GOIL 9M2024 Results

Current rating **UNDER REVIEW**

Ghana | 15 November 2024

An uphill battle

GOIL Plc ("GOIL") released its unaudited 9M2024 financial results yesterday, posting a 14.5% y/y decline in profit-after-tax to GHS 59.4mn. The downturn in earnings was on the back of a 9.2% y/y decline in revenue to GHS 14.3bn, a 14.8% y/y rise in Operating expense to GHS 485.2mn, a 58.3% y/y surge in financial charges to GHS 95.8mn and an 83.8% y/y plunge in sundry income to GHS 6.4mn. The rise in operating expense was due to the cedi depreciation and inflationary pressures while the surge in finance expense is attributable to a 204.5% y/y surge in debt to GHS 1.4bn amidst the high cost of borrowing. 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 assessment, GOIL's topline growth faced pressure from declining demand, primarily driven by price hikes within a highly competitive landscape. This is underscored by a significant 20.3% y/y increase in inventory levels to 904.1mn, highlighting an elevated risk to the company's earnings potential in the near term. This inventory build-up suggests potential challenges in aligning supply with reduced market demand, which could adversely impact profitability in FY2024 if current market conditions persist. The surge in GOIL's financial charges likely indicates the need for a more sustainable financing to minimize the interest expense and match assets with liabilities.

9M2024 Performance: Spike in financial charges, decline in sundry income and rise in operational expense amplifies impact of revenue contraction

- GOIL's profit-after-tax declined by 14.5% y/y to GHS 59.4mn, on the back of a 9.2% y/y decline in revenue to GHS 14.3bn, a 14.8% y/y rise in Operating expense to GHS 485.2mn, a 58.3% y/y surge in financial charges to GHS 95.8mn and an 83.8% y/y plunge in sundry income to GHS 6.4mn
- GOIL's topline growth faced pressure from declining demand, primarily driven by price hikes within a highly competitive landscape. This is underscored by a significant 20.3% y/y increase in inventory levels to 904.1mn. GOIL's ex-pump prices for petrol and diesel increased by 4.8% YTD and 11.5% YTD respectively.
- In April 2024, GOIL aligned the price of SUPER XP RON95 with competitors but delayed the re-introduction of the more cost-effective SUPER XP RON91, an alternative promptly offered by its peers. This delay likely positioned GOIL's petrol as the most expensive option during a period of escalating fuel prices, potentially contributing to weakened consumer demand in 2Q2024. Consequently, the reduced demand negatively impacted the company's topline performance, with the effects cascading into subdued topline growth for 9M2024.
- Cost of sales dropped by 10.3% y/y to GHS 13.7bn, despite the impact of the Cedi's depreciation but likely underscores the lower sales during the period.
- Resultantly, gross margin increased by 1.2pp y/y to 4.6% in 9M2024
- Sundry income slumped by 83.8% y/y to GHS 6.4mn
- Operating expense increased by 14.8% y/y to GHS 485.2mn, solely driven by general, administrative and selling expense.
- Resultantly, operating margin inched up by 0.3pp to 1.2% in 9M2024
- Financial charges spiked by 58.3% y/y to GHS 95.8mn, due to over 8-fold surge in long term loan to GHS 776.6mn and over 34-fold upsurge in short term loan to GHS 306.7mn
- Consequently, net profit margin remained flat at 0.4%

Outlook: Weaker demand to weigh on FY2024 topline performance

- 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 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 as competition will cap GOIL's capacity to raise prices sufficiently to protect margins.
- Oil prices hovered near a two-week low on Tuesday 12 November 2024, declining by approximately 5.0% over the past two trading sessions. The downturn was driven by a combination of factors, including OPEC's downward revision of global demand growth, a strengthening U.S. dollar, and subdued market expectations following China's latest stimulus announcement. We expect the lower global oil prices to translate into reduced costs for imported petroleum products, potentially allowing GOIL to maintain competitive pricing. However, foreign exchange fluctuations in 4Q2024 will pose a risk to this pricing strategy and likely undermine the potential for margin recovery.
- 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 long and short-term borrowings to control its finance expenses. We also foresee the potential for refinancing existing credit facilities with more sustainable funding to ease the financing cost and strain on bottom-line.
- 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, continued elevation in operational and finance expenses will 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 9.9x, TTM P/E of 9.7x and EV/EBIT of 9.2x

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