

## GOIL 1H2024 Results

Current rating **UNDER REVIEW**

Ghana | 07 August 2024

### In dire straits

**GOIL Plc (“GOIL”) released its unaudited 1H2024 financial results on 31 July 2024, posting an 11.0% y/y decline in profit-after-tax to GHS 58.3mn. The downturn in earnings was on the back of a 14.5% y/y decline in revenue to GHS 9.6bn, a 14.7% y/y rise in Operating expense to GHS 304.7mn and a 78.4% y/y spike in financial charges to GHS 60.5mn. The rise in operating expense is due to the cedi depreciation and downwardly sticky inflation while the surge in finance expense is attributable to the 101.7% y/y surge in debt to GHS 492.8mn amidst the high interest rate environment. Overall, GOIL’s earnings outturn was not impressive as it was mainly undermined by a decline in revenue as well as spikes in finance and operational expense which significantly affected the growth in bottom-line. In our view, topline growth was affected by a decline in demand due to higher pricing amidst the highly competitive industry, which remains a key risk to GOIL’s earnings outlook.**

1H2024 Performance: Spike in financial charges and rise in operational expense amplifies impact of revenue contraction

- GOIL’s profit-after-tax declined by 11.0% y/y to GHS 58.3mn, on the back of a 14.5% y/y decline in revenue to GHS 9.6bn, a 14.7% y/y rise in operating expense to GHS 304.7mn and a 78.4% y/y spike in financial charges to GHS 60.5mn
- In our view, the decline in topline was as a result of a fall in demand, due to higher pricing amidst the highly competitive industry. Goil’s ex-pump prices for petrol and diesel increased by 16.4% YTD and 15.4% YTD respectively.
- In April 2024, GOIL re-priced the SUPER XP RON95 higher (in line with competitors’ prices) but delayed in re-introducing the relatively affordable SUPER XP RON91 as an option for consumers (as done by its competitors). In our view, the one-month delay in re-introducing the regular SUPER XP RON91 created a perception of GOIL’s petrol as most expensive on the market amidst the rising fuel prices in the market. This ostensibly deepened the demand attrition in 2Q2024, which negatively impacted GOIL’s topline
- Cost of sales impressively dropped by 15.5% y/y to GHS 9.2bn, despite the impact of the Cedi’s depreciation
- Resultantly, gross margin increased by 1.1pp y/y to 4.4% in 1H2024
- Sundry income increased marginally, growing by 0.9% y/y to GHS 24.5mn
- Operating expense increased by 14.7% y/y to GHS 304.7mn, solely driven by general, administrative and selling expense.
- Resultantly, operating margin inched up by 0.4pp to 1.4% in 1H2024
- Financial charges spiked by 78.4% y/y to GHS 60.5mn, due to a 183.3% y/y surge in bank overdraft to GHS 369.5mn and a 74.5% y/y increase in short term borrowing to GHS 48.2mn
- Consequently, net profit margin remained at 0.6%

Outlook: Profitability and margins appear to be walking into the abyss

- We note that the re-introduction of SUPER XP RON91 on 4th May 2024, as a strategic initiative to mitigate upward pressure on petrol prices, provided some relief. However, the decline in topline revenue suggests that, consumers are gradually switching to cheaper alternatives. Given the intense competition within the industry, this shift poses a downside risk to GOIL’s profitability and margins in the near term.
- We remain cautious on the near-term prospects despite GOIL’s decision to price its SUPER XP RON91 below its peers (TOTAL & SHELL) for the first pricing window in August 2024.
- Amidst the elevated interest rates, the increased use of bank credits poses a risk to the earnings outlook and we expect GOIL to reduce the use of bank overdrafts and short-term borrowings to control its finance expenses.
- We also expect a tightly controlling OPEX to boost margins, aided by the continued moderation in inflationary pressures.
- Looking ahead, we maintain a cautious stance on GOIL’s near-term performance. The stiffly competitive environment and price sensitivity among consumers are likely to keep demand weak in the near-term. Additionally, if operational and finance expenses remain elevated, this could further strain profitability.

Valuation: Under Review

- We are in the process of re-initiating coverage on GOIL and have therefore placed our recommendation under review
- GOIL is currently trading at a P/E of 10.1x, TTM P/E of 9.3x and EV/EBIT of 6.8x

Analyst:

Emmanuel Dadzoe: +233 30 825 0051

For further information, please contact our Research Team. T: 233 308-250051 | +233 302-252517 Email: [research@icsecurities.com](mailto:research@icsecurities.com)

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