Fan Milk Plc 9M2024 Results

Current rating **UNDER REVIEW**

Ghana | 4 November 2024

On a Winning Streak

Fan Milk Plc ("FML") released its unaudited 9M2024 financial results on 31 October 2024, reporting an impressive profit outturn which significantly surpassed our expectations. The large ice cream producer churned out a net profit of GHS 44.2mn, a 162.8% y/y improvement. The profit outturn was mainly as a result of a 16.6% y/y increase in revenue to GHS 480.6mn, a 9.1% y/y rise in other income to GHS 3.1mn, and a 57.4% y/y plunge in finance cost to GHS 9.0mn. Management attributes the slow growth in revenue for 9M2024 to a 14.0% y/y drop in export sales. However, the improved net profit margin was attributed to a better product mix, significant work on productivity initiatives such as the use of biomass energy and reduction in borrowing cost. Overall, we are impressed by the significant surge in earnings mainly on account of the focus on productivity initiatives, although we remain cautious about the near-term outlook. The 14.0% y/y decline in export sales raises concerns about sustaining growth momentum, and we await further clarity on management's initiatives to address these challenges effectively in the short to medium term.

9M2024 Performance: An increase in revenue, plunge in finance cost and increase in other income propel bottom-line growth

- FML reported an impressive 162.8% y/y surge in net profit to GHS 44.2mn in 9M2024, mainly as a result of a 16.6% y/y increase in revenue to GHS 480.6mn, a 9.1% y/y rise in other income to GHS 3.1mn, and a 57.4%y/y plunge in finance cost to GHS 9.0mn.
- Revenue increased by 16.6% y/y to GHS 480.6mn in 9M2024. Management attributes the slow growth in revenue for 9M2024 to a 14.0% y/y drop in export sales.
- Input costs increased by 10.9% y/y to GHS 304.3mn, driven by a rise in the price of FML's key input material such as skimmed milk powder (+18.6% y/y).
- Also, we observed a 125.9% y/y surge in the price of cocoa futures, together with 29.6% y/y depreciation of the Cedi against the US Dollar.
- Furthermore, FML effectively controlled OPEX, capping its rise at 12.2% y/y to GHS 137.8mn. We believe the sharp moderation in price pressures partly helped to cap the rise in OPEX as inflation fell to 21.5% in 9M2024 (vs 38.1% in 9M2023).
- Depreciation and amortization declined by 9.9% y/y to GHS 20.2mn while sales and distribution cost was well contained, increasing by 12.6% y/y to GHS 78.8mn. However, administrative expense surged by 27.5% y/y to GHS 38.8mn. In our view, the rise in administrative expense was partly underpinned by higher energy prices and utility cost in 9M2024 compared to 9M2023.
- As a result of the controlled OPEX, FML's operating margin increased by 4.3pp to 8.7% in 9M2024.
- Resultantly, operating profit surged by 133.3% y/y to GHS 41.6mn
- Gross margin improved by 3.2pp to 36.7%
- Finance cost impressively declined by 57.4% y/y to GHS 9.0mn, while finance income increased by 10.0% y/y to GHS 28.4mn in 9M2024.
- Resultantly, net profit margin increased by 5.1pp to 9.2% in 9M2024. Management attributed the improvement in net profit margin to better product mix and significant work on productivity initiatives such as the use of biomass energy and reduction in borrowing cost

Outlook: We are optimistic about FY2024 bottom-line performance supported by revenue growth and impressive cost containment

- In 3Q2023, quality challenges with the FANYOGO brand constrained topline growth, impacting overall FY2023 performance. This was followed by a drop in export sales in 1Q2024, which continued to weigh on revenue through 9M2024. Despite these revenue pressures, Fan Milk Plc ("FML") achieved a remarkable 162.8% y/y surge in net profit, demonstrating resilience through effective cost containment, an optimized product mix, and lower borrowing costs. We remain optimistic about FML's FY2024 performance, as these operational improvements indicate promising momentum toward profitability. We also expect seasonal demand from the year-end festivities to prop-up revenue in 4Q2024, sustaining the robust bottom-line into FY2024.
- We anticipate that management will maintain strict oversight on OPEX to enhance margin performance, especially in light of the current cost pressures. We also foresee near-term stability in input costs, though potential increases in skimmed milk powder and cocoa prices, coupled with the depreciation of the cedi, present an upside risk to cost pressures. Given these dynamics, management's focus on cost containment will be crucial to offset potential margin erosion and sustain profitability amid market volatility.
- On sales and distribution, we expect FML to keep expanding its agent base and footprint in the indoor and outdoor channels, as well as deploy solutions to revive growth in export sales, with positive impact on topline growth
- Overall, we are impressed by the significant surge in earnings. While we are encouraged by the company's substantial profit improvement and focus on productivity initiatives, we remain cautious about the near-term outlook. The 14.0% y/y decline in export sales raises concerns about sustaining growth momentum, and we await further clarity on management's measures to address these challenges effectively in the short to medium term.

Valuation: Under Review

- We are in the process of re-initiating coverage on FML and have therefore placed our recommendation under review
- FML is trading at a TTM P/E of 7.4x and EV/SALES of 0.7x

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