

Fan Milk Plc 1H2025 Results

Current rating **ACCUMULATE**

Current Price: GHS 4.40 | Current Fair Value: GHS 4.91 | Upside: 11.6%

Ghana | 04 August 2025

Churning Steadily Forward

Rating Summary

Our ACCUMULATE rating is in anticipation of sustained improvement in financial performance, driven by strategic productivity initiatives. We believe the company's focus on optimizing its product mix and executing targeted sales promotions will anchor revenue growth in 2025 and the medium-term. Additionally, management's material price negotiations will help to mitigate input cost pressures, keeping our forecast input cost growth at a CAGR of 19.6% and reinforcing margin stability with our estimated 5-year average gross margin of 34.8%. With inflationary pressures easing toward single digit by end-2025, we believe rising consumer demand will further support topline expansion (5-year CAGR: 17.8%). At the current market price of GHS 4.4 per share (+18.9% YTD), FML is trading at a significant discount to its trailing twelve-month price-to-earnings ratio of 6.0x and our estimated forward price-to-earnings ratio of 7.5x. In our view, Fan Milk's intensified investment in trade capability and its focus on execution excellence offer a compelling setup for near-to-medium-term volume growth. Although the path to a 100 kilotonnes target may not be linear, we believe the strategic momentum generated by Project SANKOFA significantly de-risks topline recovery and positions the company to recapture lost ground, particularly in its traditional channels. With demand expected to recover modestly in the near term, amid easing inflation and rising mobility, the strengthened vendor base and distributor ecosystem offer a ready-made platform for volume conversion. Going forward, we anticipate that execution tailwinds from Project SANKOFA, supported by a disciplined route-to-market framework and vendor engagement strategy, will underpin a progressive recovery in sales volumes and contribute meaningfully to Fan Milk's topline trajectory.

1H2025 Earnings Update

Fan Milk Plc ("FML") released its unaudited 1H2025 financial results on 29 July 2025, reporting modest growth in profit outturn. The large ice cream producer posted a net profit of GHS 26.0mn, representing a 6.3% y/y increase. The profit performance was largely supported by a 58.4% y/y jump in revenue to GHS 506.6mn and a 72.7% y/y plunge in finance cost to GHS 2.6mn. According to management, the strong revenue growth in 1H2025 was driven by a strategic focus on the outdoor business. However, we observed a contraction in margins, primarily due to a sharp increase in input costs and operating expenses. Input cost rose by 67.6% y/y to GHS 339.0mn, partly reflecting GHS 28.0mn in revaluation losses incurred during the period. Operating expenses surprisingly surged by 44.2% y/y to GHS 131.5mn (despite the strong Cedi appreciation in 2Q2025 and moderation in price pressures), mainly on account of a 76.4% y/y surge in administrative expenses to GHS 47.0mn and a 38.8% y/y rise in sales and distribution costs to GHS 70.8mn. We think the heightened cost pressures partly reflect pre-agreed contracts already locked-in at higher exchange rate and inflation levels before the marked turnaround in the macro backdrop in 2Q2025. As a results, Gross margin declined by 3.7pp to 33.1%, operating margin declined by 1.7pp to 7.2% and net profit margin declined by 2.5pp to 5.1%. Overall, we are impressed by the significant surge in topline but disappointed in the slow bottom-line growth which suggests continued carry of costly contracts yet to reflect improving macroeconomic context. Amidst the easing inflation and stable FX, we expect management to benefit from softening cost pressures in the quarters ahead while focusing more intently on cost control in the periods ahead.

1H2025 Performance: A surge in revenue and plunge in finance cost support bottom-line growth

Revenue and Income Dynamics

- FML reported a 6.3% y/y rise in net profit to GHS 26.0mn in 1H2025, mainly as a result of a 58.4% y/y surge in revenue to GHS 506.6mn and a 72.7% y/y plunge in finance cost to GHS 2.6mn.
- Finance income plummeted by 46.1% y/y to GHS 7.9mn in 1H2025.
- Other income plunged by 82.5% to GHS 0.4mn
- Operating profit increased by 28.3% y/y to GHS 36.4mn

Cost and Risk Management

- Input costs surged by 67.6% y/y to GHS 339.0mn, driven by a 5.3% y/y increase in the price of skimmed milk powder and a 31.9% y/y rise in cocoa futures. Skimmed milk powder and cocoa powder remain integral in FML's product mix as price increases exert pressure on gross margin.
- However, the sharp appreciation of the Cedi against the US Dollar and continued stability will provide some relief to input cost pressures in the near term.
- Furthermore, OPEX was elevated by 44.2% y/y to GHS 131.5mn, above 1H2025 average inflation of 20.4% (vs 1H2024 average inflation of 23.9%). Operating expense was mainly driven by a 76.4% y/y surge in administrative expense to GHS 47.0mn and a 38.8% y/y rise in sales and distribution expense to GHS 70.8mn. In our view, the rise in administrative expense was underpinned by higher utility cost and promotion & advertising.

