelastic nature of fuel consumption. This should sustain the topline growth with a trickle down to profitability.
- We are optimistic that the company’s wide distribution network, increased productivity and the innovative TOTALEnergies card will continue to support sales into the medium-term.
- Although the elevated domestic inflation profile and upside risk to global oil prices will exert upward pressure on cost of sales and OPEX, we expect TOTAL to keep a tight lid on OPEX to improve margins with the aid of continued moderation in inflationary pressure
- Amidst the tighter purse strings and stiff competition in the sector, we expect TOTAL to adopt strategic price adjustments to limit the risk of volume decline as some consumers seek out cheaper alternatives

Valuation: Under Review

- We are in the process of re-initiating coverage on TOTAL and have therefore placed our recommendation under review
- TOTAL is currently trading at a P/E of 8.0x, TTM P/E of 5.6x and EV/EBIT of 4.5x

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**\*Rates are from the Bank of Ghana, Ghana Statistical Service and the National Petroleum Agency’s website**

**\*Indicative prices for August and September 2023 have not yet been published**

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