

GOIL FY2023 Results

Current rating **UNDER REVIEW**

Ghana | 20 February 2024

Profit plummets from a cliff's edge

Ghana Oil Company Limited (“GOIL” or the “Group”) released its unaudited FY2023 financial results yesterday, posting a 43.1% y/y plunge in profit-after-tax to GHS 70.5mn. The significant downturn in earnings was on the back of a 1.2% decline in revenue, a 20.1% y/y rise in operating expense and a more than 3-fold spike in financial charges. Operating expense increased by 20.1% y/y to GHS 560.9mn, due to rising utility costs and the cedi depreciation. GOIL’s earnings outturn was not impressive as revenue declined amidst a spike in finance and operational expense, which significantly affected the growth in bottom-line.

Performance: Spike in financial charges and operational expense amplifies impact of revenue contraction despite an increase in gross profit

- GOIL’s profit-after-tax plunged by 43.1% y/y to GHS 70.5mn, largely due to 203.3% y/y surge in financial charges
- The Group’s topline declined by 1.2% y/y to GHS 20.5bn, despite the increases in ex-pump fuel prices during FY2023
- Our investigations revealed that GOIL recorded a 14.9% y/y drop in sales volume in 9M2023. While the National Petroleum Authority is yet to publish the 4Q2023 consumption data, our extrapolation suggests that GOIL probably recorded a 13.8% y/y decline in volumes for FY2023. We believe the decline in sales volume adversely impacted topline despite the price increases, resulting in the 1.2% y/y drop in FY2023 revenue.
- GOIL’s average indicative ex-pump prices for petrol and diesel increased by 13.1% y/y and 2.2% y/y respectively in FY2023
- In spite of the 10.3% y/y decline in global crude oil prices in FY2023 (vs +8.4% in 9M2023, -34.8% in 1H2023, -26.1% in 1Q2023), the increase in average indicative ex-pump prices was bolstered by the Cedi’s 27.8% depreciation against the US Dollar in FY2023.
- Cost of sales impressively dropped by 1.5% y/y to GHS 19.8bn, despite the impact of the Cedi’s depreciation
- The sharper decline in cost of sales relative to the fall in revenue resulted in 8.7% y/y increase in gross profit to GHS 694.9mn.
- As a result of the decline in cost of sales, which outpaced the decline in topline, gross margin increased by 0.3pp y/y to 3.4% in FY2023
- Moreover, sundry income significantly improved by 64.7% y/y to GHS 52.3mn
- Operating expense increased by 20.1% y/y to GHS 560.9mn, solely driven by general, administrative and selling expense.
- Resultantly, operating profit dipped by 8.6% y/y to GHS 186.2mn, reducing GOIL’s operating margin by 0.1pp y/y to 0.9%
- Financial charges upsurged by 203.3% y/y to GHS 92.2mn, due to a 214.7% y/y increase in bank overdraft
- Consequently, net profit plunged by 43.1% y/y to GHS 70.5mn, resulting in a drop in profit margin by 0.3pp y/y to 0.3%

Outlook: A bleak outlook for profitability and margins

- GOIL’s volumes have been contracting since 3Q2022, representing five consecutive quarters of declining sales volume. We believe the declining volumes reflect consumers’ gradual switch to cheaper alternatives as ex-pump prices rise amidst weakening purchasing power. We view this development amidst the keen competition in the industry as a downside risk to GOIL’s profitability and margins in the near term
- Amidst the elevated interest rates, we expect GOIL to reduce the use of bank overdraft and short-term borrowings to control its finance expense
- We perceive that heightened conflict in the Middle East and the Red Sea will push energy markets into uncharted territory, given that the region accounts for nearly 30% of global oil production. Year-to-date, crude oil prices increased by 2.3% to USD 83.6pb as of Monday 19th February 2024, nudged higher by Red Sea tensions, declining inventories, and extension in output cuts by OPEC+. This poses an upside risk to GOIL’s cost of sales while competition prevents steep price adjustments given the volume declines.
- However, the war is yet to spread in the larger Middle East, and oil prices have remained contained below the USD 90pb mark. The absence of escalation in the Middle East war will cap the geopolitical risk in addition to the weakening global demand to potentially contain prices around the USD 80pb mark (IEA 2024 forecast: USD 82.5pb).
- These developments should keep a lid on GOIL’s cost of sales as domestic ex-pump prices moderately adjust upwards largely on potential Cedi depreciation in 2024.
- We expect GOIL to tightly control financial charges and OPEX to boost margins with the help of continued moderation in inflationary pressures
- Overall, we are bearish on the near-term outlook for GOIL’s earnings growth as we are yet to see reassuring corrective measures from management despite the Group’s positive medium-term prospects

Valuation: Under Review

- We are in the process of re-initiating coverage on GOIL and have therefore placed our recommendation under review
- GOIL is currently trading at a P/E of 8.3x, TTM P/E of 8.3x and EV/EBIT of 4.8x

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***Currency rates are from the Bank of Ghana**

***Petroleum price is from the National Petroleum Agency's website**

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