

Unilever Plc. FY2024 Results

Current rating **UNDER REVIEW**

Current Price: GHS 19.50

Ghana | 04 February 2025

Racing hard on quicksand

Unilever Ghana ("UNIL") released its unaudited FY2024 financial results on 30 January 2025, falling short of our expectation by 25.3%, with an unexpected 54.1% y/y plunge in net profit to GHS 64.9mn. The decline in net profit stems from a modest revenue growth and a 107.6% y/y surge in operational expense to GHS 263.4mn. Operating profit plummeted by 56.9% y/y to GHS 95.9mn, on account of the high operational cost. According to management, the higher 2023 operating profit had the benefit of a write-back of GHS 75.0mn in royalties due to Unilever Plc, the parent of Unilever Ghana, which had been waived. We excluded the unexpected write-back from the FY2023 profit and compared with the FY2024 earnings and still observed a 2.3% y/y dip in net profit. This suggests lingering issues with topline performance and cost control, which remains a near-term drag on profitability and weighs on our estimated fair value for UNIL.

In our view, the high operational cost emanates from increased utility tariff, net exchange losses, high redundancy cost following the implementation of "Project fit" and the company's initiative to invest in demand-generating and equity building activities. Also, the 27.3% y/y increase in inventory to GHS 129.0mn suggests inventory buildup, due to weaker demand, likely stemming from price increases, and underpinned the subdued revenue growth observed during the period. Despite the strong investment in demand-generating and equity building activities, UNIL is yet to reap the full benefits in the form of stronger topline growth, partly due to general strain on consumers' purchasing power. However, the diversified product portfolio and the non-discretionary nature of most UNIL's products continue to anchor demand in the short-term while easing inflation revives consumers purchasing power in the medium-term. Overall, we are disappointed by the y/y plunge in UNIL's earnings performance for the fourth straight quarter, though it sustained its streak of profit outturn for the ninth straight quarter

FY2024 Performance: Net profit dampened by escalating operational costs

- UNIL's earnings unexpectedly slumped by 54.1% y/y to GHS 64.9mn in FY2024.
- The drop in earnings was mainly as a result of a 107.6% y/y surge in operational expense to GHS 263.4mn, which outweighed the slight growth of 2.4% in revenue to GHS 930.8mn
- Management views the 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 increased by 2.3% y/y to GHS 582.9mn in FY2024.
- Gross profit increased by 2.7% y/y to GHS 347.9mn, leading to a 0.1pp increase in gross margin to 37.4%.
- Operating expense surged by 107.6% y/y to GHS 263.4mn, largely influenced by a 435.4% y/y spike in administrative expense (GHS 135.1mn), a 489.6% y/y hike in restructuring costs (GHS 19.8mn) and 10.0% y/y increase in brand and marketing investment (GHS 87.6mn) in FY2024.
- Furthermore, other income increased by 5.2% y/y to GHS 11.4mn, partly easing the squeeze on earnings.
- On account of the higher OPEX amidst the slow growth in topline, operating profit plunged by 56.9% y/y to GHS 95.9mn in FY2024. This resultantly weakened the operating profit margin by 14.2pp y/y to 10.3%
- Finance costs plummeted by 46.3% y/y to GHS 5.4mn in FY2024. We view the sharp fall in finance cost as an essential mitigation to the squeeze on net profit.
- Consequently, net profit margin declined by 8.6pp y/y to 7.0% in FY2024

Outlook: The disappointing bottom-line performance in FY2024 leaves us cautious on near term recovery

- While we anticipated a y/y decline in FY2024 earnings, as noted in our 9M2024 update, the extent of the decline was more severe than expected. We maintain a cautious stance, expecting near-term earnings volatility while monitoring management's response to demand softness
- The company's FY2024 target was centered on driving profitable volume recovery across all categories, alongside portfolio expansion and strengthened brand positioning. Despite significant investments in demand-generating initiatives and equity-building efforts, the company fell short of its 2024 targets. We maintain a cautious view on near-term performance as inventory levels surged and revenue growth remained subdued, despite price adjustments across Unilever's product lines. In our view, this reflects a pronounced softening in consumer demand, constrained by rising cost of living as UNIL appears to hit a snag on pricing power. This situation presents potential headwinds to achieving UNIL's sales volume recovery goals, making a near-term turnaround increasingly challenging.
- We are yet to observe a convincing strategy to rein-in cost, barring a slowdown in inflation.

- Overall, we are disappointed by the y/y plunge in UNIL’s earnings performance for the fourth straight quarter, despite sustaining its streak of profit outturn for the ninth straight quarter. The significant decline in Unilever Ghana’s FY2024 net profit, leaves us cautious on the near-term prospects. However, we expect the strong investment in demand-generating and equity building activities to yield benefits in the medium-to-long term with potential disinflation adding a tailwind to demand recovery.

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 18.8x and P/Sales of 1.3x



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