

Guinness Ghana 9M2023/24 Results

Current rating **UNDER REVIEW**

Ghana | 29 April 2024

Turning loss into profit, GGBL's bottom-line soars.

Guinness Ghana Breweries Plc. ("GGBL") released its unaudited 9M2023/24 financial results, reporting an impressive profit turnaround. The Ghanaian brewery recovered from a loss of GHS41.3mn in 9M2022/23 to a profit after tax of GHS 37.2mn. The significant improvement in the company's bottom-line was driven by substantial revenue growth and a decline in finance charges, despite the spike in input costs and the rise in operational expense. Our analysis indicates that GGBL's earnings performance was largely propelled by a 43.3% y/y growth in revenue which more than offset the 37.2% y/y rise in cost of sales, significantly boosting gross profit to GHS 309.1mn in 9M2023/24(+81.9%/y/y).

Performance: Strong revenue growth drives profitability

- GGBL's earnings improved from a loss of GHS 41.3mn in 9M2022/23 to a profit of GHS 37.2mn in 9M2023/24 on the back of a 43.3% y/y increase in revenue to GHS 1.8bn.
- Cost of sales surged by 37.2% y/y to GHS 1.5bn in 9M2023/24, largely attributable to the 6.8% YTD 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 surged by 81.9% y/y to GHS 309.1mn. Consequently, gross margin improved by 367bps y/y to 17.3%.
- Despite the drastic fall in inflation from 45.0% in March 2023 to 25.8% y/y in March 2024, Selling, General & Administration expense increased by 30.1% y/y to GHS 215.5mn, but below the average inflation of 33.7% during the period.
- Operating profit increased by more than 22-fold to GHS 93.6mn in 9M2023/24, driven by the positive revenue-growth effect on gross profit. Operating margin expanded by 490bps y/y to 5.2% in 9M2023/24.
- Finance charges declined by 25.4% y/y to GHS 38.8mn, propelling net profit margin to increase by 540bps y/y to 2.1%.

Outlook: Strong revenue growth to sustain positive bottom-line performance

- We expect GGBL's revenue performance to remain strong, hinged on management's ongoing investments in branding and marketing. Notably, we expect initiatives like the Guinness Accravaganza social events 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, notwithstanding the prevailing cost pressures. While cooling inflation should help GGBL contain some costs, the recent hike in excise taxes on sweetened beverages and alcoholic drinks will continue to serve as headwinds to margin expansion.
- We expect GGBL to continue to increase its reliance on locally sourced material to reduce the impact of the Cedi depreciation while the partial use of low-cost clean energy will soften the impact of quarterly hikes in electricity tariff.
- In the midst of constrained spending and fierce competition in the sector, we expect GGBL to adopt strategic price adjustments in a bid to enhance customer retention.

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 0.77x and EV/SALES of 0.72x

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