

Guinness Ghana 2Q2023/24 Results

Current rating **UNDER REVIEW**

Ghana | 13 February 2024

Surfing the revenue wave to profitability in turbulent financial seas

Guinness Ghana Breweries (“GGBL”) released its unaudited 2Q2023/24 financial results yesterday and, in line with our expectations, recovered from a loss of GHS 9.9mn in 2Q2022/23 to a profit after tax of GHS 28.0mn. The significant improvement in bottom-line was hinged on substantial revenue growth and decline in finance charges despite the spike in input cost and rise in operational expense. From our analysis, GGBL’s earnings performance was largely driven by a 55.4% y/y growth in revenue which more than offset the 52.7% y/y rise in cost of sales to significantly boost gross profit to GHS211.0mn in 2Q2023/24 (+69.3%/y/y).

Performance: Strong revenue growth drives profitability

- GGBL’s earnings increased from a loss of GHS 9.9mn in 2Q2022/23 to a profit of GHS 28.0mn in 2Q2023/24
- The earnings performance was on the back of a 55.4% y/y increase in revenue to GHS 1.2bn in 2Q2023/24
- Cost of sales also surged by 52.7% y/y to GHS 965.6mn in 2Q2023/24, largely attributable to the 27.8% 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 69.3% y/y to GHS 211.0mn
- Consequently, gross margin stretched by 147bps y/y to 17.9%
- Despite the drastic fall in inflation from 54.1% in December 2022 to 23.2% y/y in December 2023, Selling, General & Administration expense (GHS 141.9mn) observed a 39.2% y/y surge, but slightly below the average inflation of 40.3% in FY2023
- Eminently, we observed that GGBL successfully increased revenue by 55.4% y/y above inflation and managed cost increases below the average inflation in FY2023
- Consequently, operating profit surged by 204.4% y/y to GHS 69.1mn in 2Q2023/24, owing to the positive revenue-growth effect on gross profit
- Operating margin followed suit, increasing by 288bps y/y to 5.9% in 2Q2023/24
- Finance charges declined by 13.7% to GHS 28.1mn, as management ceased the use of bank overdraft amidst the rising interest rates
- Resultantly, net profit margin increased by 369bps y/y to close the period at 2.4%, helped by the robust revenue growth despite the less impressive cost controls

Outlook: Promising outlook for robust revenue growth but sustained grip on cost is necessary for earnings

- We are positive about GGBL’s revenue outlook, which is bolstered by management’s ongoing investments in branding and marketing, exemplified by initiatives like the “Guinness Ghana DJ Awards” and their sponsorship of the Ghana Women’s Premier League.
- Our optimism on revenue outlook is also hinged on the marketing initiatives, such as the “Guinness Accravaganza” social events, which was designed to offer an engaging celebration of Guinness’ central message that “Black Shines Brightest.” These events served to maintain the brand’s visibility in consumers’ minds, ultimately contributing to its market presence and growth during the period.
- 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.
- In the midst of constrained spending and fierce competition in the sector, we expect GGBL 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 GGBL and have therefore placed our recommendation under review
- GGBL is trading at a P/Sales of 0.89x and EV/SALES of 0.83x

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