- Finance cost impressively plunged by 72.7% y/y to GHS 2.6mn amid the sharp fall in domestic interest rates

Margin Performance

- Gross margin decreased by 3.7pp to 33.1%
- FML's operating margin decreased by 1.7pp to 7.2% in 1H2025.
- Consequently, net profit margin dropped by 2.5pp to 5.1% in 1H2025.
- The broad-based decline in FML's margins reflect cost pressures, which offset topline gains

Investment Thesis & Outlook

We are optimistic about top-line performance in the short-to-medium term but cost containment is necessary for earnings sustainability

Strategic distribution backbone to anchor volume recovery

- Fan Milk's ambition, "Bring Back the Pride", a five-year roadmap (2024 – 2029) aimed at recovering lost volumes and achieving 100 kilotonnes, serves as the company's bold strategic initiative. Central to this volume recovery effort is Project SANKOFA, a flagship commercial revitalization initiative that has reconnected Fan Milk with its trade partners and reignited execution discipline across the value chain. Currently, the company's route-to-market strategy is supported by a robust distribution network of 800 net agents, 21 key distributors, and close to 7,000 vendors. This network remains the operational anchor of volume-led growth in the short-to-medium term. Management's deliberate focus on optimizing this footprint by strengthening high-performing distributors, onboarding 50 new agents, and recalibrating trade incentives to drive performance signals a renewed commercial intensity. We expect, the scale and coordination of this expanded route-to-market approach to provide strong momentum for volume recovery and support topline growth over the medium term, particularly as the company leverages these structural improvements to recapture share in core categories and deepen retail penetration.
- Project SANKOFA will support FML's trade ecosystem, driven by its four strategic levers. Firstly, Fan Academy has trained over 2,700 street vendors in critical areas including road safety and financial literacy, embedding human capital development into the go-to-market model. Secondly, the Right to Dream initiative empowered 15 high-potential vendors with full agent setups. Thirdly, the company has strengthened vendor visibility with 45,000 trade premiums deployed, enhancing brand and customer engagement. Lastly, the Happy Feet internal engagement programme has reached 600 agents across six regions, fostering collaboration in marketing, innovation, and health and safety practices. We believe this structured vendor empowerment model enhances execution viability and commercial alignment across touchpoints, positioning the company to respond more agilely to market dynamics and competition. We thus forecast revenue to expand at a compounded annual growth rate of 17.8% over the next five years (FY2025 growth: 22.3%)

CAPEX strategy will reduce dependency on external utilities and enable production continuity

- Total capex increased by 122.7% q/q to GHS 9.8mn in 1H2025. The company has identified operational efficiency particularly in energy and resource management, as a strategic priority. As part of this focus, the company is undertaking CAPEX projects such as the installation of boreholes to enhance self-sufficiency and reduce reliance on external utilities. We expect Fan Milk's investment in borehole infrastructure to enhance operational reliability and reduce dependency on external water sources. In our view, this will improve cost consistency, lower production disruption risks, and support the company's capacity to sustain its growth agenda, especially in regions or seasons where municipal water supply is unreliable.

Margin tailwinds to emerge from strategic cost controls and FX-linked input relief

- Despite margin pressures in 1H2025, we expect gross and operating margin recovery in the medium term, driven by a combination of moderating inflation, stronger Cedi appreciation, investment in self-sufficient water supply system, and enhanced local sourcing of inputs. We expect key inputs such as skimmed milk powder and cocoa, which drove 67.6% y/y input cost growth in 1H2025, to face less pressure amid stable exchange rate conditions. Meanwhile, capex projects such as borehole installations and the transition to biomass boilers will reduce energy and utility cost volatility, creating cost consistency. FML's strategic shift from diesel, gas, and electric boilers to biomass-powered systems continues to shield the company from energy cost volatility. By reducing reliance on electricity for electric boilers, FML mitigates exposure to rising electricity tariffs, while also dampening the impact of fluctuating fuel prices. While the Ghanaian authorities continue to implement quarterly utility tariff hikes, we expect FML's energy cost management strategy to remain instrumental in containing production costs and supporting margin in the near to medium term. Within this cost, we modelled Cost of Sales growth at a compounded annual growth rate (CAGR) of 19.6% over the next five years (vs the five-year historical growth of 10.9%). Notably, our 5-year Cost of Sales CAGR projection of 19.6% (vs. the historical average of 10.9%) reflects isolated cost spikes in 2025, stemming from legacy procurement contracts executed at elevated FX and inflation benchmarks and a forecast inflationary push in 2028 due to anticipated election-year pressures. Stripping out these outlier effects, we see a broadly moderating cost environment underpinning margin resilience through the forecast period. This underpins our five-year average gross margin forecast of 34.8%, compared to a five-year historical average of 29.8% (1H2025: 33.1%).
- While volatility in key imported commodities such as cocoa and skimmed milk powder could present near-term risks, we believe ongoing price renegotiations and increased reliance on local suppliers will provide a cushion against cost shocks. This is particularly important in the context of Ghana's currency volatility, where FX-linked input costs often pressure margins. In our view, the company's commitment to maintaining a lean cost base through sourcing optimisation and expense rationalisation will be key to sustaining gross margin recovery and protecting bottom-line performance. We thus forecast gross margin, operating margin and net profit margin to average 34.8%, 8.4%, and 6.5% respectively, over the next five years.

