Fan Milk Plc FY2023 Results

Current rating **UNDER REVIEW**

Ghana | 31 January 2023

The silver lining amidst dark clouds

Fan Milk Plc ("FML") released its unaudited FY2023 financial results yesterday, reporting impressive profit outturn. The large ice cream producer pumped out a net profit of GHS 27.4mn, a strong improvement from a loss of GHS 41.6mn in the prior comparable year. Our assessment of the FY2023 financial results showed that a significant 84.7% y/y surge in finance income, 20.9% increase in other Income, 10.2% fall in input cost, and a 3.0% drop in operational cost were major contributors to FML's profit outcome. Management attributed the marginal growth in revenue to a challenge experienced in 3Q2023, on a flagship product which transcended into 4Q2023, hence adversely influencing the trajectory of revenue growth.

Performance: Effective Cost Control Despite Revenue Challenges

- FML reported a net profit of GHS 27.4mn in FY2023, switching from a loss position of GHS 41.6mn in FY2022
- Revenue increased by 2.3% y/y in FY2023 to GHS 549.4mn, relatively lower than the +7.8% y/y in 9M2023. The slowdown in revenue growth reflects the quality challenges experienced with FANYOGO in 3Q2023, which transcended into 4Q2023
- Input costs significantly reduced by 10.2% y/y to GHS 378.1mn, driven by a fall in the price of FML's key input material such as skimmed milk powder (-17.5% y/y) coupled with the drastic fall in inflation from 54.1% in December 2022 to 23.2% y/y December 2023
- However, we observed a 64.2% y/y rise in the price of cocoa futures, together with 27.8% and 31.9% annual depreciation of the Cedi against the US Dollar and the British Pound, respectively, in 2023.
- Operationally, FML effectively controlled OPEX, ensuring a decline in operating expenses to GHS 145.2mn (-3.0% y/y)
- Management contained the rise in sales and distribution cost at 9.1% y/y while administrative expenses witnessed a 24.8% y/y fall, on account of the ongoing decline in inflation to 23.2% y/y in December 2023 (vs 54.1% y/y at end-2022)
- As a result of the controlled OPEX, FML's operating margin improved by 11.15pp, from -5.6% in FY2022 to +5.5% in FY2023
- Finance cost increased by 25.4% y/y to GHS 27.3mn in FY2023, largely reflecting the higher interest rates environment
- However, finance income surged (+84.7% y/y) to GHS 33.9mn, offsetting the higher interest paid on finance cost
- Resultantly, net profit margin improved from -7.7% in FY2022 to +5.0% in FY2023

Outlook: Cost Optimization to Drive Profit Growth amidst the Sluggish Growth in Revenue

- FML was able to improve margins due to better product mix, strict cost containment and substantial progress made on productivity initiative such as the use of biomass energy. We therefore expect a rebound in revenue growth in 1Q2024 following resolution of the quality challenges with FANYOGO.
- Management reported that despite implementing price increases and productivity initiatives, input costs have remained elevated due to persistent inflation and fluctuating exchange rates throughout the year. However, we anticipate that inflation and exchange rate pressures will moderate in FY2024, complementing management's continued cost control strategies.
- Consequently, we are optimistic that FML will keep its grip on OPEX as inflationary pressures continue to ease in the months ahead. We also expect input cost to remain under control in the short-term as price of skimmed milk powder stays depressed.
- Despite intense competition, we anticipate that FML will keep expanding its agent base and footprint in the outdoor channel with positive impact on topline growth

Valuation: Under Review

- We are in the process of re-initiating coverage on FML and have therefore placed our recommendation under review
- FML is trading at a TTM PE of 13.81x and EV/SALES of 0.67x

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