TOTAL 1H2024 Results

Current rating **UNDER REVIEW**

Ghana | 31 July 2024

Price push, volume drag

TotalEnergies Marketing Ghana Plc ("TOTAL") released its unaudited 1H2024 financial results yesterday, posting a 36.9% y/y improvement in profit-after-tax to GHS 113.9mn. The growth in earnings was mainly on the back of a 6.7% y/y growth in revenue to GHS 3.4bn. Also, operating expense was well contained, increasing by 5.1% y/y to GHS 185.4mn despite the cedi depreciation and downwardly sticky inflation. Finance expense increased by 14.8% y/y to GHS 44.1mn, capping the upside for earnings growth. Overall, TOTAL's earnings outturn was impressive. In our view, topline growth was mainly driven by price increases. However, we perceive a y/y decline in volume which tempers our enthusiasm for the sustainability of this growth.

1H2024 Performance: Increase in topline propel bottom-line growth

- TOTAL's bottom-line surged by 36.9% y/y to GHS 113.9mn, on the back of a 6.7% y/y increase in topline to GHS 3.4bn
- In our view, topline growth was mainly supported by 18.0% YTD and 14.3% YTD increase in ex-pump prices for petrol and diesel respectively.
- As a result of the increase in topline, gross profit surged by 28.5% y/y to GHS 385.2mn
- Cost of sales was well contained, increasing by 4.4% y/y to GHS 3.0bn
- Resultantly, gross margin increased by 1.9pp y/y to 11.4% in 1H2024
- TOTAL posted GHS 1.9mn as impairment charge on trade receivables in 1H2024 compared to no impairment gain or loss in the prior year
- Operating expense increased below the rate of price inflation by 5.1% y/y to GHS 185.4mn, solely driven by General, administrative and selling expense.
- Consequently, operating profit surged by 39.9% y/y to GHS 214.5mn, improving TOTAL's operating margin by 1.5pp y/y to 6.4%
- Finance expense increased by 14.8% y/y to GHS 44.1mn, owing to a 3-fold increase in short-term borrowing to GHS 13.1mn and a 12.7% y/y increase in long-term borrowings to GHS 125.9mn
- Other income plunged by 44.8% y/y to GHS 16.5mn. The decline in other income amidst the rise in finance expense reduced the growth in bottom-line
- Resultantly, net profit margin inched up by 0.7pp y/y to 3.4%.

Outlook: Cautious on near-term prospects as consumers seek cheaper alternatives amid high energy prices

- In our view, topline growth was primarily driven by increases in ex-pump prices. However, we remain cautious about the near-term prospects as consumers increasingly seek out cheaper alternatives from lower-priced OMCs amidst escalating energy prices.
- We note that, the National Petroleum Authority (NPA) introduced a price floor in April 2024, as per the petroleum pricing guidelines for BIDECs, OMCs and LPGMCs, to address price undercutting and unfair competition. We observed a 3.0% m/m decline in the price floor for petrol to GHS 13.22 per litre and a 2.4% m/m increase to GHS 13.88 per litre for diesel in the second pricing window of June 2024. We expect this regulatory intervention to stabilize the market, albeit with mixed impacts on petrol and diesel prices.
- We anticipate that TOTAL will continue to keep a tight lid on OPEX to improve margins
- Overall, TOTAL's earnings outturn was impressive. In our view, topline growth was mainly driven by price increases. However, we foresee a y/y decline in volume which tempers our enthusiasm for the sustainability of this earnings growth. While the regulatory interventions by the NPA is expected to promote fair competition and stabilize the market, the rising energy prices and potential shift in consumer behavior towards lower-priced alternatives necessitate our cautious approach to near-term revenue prospects.

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 5.4x and EV/EBIT of 5.6x

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