Unilever Plc. 1Q2024 Results

Current rating **UNDER REVIEW**

Ghana | 30 April 2024

Hit a bump in the road

Unilever Ghana ("UNIL") released its unaudited 1Q2024 financial results yesterday, and posted an unexpected 14.8% y/y decline in net profit to GHS 24.3mn. The decline in net profit stems from a disappointing revenue performance, a worsening of impairment on trade from a gain of GHS 0.6mn in 1Q2023 to a loss of GHS 0.6mn in 1Q2024, and a 48.2% y/y surge in operating expenses to GHS 76.7mn. However, an 83.7% y/y slump in finance cost to GHS 1.1mn helped to partly mitigate the drop in net profit. UNIL's gross profit improved by 26.9% y/y to GHS 107.4mn as a result of a 14.1% y/y decline in input cost to GHS 135.1mn. Operating profit dropped marginally by 0.3% y/y to GHS 34.7mn, on the back of high operational cost. Overall, we are disappointed by the y/y softening in UNIL's earnings in 1Q2024, occasioned by the flat revenue performance, although the firm sustained its streak of profit outturn for the sixth straight quarter.

1Q2024 Performance: Net profit dampened by subdued revenue growth, escalating operational costs, and impairment loss on trade

- UNIL's earnings unexpectedly declined by 14.8% y/y to GHS 24.3mn in 1Q2024, as a result of a broadly flat revenue outturn, a worsening of impairment on trade, and a surge in operating expenses
- Revenue disappointingly remained relatively stagnant, showing a marginal increase of only 0.3% y/y to GHS 242.5mn in 1Q2024
- We note a 14.1% y/y decline in input cost to GHS 135.1mn in 1Q2024. This suggests cost containment and appears to be impressive at face value, given management's indication of material cost savings. However, we think the decline in input cost may have resulted in lower output, which ostensibly held back sales revenue growth in 1Q2024.
- On the back of the lower input cost, gross profit increased by 26.9% y/y to GHS 107.4mn, leading to a 9.3pp increase in gross margin to 44.3%.
- Operating expense (OPEX) surged by 48.2% y/y to GHS 76.7mn, largely influenced by a 53.8% y/y rise in administrative expense as well as 49.5% y/y increase in brand and marketing investment in 1Q2024.
- Despite the surge in operational cost, we observed a 4.4% y/y decline in restructuring cost to GHS 1.6mn. This sustains the trend of declining restructuring expense observed in the 2023 financial results and eases our concern about the firm's restructuring outlook.
- Furthermore, other income increased by more than 3-fold to GHS 4.7mn, easing the squeeze on earnings.
- Due to the higher OPEX amidst a sluggish topline growth, operating profit declined by 0.3% y/y to GHS 34.7mn in 1Q2024. This resultantly trimmed the operating profit margin by 0.1pp y/y to 14.3%
- Finance costs plunged by 83.7% y/y to GHS 1.1mn in 1Q2024 as management scaled back on the use of bank overdraft amidst the high interest rates environment. We view the sharp fall in finance cost as an essential mitigation to the squeeze on net profit.
- Overall, net profit margin declined by 1.8pp y/y to 10.0% in 1Q2024

Outlook: The sluggish revenue performance in 1Q2024 leaves us cautious on the near-term earnings outlook

- In FY2023, the company attributed the 43.8% y/y revenue growth, largely to sustained investment in demand-generating and brand-building activities. We therefore expect management to intensify this strategy to boost topline growth in the medium-term.
- We also expect management to increase sales in beauty, personal care and nutrition business group through increased volume and improved innovations
- The introduction of "Amansan Akyede" as part of the celebration of Key soap's 60th anniversary marks a strategic marketing initiative aimed at engaging and rewarding loyal customers. Enhancements made to the product's features represent an innovative approach to increase its appeal to customers. We anticipate that this marketing campaign will not only foster stronger connections with customers but also positively impact sales performance, contributing to the company's overall growth trajectory
- However, our revenue optimism is tapered by the disappointing outturn in the 1Q2024 topline growth, which we believe is likely due to volume decline as input cost surprisingly fell. Although management attributed the input cost decline to "material cost savings", we opt to stay cautious on the sustainability of the input cost savings as it appeared to weigh on revenue growth in 1Q2024.
- On the cost front, we expect consumer price inflation to return to a downward path in 2Q2024 after the fluctuation in 1Q2024, although upward pressure on energy prices could pose upside risk to distribution expense. Consequently, we expect disinflation in the months ahead to strengthen UNIL's grip on OPEX in the subsequent quarters.
- Overall, we are disappointed by the y/y softening in UNIL's earnings performance, although the firm sustained its streak of profit outturn for the sixth straight quarter. We opt to cautious about the near-term prospects as we monitor management's control of material cost and its resultant impact on topline growth.

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 4.24x and P/Sales of 3.05x

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