TOTAL 1Q2024 Results

Current rating **UNDER REVIEW**

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Weathering the storm

TotalEnergies Marketing Ghana Plc ("TOTAL") released its unaudited 1Q2024 financial results on 30 April 2024, posting a 20.4% y/y improvement in profit-after-tax to GHS 48.6mn, despite a 4.5% y/y slump in revenue to GHS 1.6bn. The growth in earnings was partly on the back of a 6.7% y/y decline in cost of sales to GHS 1.4bn. We observed that the decline in revenue was due to volume contraction in 1Q2024, which offset the benefits of higher ex-pump prices during the period. Furthermore, operating expense was well contained, increasing marginally by 1.2% y/y to GHS 87.6mn, despite rising utility costs and the cedi depreciation. Finance expense increased by 14.9% y/y to GHS 24.5mn, capping the upside for earnings growth. Overall, TOTAL's earnings outturn was uninspiring as it was mainly driven by reduced input cost. We think the decline in sales volume for 1Q2024 indicates emerging headwinds from price competition as consumers seek out cheaper alternatives amidst the higher energy prices, which poses a risk to the near-term outlook.

1Q2024 Performance: Decline in cost of sales trickle down to bottom-line growth

- TOTAL's bottom-line increased by 20.4% y/y to GHS 48.6mn, on the back of a 6.7% y/y decline in cost of sales to GHS 1.4bn and OPEX containment
- In our view, the reduced cost of sales was underpinned by a y/y decline in sales volume as opposed to efficiency measures to contain input cost. Using data from the industry regulator – National Petroleum Authority (NPA) - we observed that TOTAL's sales volume declined by 2.0% y/y to 79,652 metric tonnes in 1Q2024.
- In view of the lower sales volume, topline declined by 4.5% y/y to GHS 1.6bn, despite a y/y increase in ex-pump prices
- As a result of the decline in cost of sales, which outpaced the decline in revenue, gross profit increased by 17.6% y/y to GHS 177.0mn
- Resultantly, gross margin increased by 2.1pp y/y to 11.3% in 1Q2024
- TOTAL posted GHS 2.2mn as impairment charge on trade receivables in 1Q2024 compared to no impairment gain or loss in the prior year
- Operating expense increased marginally by 1.2% y/y to GHS 87.6mn, solely driven by General, administrative and selling expense. We are encouraged by management's endeavor to restrain the growth of operating expenses despite the elevated price pressures.
- Consequently, operating profit increased by 22.6% y/y to GHS 93.7mn, improving TOTAL's operating margin by 1.3pp y/y to 6.0%
- Finance expense increased by 14.9% y/y to GHS 24.5mn, owing to a 22-fold increase in short-term borrowing to GHS 11.3mn and a 171.4% y/y surge in bank overdraft to GHS 298.7mn
- Other income plunged by 48.2% y/y to GHS 6.5mn. The decline in other income and the surge in finance cost further diminished the growth in bottom-line
- As a result of the restrained growth in earnings, net profit margin slightly increased by 0.6pp y/y to 3.1%.

Outlook: Cautious on near-term prospects amid declining sales volume

- The observed 2.0% y/y decline in TOTAL's sales volume in 1Q2024 represents the 5th consecutive quarter of y/y contraction in volumes, albeit at a moderating pace of decline in each quarter. In our view, this phenomenon reflects the impact of competition from relatively lower-priced OMCs as consumers seek out cheaper alternatives amidst the escalating energy prices.
- To contain the incidence of price undercutting and unfair competition, the sector regulator – National Petroleum Authority (NPA) – introduced a price floor in April 2024. For the first pricing window of May 2024 (1st – 15th May 2024), the price floor is set at GHS 13.63 per litre (+4.7% m/m) for petrol while diesel remains unchanged at GHS 13.07 per litre. We believe the start of minimum price regulation will help to ease the volume attrition occasioned by price undercutting while TOTAL continues to compete on brand equity
- We also expect TOTAL to explore strategies to stimulate demand through targeted marketing campaigns or promotions to increase sales, with the help of the company's wide distribution network.
- 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. The moderating pace of y/y volume attrition makes us cautiously hopeful.
- We anticipate that TOTAL will continue to keep a tight lid on OPEX to improve margins
- Overall, we are cautious about the near-term prospect, due to the decline in revenue, occasioned by the sustained y/y weakening in sales volume, which poses a downside risk to earnings growth.

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 TTM P/E of 6.0x and EV/EBIT of 12.0x

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