## Unilever Plc. 9M2024 Results

Current rating **UNDER REVIEW**

Ghana | 31 October 2024

### In Hot Water

**Unilever Ghana ("UNIL") released its unaudited 9M2024 financial results yesterday, and posted an unexpected 49.6% y/y plunge in net profit to GHS 46.4mn. The decline in net profit stemmed from a disappointing revenue performance, a 32.8% y/y surge in operational expense to GHS 204.3mn and a worsening of impairment on trade from a gain of GHS 0.9mn in 9M2023 to a loss of GHS 0.05mn in 9M2024. However, UNIL's gross profit improved by 4.8% y/y to GHS 273.2mn as a result of the slowdown in input cost, which declined by 3.4% y/y to GHS 419.3mn. Operating profit plummeted by 31.7% y/y to GHS 77.4mn, on the back of high operational cost. Overall, we are disappointed by the y/y plunge in UNIL's earnings performance for the third straight quarter, though it sustained its streak of profit outturn for the eight straight quarter. The significant decline in Unilever Ghana's 9M2024 net profit, driven by underwhelming revenue growth, elevated operational expenses, and worsening trade impairments, presents a downside risk to our FY2024 estimates. This performance suggests potential headwinds to achieving our previously anticipated full-year earnings target (GHS 86.9mn). We note an 18.7% y/y surge in inventory to GHS 151.2mn, paired with a revenue decline, despite upward price adjustments across Unilever's product lines. In our assessment, these trends point to a significant softening in consumer demand, likely driven by the elevated cost of living, which has constrained disposable income and potentially hindered purchasing power.**

### 9M2024 Performance: Net profit dampened by decline in revenue, escalating operational costs, and impairment loss on trade

- UNIL's earnings unexpectedly slumped by 49.6% y/y to GHS 46.4mn in 9M2024.
- The drop in earnings was as a result of a 0.3% y/y decline in revenue to GHS 692.5mn, a 32.8% y/y surge in operational expense to GHS 204.3mn and a worsening of impairment on trade from a gain of GHS 0.9mn in 9M2023 to a loss of GHS 0.05mn in 9M2024.
- 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 3.4% y/y to GHS 419.3mn in 9M2024. 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 4.8% y/y to GHS 273.2mn, leading to a 1.9pp increase in gross margin to 39.4%.
- Operating expense surged by 32.8% y/y to GHS 204.3mn, largely influenced by a 38.8% y/y rise in administrative expense (GHS 109.1mn) as well as 39.0% y/y increase in brand and marketing investment (GHS 79.9mn) in 9M2024.
- Furthermore, other income increased by 48.6% y/y to GHS 8.6mn, easing the squeeze on earnings.
- On account of the higher OPEX amidst the disappointing performance in topline, operating profit plunged by 31.7% y/y to GHS 77.4mn in 9M2024. This resultantly trimmed the operating profit margin by 5.1pp y/y to 11.2%
- Finance costs plummeted by 52.5% y/y to GHS 4.2mn in 9M2024. We view the sharp fall in finance cost as an essential mitigation to the squeeze on net profit.
- Consequently, net profit margin declined by 6.5pp y/y to 6.7% in 9M2024

### Outlook: The disappointing bottom-line performance in 9M2024 leaves us bearish on FY2024 earnings outlook

- In 1H2024, the company recorded lackluster revenue growth, which impacted earnings performance and signaled underlying weaknesses in sales momentum. This trend has persisted through 9M2024, with revenue showing a modest 0.3% y/y decline. Given the continuation of this downward trajectory, our outlook for FY2024 earnings remains bearish. We are concerned about the company's ability to reverse this trend in the final quarter of 2024, especially amidst potential challenges in sustaining both price levels and sales volumes in a constrained demand environment.
- The company's FY2024 focus is geared toward driving profitable volume recovery across all categories, alongside portfolio expansion and bolstered brand positioning. Despite substantial investments in demand-generating initiatives and equity-building efforts, we maintain a cautious view on near-term performance. Inventory levels have risen significantly, with an 18.7% y/y increase to GHS 151.2mn, while revenue has simultaneously declined despite upward price adjustments across Unilever's product lines. This trend, in our view, underscores a marked softening in consumer demand, likely constrained by elevated living costs that are straining disposable income and limiting purchasing power. The combined inventory build-up and subdued revenue growth point to potential headwinds in realizing sales volume recovery goals, making a turnaround challenging in the near term.
- We expect Unilever Ghana to restore stringent control over OPEX to support margin improvement and mitigate potential impacts on bottom line.
- Overall, we are disappointed by the y/y plunge in UNIL's earnings performance for the third straight quarter, despite sustaining its streak of profit outturn for the eight straight quarter. The significant decline in Unilever Ghana's 9M2024 net profit, driven by underwhelming revenue growth, elevated operational expenses, and worsening trade impairments, presents a downside risk to our FY2024 estimates.

### 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 7.7x and P/Sales of 1.5x

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