

Unilever Plc. FY2023 Results

Current rating **UNDER REVIEW**

Ghana | 01 February 2023

Hitting a home run in tough innings

Unilever Ghana (“UNIL”) released its unaudited FY2023 financial results today, and posted a breathtaking profit. The large consumer staple posted a more than expected profit of GHS 179.0mn, representing a more than 11-fold improvement over the previous comparable year’s profit of GHS 15.1mn. Furthermore, UNIL’s operating profit also upsurged by 589.4% y/y to GHS 223.7mn in the review period, on the back of strong double digit revenue growth amidst ongoing stringent operational cost controls. Overall, we are highly impressed that UNIL sustained its streak of profit outturn for the fifth straight quarter, despite the prevailing macroeconomic challenges.

Performance: Profit jumps amid strong revenue growth and strategic cost control

- UNIL’s earnings significantly improved from a profit of GHS 15.1mn in FY2022 to GHS 179.0mn in FY2023, grounded on enhanced revenue, stringent cost controls, and investment in demand-generating and brand-building activities
- The profit outturn was firmly secured on a 43.8% y/y surge in revenue to GHS 908.1mn, underpinned by upward price adjustments and increased sales implemented in FY2023
- Input cost increased by 20.1% y/y to GHS 571.4mn in FY2023, marginally below the 20.2% y/y rise in 9M2023 and the 27.8% Cedi depreciation against the US Dollar in 2023
- Consequently, gross profit spiked by 116.4% y/y to GHS 336.8mn, leading to a 12.4pp increase in gross profit margin to 37.1%.
- Operating expense dropped by 8.9% y/y to GHS 125.1mn, largely influenced by a 68.2% y/y drop in administrative expense as well as 71.2% y/y fall in restructuring costs in FY2023.
- Despite the decline in operational cost, we observed a steep increase in brand building expense (+98.5% y/y) as management scaled up its investment in brand-building activities to drive the revenue growth in FY2023. Furthermore, growth in distribution expense in FY2023 (+33.1% y/y) was higher than the 18.6% y/y in 9M2023
- Subsequently, operating profit spiked by over 6-fold from a profit of GHS 32.4mn in FY2022 to GHS 223.7mn in FY2023, on the back of the strong topline growth amidst cost savings and operational discipline
- Resultantly, operating profit margin increased by 19.5pp y/y to 24.6%
- Finance costs slumped by 45.8% y/y to GHS 10.0mn as management ceased the use of bank overdraft amidst the rising interest rates
- Consequently, net profit margin improved by 17.3pp y/y to 19.7% in FY2023

Outlook: Enhanced sales and marketing drive to sustain topline growth in 2024

- In our 9M2023 update, we anticipated continued growth in revenue for FY2023. However, we are impressed by the significant improvement in topline. We therefore expect management to continue to invest in demand-generating and brand-building activities to increase sales and sustain the strong revenue growth momentum in 2024
- 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 impressive profit outturn for FY2023 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 TTM P/E of 0.56x and P/Sales of 0.56x

Analyst:

Courage Kingsley Martey: +233 30 825 0051

For further information, please contact our Research Team. T: 233 308-250051 | +233 302-252517 Email: research@icsecurities.com

Disclaimer:

This report is designed to be utilized by qualified institutional and professional investors only. Private investors must consult their investment adviser or broker for professional advice before seeking to act on the contents of this report. This advice has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. IC Securities’ investment research reports are provided for informational purposes only. All information provided in this report is the intellectual property of IC Securities, is for the use of intended recipients only, and may not be reproduced in any form whatsoever without the express written consent of IC Securities. Descriptions are not intended to be complete and cannot be guaranteed to be accurate; therefore, IC Securities does not assume any legal liability or responsibility for any inaccuracies or misrepresentations contained in this report. Neither IC Securities nor its management, officers or employees accept responsibility or liability for, or make any representation, statement or expression of opinion or warranty, express or implied, with respect to the accuracy or completeness of the information or any oral communication in connection therewith. There may be regulatory or confidentiality obligations which prevent IC Securities from disclosing information, material or

otherwise, which would normally be expected to be included in this report. The price of any securities stated in this report is the reported market price as of the date indicated, taken from sources IC Securities believes to be reliable. IC Securities does not represent that this price may be achieved in any transaction. Due to the inherently illiquid and relatively opaque nature of most of the Firm's coverage markets, any price stated in this report may not reflect the true trading price of the security referenced. This document does not constitute an offer by, or on behalf IC Securities to enter into any transaction with you and will not form the basis of a contract for any such transactions. This report does not constitute an offer to sell or solicitation of a purchase order in respect of any securities, derivative or other instrument by the Firm.

