GOIL 1Q2025 Results

Current Price: **GHS 1.77**

Current rating **UNDER REVIEW**

Ghana | 16 May 2025

Walking a tightrope

GOIL Plc ("GOIL") released its unaudited 1Q2025 financial results this week, posting a 4.6% y/y increase in profit-after-tax to GHS 33.6mn. The upturn in earnings was on the back of a 4.6% y/y growth in revenue to GHS 5.0bn, a surge in sundry income by 73.2% y/y to GHS 25.4mn and a 0.3% y/y decline in operating expense to GHS 142.7mn. Input cost increased by 4.9% y/y to GHS 4.8bn. The growth in input cost outpaced the growth in revenue, leading to a 0.2% y/y decline in gross profit. In our view, the growth in revenue is attributable to an 11.1% y/y and 6.4% y/y increase in GOIL's ex-pump prices in petrol and diesel respectively, despite the 9.4% y/y and 3.3% q/q decline in sales volume. The drop in sales volume led to a 3.2% y/y decline in market share to 10.4%. Operating expense was well contained despite a 17.1% y/y depreciation of the cedi and a 23.0% average 1Q2025 inflation (vs 24.2% in 1Q2024). An 18.2% y/y rise in finance expense to GHS 37.7mn is attributable to an 81.7% y/y surge in debt to GHS 795.5mn amidst the high cost of borrowing. Overall, we are concerned about the 9.4% y/y and 3.3% q/q decline in sales volume. While we perceive that revenue growth has been largely driven by price increases, we note that net profit increased at the same growth as revenue, suggesting limited operational leverage. However, with ex-pump prices moderating in 2Q2025, the momentum in revenue growth appears vulnerable if price declines persist in the near term without volume recovery. Although the factors supporting bottom-line growth during the period were favorable, we remain cautious about their sustainability in maintaining earnings momentum going forward.

1Q2025 Performance: growth in revenue, surge in sundry income and decline in operating expense propel bottom-line growth

- GOIL's profit-after-tax increased by 4.6% y/y to GHS 33.6mn, on the back of a 4.6% y/y growth in revenue to GHS 5.0bn, a surge in sundry income by 73.2% y/y to GHS 25.4mn and a 0.3% y/y decline in operating expense to GHS 142.7mn
- GOIL's topline increased by 4.6% y/y to GHS 5.0bn despite a 9.4% y/y drop in sales volume. The growth in topline was underpinned by an 11.1% and a 6.4% y/y increase in GOIL's ex-pump prices for petrol and diesel, respectively.
- Cost of sales increased by 4.9% y/y to GHS 4.8bn, which likely underscores the lower sales volume for the period. However, the growth in input cost outpaced the growth in revenue, leading to a 0.2% y/y decline in gross profit to GHS 202.9mn
- Resultantly, gross margin inched down by 0.2pp y/y to 4.1% in 1Q2025
- Sundry income surged by 73.2% y/y to GHS 25.4mn
- Operating expense declined by 0.3% y/y to GHS 142.7mn, solely driven by general, administrative and selling expense.
- Resultantly, operating margin nudged down by 0.1pp to 1.7% in 1Q2025
- Financial charges advanced by 18.2% y/y to GHS 37.7mn, due to an 81.7% y/y surge in debt to GHS 795.5mn
- Consequently, net profit margin remained flat at 0.7% in 1Q2025.

Outlook: Cautious on near-term revenue and earnings momentum

Revenue Growth Sustainability

- GOIL's 4.6% y/y revenue growth in 1Q2025 was largely driven by price increases, with ex-pump prices for petrol and diesel rising by 11.1% y/y and 6.4% y/y, respectively. However, as ex-pump prices begin to moderate in 2Q2025, the company's ability to sustain revenue growth may come under pressure, particularly if sales volume continue to decline. A sustained decline in sales volume could potentially erode year-on-year revenue gains, posing a risk to revenue growth in the near term.

Sales Volume Concerns

- The 9.4% y/y and 3.3% q/q decline in sales volume highlights potential consumer resistance to higher ex-pump prices and suggests that GOIL's pricing strategy may be weighing on demand. This is a critical concern as lower sales volumes could hinder revenue growth, especially if ex-pump prices continue to moderate amidst the strengthening local currency, limiting the pricing power of GOIL.

Market Share Erosion

- GOIL's market share declined by 3.2% y/y to 10.4%, indicating potential market share loss to competitors who may have maintained or reduced prices. A persistent decline in market share could weaken GOIL's pricing power and market influence. We expect GOIL to recapture market share through its wide distribution networks and competitive pricing strategies

Debt and Finance Costs

- We expect GOIL to reduce borrowing amid the high-interest rate environment as this will be crucial in improving net profit margin and mitigating finance cost pressures

Summary of Outlook

- Looking ahead, GOIL faces a challenging operating landscape as moderating ex-pump prices and declining sales volumes present potential headwinds to revenue growth. While the company effectively contained operating expenses in 1Q2025, elevated finance expenses exert additional pressure on margins, particularly if revenue growth remains subdued. Overall, we maintain a cautious outlook for GOIL, contingent on the company's capacity to navigate pricing pressures, sustain cost controls, and effectively leverage its market positioning to drive revenue recovery in the near to medium term.

Key risks

- Uncertain outlook for demand recovery, competitive landscape, exchange rate volatility, and a new strategic direction under the new management.

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 TTM P/E of 6.7x and EV/EBIT of 13.3x

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