Guinness Ghana 1Q2024/25 Results

Current rating **UNDER REVIEW**

Ghana | 01 November 2024

Feeling The Pinch

Guinness Ghana Breweries Plc. ("GGB Plc") released its unaudited 1Q2024/25 financial results yesterday revealing a concerning reversal in earnings. The company reported an unexpected plunge in bottom-line from a gain of GHS 10.6mn in 1Q2023/24 to a loss of GHS 3.0mn in 1Q2024/25. From our analysis, the sharp downturn in earnings was largely driven by a 47.1% y/y surge in input cost, an increase in other expense, an increase in operating expense due to higher utility tariffs, and a deterioration in impairment. We note that the surge in other expense is attributed to over 12-fold surge in net foreign exchange losses and a 21.4% y/y increase in intercompany management charges. In our view the impressive 38.6% y/y surge in revenue was primarily fueled by strategic price increases and solid sales volume growth. The concurrent 10.0% decline in inventory to GHS 338.2mn likely reflects effective sales efforts that outpaced inventory replenishment, suggesting continued demand despite the elevated prices. Overall, we are disappointed by the drastic negative y/y swing in GGB Plc's earnings performance. The erosion in profitability signals potential challenges in managing cost pressures, particularly under volatile currency conditions and inflationary pressures on input and operational expenses. While top-line growth remains robust, sustained margin compression presents a downside risk to earnings in the near term, if cost management initiatives are not intensified.

1Q2024/25 Performance: Cost pressures drag earnings into losses despite surge in topline

- GGB Plc's earnings plummeted from a gain of GHS 10.6mn in 1Q2023/24 to a loss of GHS 3.0mn in 1Q2024/25.
- The sharp downturn in earnings was largely driven by a significant 47.1% y/y surge in input cost to GHS 585.3mn, an increase in other expense from an income of GHS 2.5mn in the prior year to a loss of GHS 6.5mn in 1Q2024/25, an increase in operating expense by 17.3% y/y to GHS 71.3mn and a deterioration in impairment from a gain of GHS 0.07mn in 1Q2023/24 to a loss of GHS 0.04mn in 1Q2024/25
- Cost of sales surged by 47.1% y/y to GHS 585.3mn in 1Q2024/25, attributable to inflationary pressures and the 29.6% depreciation of the Ghanaian Cedi against the US Dollar in the past 12-months to end-September 2024
- Despite the strong growth in revenue (+38.6% y/y, GHS 674.7mn) for the period, gross profit nudged up by 0.8% y/y to GHS 89.4mn
- However, gross margin slumped by 497bps y/y to 13.2% due to higher input cost
- Notably, operating expense increased by 17.3% y/y to GHS 71.3mn, due to a 27.2% y/y surge in administrative expense to GHS 42.4mn, attributable to increased utility tariffs
- Other expense increased to GHS 6.5mn from an income of GHS 2.5mn in the prior year, largely due to over 12-fold surge in net foreign exchange losses and a 21.4% y/y increase in intercompany management charges
- Consequently, operating profit slumped by 61.9% y/y to GHS 11.6mn in 1Q2024/25
- Operating margin followed suit, declining by 455bps y/y to 1.7% in 1Q2024/25
- Finance cost declined by 19.1% y/y to GHS 14.2mn, as management reduced short-term borrowing by 2.0% y/y to GHS 55.6mn for the period
- Furthermore, finance income surged by more than 304-folds to GHS 1.2mn, solely driven by interest income on bank accounts
- Net profit margin plunged by 262bps y/y to close the period at -0.4%

Outlook: Promising outlook for revenue growth but sustained grip on cost is necessary for earnings

- While top-line growth is robust, we maintain a cautious outlook on near-term profitability due to cost pressures and FX risks. Effective cost control and FX risk management will be pivotal in stabilizing earnings and improving GGB Plc's bottom-line resilience in the remainder of FY2024/25.
- We expect management to intensify cost-control efforts in response to the sharp rise in input costs, aiming to mitigate the impact on profitability. Prioritizing these measures will be crucial to offset cost pressures on the bottom line and stabilize margins
- The 38.6% y/y revenue growth, driven by price increases and volume expansion, underscores GGB Plc's pricing power and strong demand resilience. Despite this top-line momentum, escalating costs continue to erode margins, challenging the sustainability of earnings growth in the near term
- Overall, we are disappointed by the drastic negative y/y swing in GGB Plc's earnings performance. The erosion in profitability signals potential challenges in managing cost pressures, particularly under volatile currency conditions and inflationary pressures, which presents downside risk to earnings in the near-term.

Valuation: Under review

- We are in the process of re-initiating coverage on GGB Plc and have therefore placed our recommendation under review
- GGB Plc is trading at a P/Sales of 2.1x and EV/SALES of 1.8x

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