

Unilever Plc. 9M2023 Results

Current rating **UNDER REVIEW**

Ghana | 03 November 2023

Driving profitability through strong revenue with strategic cost control

Unilever Ghana (“UNIL”) released its unaudited 9M2023 financial results on Monday 30 October 2023, reporting a significant improvement in profit-after-tax to GHS 92.1mn, from the previous comparable year’s loss position of GHS 12.2mn. Our observation of the 9M2023 financial results showed that UNIL’s operating profit margin increased sharply by 16.8pp to 16.3% y/y on the back of strong double digit revenue growth amidst ongoing stringent cost controls. We are highly impressed that UNIL sustained its streak of profit outturn for the fourth straight quarter, despite the prevailing macroeconomic challenges.

Performance: Strong revenue growth expectedly sustains profit momentum

- UNIL’s earnings improved from a loss of GHS 12.2mn in 9M2022 to a profit-after-tax of GHS 92.1mn in 9M2023.
- The profit outturn was anchored on a 49.8% y/y surge in revenue to GHS 694.8mn, underpinned by upward price adjustments implemented in 9M2023
- Input cost increased by 20.2% y/y to GHS 434.3mn in 9M2023, below the 24.6% y/y rise in 1H2023 and the 22.9% Cedi depreciation against the US Dollar in 9M2023
- Consequently, gross profit swelled by 153.8% y/y to GHS 260.6mn, leading to a 15.4pp increase in gross profit margin to 37.5%.
- Operating expense surged by 34.0% y/y to GHS 153.8mn, largely influenced by brand & marketing investment expense (+93.7% y/y) and administrative expense (+23.3% y/y) in 9M2023. Impressively, we note that the rise in administrative expense was substantially below the 9M2023 average inflation of 44.3% and the 40.0% y/y rise witnessed in 1H2023
- Despite the cost pressures, operating profit switched from a loss of GHS 2.2mn to a profit of GHS 113.5mn, on the back of the strong topline growth amidst cost savings and operational discipline
- Resultantly, operating profit margin increased by 16.8pp y/y to 16.3%
- Finance costs declined by 19.3% y/y to GHS 8.9mn as management reduced its use of bank overdraft amidst the rising interest rates
- Consequently, net profit margin improved by 15.9pp y/y to 13.3% in 9M2023

Outlook: A mixed bag of seasonal demand boost and marketing drive will sustain topline growth in 4Q2023

- We expect the upcoming festive season to drive demand for consumer staples across the UNIL brands and support topline growth in 4Q2023
- Our optimism on the revenue outlook is further strengthened by management’s continued investments in brand & marketing initiatives such as Pepsodent “talk to a dentist campaign” in partnership with the Ghana Dental Association, amongst other initiatives. Management has shown firm commitment to investing in brand equity, which we believe is a critical support for medium term revenue growth
- On the cost front, we expect UNIL to keep its grip on OPEX as inflationary pressures continue to abate in the months ahead
- Overall, we view UNIL’s streak of profits for four straight quarters as a positive turnaround story and remain cautiously optimistic about the near-term prospects

Valuation: Under review

- We are in the process of re-initiating coverage on UNIL and have therefore placed our recommendation under review
- UNIL is currently trading at a P/E of 7.3x, a TTM P/E of 2.5x and P/Sales of 0.73x

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