Unilever Plc. 1Q2025 Results

Current rating **UNDER REVIEW**

Current Price: GHS 19.54

Ghana | 30 April 2025

Profits in a Pickle

Unilever Ghana ("UNIL") released its unaudited 1Q2025 financial results on 28 April 2025, with an unexpected 29.4% y/y plunge in net profit to GHS 17.1mn. The decline in net profit stems from a modest revenue growth, a 24.8% y/y surge in input cost to GHS 168.6mn, a 36.5% y/y plunge in finance income to GHS 0.3mn, a 22.1% y/y rise in finance cost to GHS 1.3mn and a 59.1% y/y fall in other income to GHS 1.9mn. Management attributes the higher input cost to the cost of oil. Operating cost declined by 13.7% y/y to GHS 66.8mn, primarily driven by the absence of restructuring expenses and impairment losses on trade receivables, which were recorded in the prior year. Operating profit declined by 16.1% y/y to GHS 29.1mn. In our view, the modest revenue growth points to softening demand in the face of price increases, as consumers shift toward cheaper alternatives. This trend is further evidenced by a 48.3% y/y surge in inventory levels to GHS 166.6mn, indicating slower sales momentum. Although UNIL has stepped up investments in brand equity and demand-driving initiatives, the company is yet to fully translate these efforts into robust topline growth, partly constrained by ongoing pressures on consumer purchasing power. This leaves us concerned about the near-term prospect for topline. Nevertheless, Unilever's diversified product mix and the essential nature of most of its offerings continue to anchor demand over the short-to-medium term. Overall, we view the continued y/y deterioration in UNIL's earnings for a fifth consecutive quarter as disappointing, despite the company maintaining profitability for the tenth straight quarter.

1Q2025 Performance: Net profit dampened by surge in input cost

Modest Topline Growth

- Revenue increased modestly by 8.3% y/y to GHS 262.6mn in 1Q2025. Although we observed indications of likely recovery, the revenue was insufficient to offset the growth in input cost.

A Significant Surge in Input Cost Pressured Gross Margins

- Input cost surged 24.8% y/y to GHS 168.6mn, substantially eroding margins. Management attributes the spike in input cost primarily to higher oil price.
- As a result of the input cost pressure, gross profit declined by 12.5% y/y to GHS 94.0mn, leading to an 8.5pp compression in gross margin to 35.8%

Non-Core Income Weakens

- Other income plunged by 59.1% y/y to GHS 1.9mn, indicating a shock to non-operating contributions to earnings
- Additionally, financing cash flows experienced adverse movements as finance income declined by 36.5% y/y to GHS 0.3mn while finance cost rose by 22.1% y/y to GHS 1.3mn.

Profitability Weakens Despite Disciplined Cost Control

- Operating expense fell by 13.7% y/y to GHS 66.8mn. The OPEX reduction was primarily driven by the absence of restructuring expenses and impairment losses on trade receivables, which were recorded in the prior year.
- Despite the lower OPEX, UNIL's operating profit fell 16.1% y/y to GHS 29.1mn in 1Q2025 due to the combination of input cost pressures, weak revenue growth, and a significant drop in other income. Consequently, operating margin dropped by 3.2pp to 11.1%
- Overall, net profit declined by 29.4% y/y to GHS 17.1mn in 1Q2025, pressured by lower operating performance and deteriorating non-core income. Resultantly, net profit margin narrowed by 3.5pp y/y to 6.5%, underscoring the impact of fragile revenue growth amidst input cost pressure.

Outlook: Early signs of revenue recovery but uncertainty lingers

- **Emerging signs of revenue recovery but weak momentum likely to weigh on near-term earnings growth:** The weak momentum observed for revenue growth in 2024 appears to continue into 1Q2025 as the modest 8.3% y/y growth is markedly below the 5-year historical average growth of 23.7%. This exposes earnings outlook to unexpected shocks from higher input cost and operating expense. Although we expect a medium-term recovery in earnings following the bottom-line pressure in 2024, the weak start to 2025 has introduced some downside risk to our earnings outlook for FY2025.
- Notwithstanding the modest revenue growth, we observe emerging signs of recovery, which keeps us cautiously optimistic about the medium-term earnings outlook. The 8.3% y/y revenue growth in 1Q2025 is noteworthy as it represents an accelerated growth from the 0.3% recorded in the same period of 2024 and a 10.2% q/q expansion. We believe that as consumer purchasing power recovers on the back of cooling price pressure and UNIL's demand-generating activities start to bear fruit, the revenue momentum will quicken in the medium-term, supporting the earnings outlook.
- **Strong investment in demand-generation, but modest payoff dampens the near-term prospects.** Unilever Ghana's FY2024 strategy focused on driving profitable volume recovery across all categories, supported by portfolio expansion and enhanced brand positioning. Despite considerable investments in demand-generation and equity-building activities, the

company fell short of its FY2024 targets, as management had set out to drive volume and profit growth across all business segments. The downward trend persisted into 1Q2025, reinforcing our cautious stance on near-term performance. Inventory levels continue to rise, while revenue growth remain modest, despite price adjustments, pointing to a notable weakening in consumer demand. In our view, this poses significant headwinds to UNIL's growth ambitions and raises concerns about the timing of a potential turnaround, potentially weighing on its share price valuation.

- **Looking ahead**, we remain cautious on the near-term outlook. We expect margin recovery to stay constrained unless input cost pressures, particularly from oil-related raw materials, moderate meaningfully. Additionally, the elevated inventory levels could increase the risk of inventory write-downs, subject to the shelf life of current inventories if consumer demand does not rebound in the coming quarters. This would weigh on topline growth and profitability indicators.
- Overall, we believe Unilever Ghana's fundamentals remain anchored by its diversified and essential product portfolio, which is built around Ghanaian cultural norms and holds a longstanding emotional equity across income segments. However, the combination of weak sales growth and rising input costs presents a downside risk to near-term performance.

Key risks

FX volatility, Inflation, elevated interest rates, utility tariff hikes, higher energy prices, spike in the price of oil, intense competition and tax regime under the new Ghanaian administration

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 21.1x and P/Sales of 4.7x

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