Fan Milk Plc FY2024 Results

Current rating UNDER REVIEW

Current Price: GHS 3.70

Ghana | 06 February 2025

Striking while the iron is hot

Fan Milk Plc ("FML") released its unaudited FY2024 financial results on 31 January 2025, reporting an impressive profit outturn, albeit marginally below our estimate by 4.5%. The large ice cream producer churned out a net profit of GHS 54.2mn, representing a 125.9% y/y improvement. The profit outturn was mainly underpinned by a 24.5% y/y increase in revenue to GHS 683.8mn and a 54.1% y/y plunge in finance cost to GHS 12.5mn. According to management the growth in revenue for FY2024 was capped by an 18.0% y/y drop in export sales. However, the improved gross margin was attributed to material price negotiation, better product mix, product availability and smart sales promotions. We believe the negotiation on material prices helped to cap the growth in input cost with support for gross margin.

Operating expense increased by 25.6% y/y to GHS 182.4mn. In our view, the surge in operational expenses was primarily driven by elevated energy prices, increased utility costs, spending on promotions and advertising, and significant net exchange losses. Despite the increase in operating expense, the growth in topline, plunge in finance cost and containment of input cost collectively offset the rise in OPEX. Overall, we are impressed by the significant surge in earnings, mainly supported by the focus on productivity initiatives and topline growth. The 18.0% y/y decline in export sales raises our concern about sustaining the revenue growth momentum, and we await further clarity on management's initiatives to address these challenges effectively in the short to medium term.

FY2024 Performance: An increase in revenue and a plunge in finance cost propelled bottom-line growth

- FML reported an impressive 125.9% y/y surge in net profit to GHS 54.2mn in FY2024, mainly as a result of a 24.5% y/y increase in revenue to GHS 683.8mn and a 54.1% y/y plunge in finance cost to GHS 12.5mn.
- Management indicated that the growth in revenue was capped by an 18.0% y/y decline in export sales for FY2024.
- Input costs increased by a modest 12.7% y/y to GHS 426.1mn. The impressive containment of growth in input cost was due to productivity initiatives such as material price negotiation by management. We note an 8.8% y/y rise in the price of skimmed milk powder, FML's key input material.
- Also, we observed a 184.1% y/y surge in the price of cocoa futures, together with a 19.2% y/y depreciation of the Cedi against the US Dollar. Against this global cost backdrop, we laud management's proactive decision to negotiate material prices and views this measure as margin-supportive.
- Furthermore, OPEX elevated by 25.6% y/y to GHS 182.4mn, slightly above inflation of 23.8% in FY2024 (vs 23.2% in FY2023). Operating expense was mainly driven by a 54.4% y/y surge in administrative expense to GHS 61.7mn and a 14.7% y/y rise in sales and distribution to GHS 120.7mn. In our view, the rise in administrative and distribution expense was underpinned by higher energy prices, utility cost, promotion & advertising, and net exchange losses.
- Other income declined by 7.1% to GHS 4.1mn
- Operating profit surged by 160.7% y/y to GHS 79.4mn
- As a result, FML's operating margin increased by 6.1pp to 11.6% in FY2024.
- Gross margin improved by 6.5pp to 37.7%
- Finance cost impressively plunged by 54.1% y/y to GHS 12.5mn, while finance income plummeted by 76.6% y/y to GHS 7.9mn in FY2024.
- Resultantly, net profit margin increased by 3.6pp to 7.9% in FY2024.

Outlook: We are optimistic about FY2025 bottom-line performance, supported by revenue growth and impressive cost containment

- As anticipated in our 9M2024 update, FML delivered a strong improvement in profitability, albeit slightly below our FY2024 estimate. However, revenue growth was capped by the 18.0% export sale decline in 2024. We also note the FanYogo challenge in 2023, which weighed on topline performance. Given the seeming recurrence of unexpected drag on topline growth, we maintain a cautiously optimistic stance on revenue growth momentum for FY2025 with expectation for management to implement remedial measures to revive export sales.
- We anticipate that productivity initiatives, including the optimized product mix and targeted sales promotions, will drive revenue growth in 2025. Additionally, we expect ongoing material price negotiations to help contain input costs, supporting margin stability. While we expect inflationary pressures to ease in the months ahead, we believe improved consumer demand will further bolster topline performance.
- We expect management to reintroduce stringent OPEX controls, as observed in previous periods, to support margin expansion and mitigate potential pressure on bottom line in 2025. While we expect input costs to remain stable in the near term, potential

increases in skimmed milk powder and cocoa prices alongside cedi depreciation will pose upside risk. Given these factors, management's commitment to cost containment will be critical in averting margin erosion and sustaining profitability amid ongoing 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 acknowledge the strong earnings growth in 2024, reflecting the company's strategic focus on productivity initiatives. We look forward to further insights from management on strategies to mitigate the challenges experienced with export sales and drive consistent performance 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 7.5x and EV/SALES of 0.5x

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