

## Unilever Plc. 1H2024 Results

Current rating **UNDER REVIEW**

Ghana | 25 July 2024

### Cloud on the horizon

**Unilever Ghana (“UNIL”) released its unaudited 1H2024 financial results yesterday, and posted an unexpected 14.0% y/y decline in net profit to GHS 56.1mn. The decline in net profit stems from a disappointing revenue performance, a 30.2% y/y surge in operational expense to GHS 140.3mn and a worsening of impairment on trade from a gain of GHS 0.8mn in 1H2023 to a loss of GHS 0.3mn in 1H2024. However, UNIL’s gross profit improved by 13.5% y/y to GHS 203.8mn as a result of the impressive containment of input cost, which declined by 9.3% y/y to GHS 273.2mn. Operating profit dropped by 9.7% y/y to GHS 69.9mn, on the back of the high operational cost. Overall, we are disappointed by the y/y decline in UNIL’s earnings performance for the second straight quarter, though it sustained its streak of profit outturn for the seventh straight quarter.**

1H2024 Performance: Net profit dampened by decline in revenue, escalating operational costs, and impairment loss on trade

- UNIL’s earnings unexpectedly declined by 14.0% y/y to GHS 56.1mn in 1H2024.
- The drop in earnings was as a result of a 0.8% y/y decline in revenue to GHS 477.0mn, a 30.2% y/y surge in operational expense to GHS 140.3mn and a worsening of impairment on trade from a gain of GHS 0.8mn in 1H2023 to a loss of GHS 0.3mn in 1H2024.
- Management attributes the decline in earnings to increase in brand & marketing investments, and administrative expenses as part of the company’s initiative to invest in demand-generating and equity-building activities to drive volume growth.
- Notably, input cost declined by 9.3% y/y to GHS 273.2mn in 1H2024. Management attributes the reduction in input cost to material cost savings and better product mix.
- On the back of the lower input cost, gross profit increased by 13.5% y/y to GHS 203.8mn, leading to a 5.4pp increase in gross margin to 42.7%.
- Operating expense surged by 30.2% y/y to GHS 140.3mn, largely influenced by a 95.4% y/y surge in restructuring costs (GHS 2.1mn), a 33.1% y/y rise in administrative expense (GHS 73.3mn) as well as 30.9% y/y increase in brand and marketing investment (GHS 55.1mn) in 1H2024.
- Furthermore, other income increased by 34.7% y/y to GHS 6.7mn, easing the squeeze on earnings.
- On account of the higher OPEX amidst the disappointing performance in topline, operating profit declined by 9.7% y/y to GHS 69.9mn in 1H2024. This resultantly trimmed the operating profit margin by 1.5pp y/y to 14.7%
- Finance costs plunged by 66.6% y/y to GHS 2.7mn in 1H2024 as management took action to minimize reliance on bank overdrafts, likely in response to the high interest rate environment. We view the sharp fall in finance cost as an essential mitigation to the squeeze on net profit.
- Consequently, net profit margin declined by 1.8pp y/y to 11.8% in 1H2024

Outlook: The disappointing revenue performance in 1Q2024 and 1H2024 leaves us cautious on the near-term earnings outlook

- In 1Q2024, the company reported a sluggish growth in revenue, which translated to poor earnings performance. We note that the disappointing revenue performance has continued into 1H2024 with a y/y decline. This leaves us cautious on near-term earnings outlook
- The company’s focus for FY2024 is on achieving profitable volume recovery across all categories, expanding its portfolio, and enhancing brand presence. However, despite the investment in demand-generating and equity-building activities to drive volume growth, we remain cautious about the near-term prospects. We observed a 16.1% y/y growth in inventories amidst the fall in revenue for 1H2024, suggesting that the demand-generating investments are yet to yield the desired sales volume in 2024, given the constrained purchase power of consumers. However, we recognize the surge in topline during the same period of 2023, which appears to have set a higher benchmark for the 2024 outlook.
- On the cost front, we expect increase in utility tariffs and upward pressure on energy prices to pose upside risk to OPEX.
- 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 seventh straight quarter. We, therefore, opt to stay cautious about the near-term prospects as we monitor management’s investment in demand-generating activities 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 4.76x and P/Sales of 1.94x

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