TOTAL FY2023 Results

Current rating **UNDER REVIEW**

Ghana | 02 February 2024

Earnings Hit Rough Waters as Cost Soar

TotalEnergies Marketing Ghana Plc ("TOTAL") released its unaudited FY2023 financial results yesterday, posting a 3.0% y/y improvement in profit-after-tax to GHS 169.9mn. The marginal growth in earnings was on the back of a 6.6% increase in revenue and a noteworthy improvement in impairment gain on trade receivables from a loss position of GHS 10.7mn to a gain of GHS 0.96mn. However, operating expense increased by 22.2% y/y to GHS 345.7mn, due to rising utility costs and the cedi depreciation, while finance expense upsurged by more than 4-fold to GHS 83.0mn. Overall, TOTAL's earnings outturn was not impressive as it was mainly eroded by finance expense combined with the elevated operating expenses which significantly affected the growth in bottom-line.

Performance: Finance expense trims earnings

- TOTAL's bottom-line witnessed a modest increase by 3.0% y/y to GHS 169.9mn, on the back of modest revenue growth and a significant improvement in impairment on trade receivables
- TOTAL's topline increased by 6.6% y/y to GHS 6.1bn, attributable to increases in ex-pump fuel prices during FY2023
- TOTAL's average indicative ex-pump prices for petrol and diesel increased by 66.2% y/y and 213.6% y/y respectively in FY2023.
- Despite a 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 increased by 4.7% y/y as the y/y decline in global energy prices partly offset the impact of the Cedi's depreciation
- As a result of the growth in revenue, which outpaced the growth in cost of sales, gross profit increased by 26.5%y/y to GHS 621.6mn
- Resultantly, gross margin increased by 1.6pp y/y to 10.3% in FY2023
- Impairment on trade receivables significantly improved from a loss position of GHS 10.7mn in FY2022 to a gain of GHS 0.96mn in FY2023
- Operating expense increased by 22.2% y/y to GHS 345.7mn, solely driven by General, administrative and selling expense. We are encouraged by management's endeavor to restrain the growth of operating expenses, which remained below the inflation rate of 23.2% in December 2023.
- Consequently, operating profit surged by 34.9% y/y to GHS 324.8mn, improving TOTAL's operating margin by 1.1pp y/y to 5.4%
- Finance expense escalated by 302.1% y/y to GHS 83.0mn, owing to 38.4% collective growth in bank overdraft, long and short-term loans which amounted to a combined value of GHS 323.2mn
- Other income increased by 11.2% y/y to GHS 47.9mn
- As a result, profit-after-tax marginally increased by 3.0% to GHS 169.9mn while net profit margin slightly declined by 0.1pp y/y to 2.8%.

Outlook: Strategic cost control with expected scaling back on borrowings to improve earnings

- We expect TOTAL to reduce the use of bank overdraft, as well as long and short-term borrowings to control its finance expense in 2024 amidst the elevated interest rates
- 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. However, crude oil prices pulled back below USD 80pb in early trading sessions on Friday 2nd February 2024 due to emerging reports of ongoing negotiation for a truce between Israel and Hamas.
- While the war is yet to spread in the larger Middle East, oil prices have remained contained below the USD 90pb mark. The emerging peace talks will further trim 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 TOTAL's cost of sales as domestic ex-pump prices moderately adjust upwards largely on potential Cedi depreciation in 2024
- 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.
- As domestic inflation profile continues to moderate, we expect TOTAL to keep a tight lid on OPEX to improve margins
- 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 6.0x, TTM P/E of 5.9x and EV/EBIT of 3.3x

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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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