Summary of Outlook for FY2025

- Looking ahead, we maintain a positive outlook for FML’s FY2025 performance, underpinned by its volume recovery strategy, “Bring Back the Pride”, and execution of Project SANKOFA, which is driving renewed commercial intensity across its 7,000+ vendor network. Strategic investments in energy efficiency such as boreholes and biomass boilers should enhance operational resilience and cost control, while ongoing vendor empowerment and trade optimisation should support topline growth. With improved FX conditions and a strong 1H2025 revenue performance, Fan Milk is well-positioned to sustain momentum, and benefit from a gradually improving macroeconomic environment.

Valuation & Recommendation: **ACCUMULATE**

- Our “ACCUMULATE” rating is based on our weighted average fair value of GHS 4.91 per share, representing an upside of 11.6%, using the weighted average prices from our Discounted Cash Flow (DCF) and relative valuation models. We see a compelling case for accumulating FML in anticipation of sustained improvement in financial performance, driven by strategic productivity initiatives.
- FML is trading at a TTM P/E of 6.0x and EV/SALES of 0.7x

Valuation panel

In valuing Fan Milk Plc, we used three techniques, namely the discounted cashflow model and relative valuation models to determine the intrinsic value. Our relative valuation model uses price-to-earnings (P/E) and price-to-book (P/B) multiples. We opted to utilize a weighted average of the intrinsic prices from both models, considering the inherent strengths and weaknesses of each model. The relative valuation model for both P/E and P/B ratios provide a more comprehensive and balanced assessment of Fan Milk’s value. Whereas the P/E focuses on earnings and profitability, the P/B ratio focuses on asset value and financial stability. Using both provides a balanced perspective on both earnings and asset backing. This dual approach helps to mitigate the limitations of each individual ratio. We assigned a 30.0% weighting to both P/E and P/B and a 40.0% weighting to DCF multiple. We assigned a higher weight to the DCF model as it focuses on the intrinsic value of a company based on its future cash flows, adjusted for the time value of money, whereas the other models do not.

Valuation inputs – Cost of Capital

Parameter	Value	Note
Risk-free rate	17.74%	This rate reflects the average yield on restructured bonds listed on the Ghana Fixed Income Market (GFIM) as of the valuation date in mid-July 2025. The recent improvement in bond trading amidst the downturn in yields has enhanced price discovery for the DDEP bonds, restoring the bond yields in our model as the risk-free rate.
Market risk premium	6.0%	This aligns with the upper band of our preferred range from 4.0% to 6.0% and reflects our view of the elevated risk premiums in developing markets
Beta	0.720	We calculate beta using daily, weekly, monthly and quarterly data over a one to fifty-year period. We employed betas that are statistically significant with the highest coefficient of determination.
WACC	20.6%	Based on a book value equity of GHS 344.2mn and book value debt of GHS 45.0mn, we calculate the WACC with a cost of debt of 9.2% and cost of equity of 22.1%
Peer mean ratio (P/B)	9.26	The peer mean P/B is computed using the P/B of FMCGs including Guinness Nigeria Breweries, Unilever Nigeria, Unilever Ghana, Guinness Ghana Breweries and Benso Oil Palm Plantation

Valuation summary (GHS/share)

P/E	DCF	P/B	WEIGHTED AVG
4.28	5.38	4.92	4.91

Key risks to valuation

Upside: Faster-than-expected decline in inflation, appreciation of the Ghanaian cedi, lower costs of key inputs like milk powder, sugar and cocoa powder, slower tariff hikes, effective rollout of local sourcing strategy, successful penetration into new markets (including exports), improved macroeconomic environment, favorable regulatory reforms and stronger-than-expected execution of Project SANKOFA.

Downside: Slower-than-expected decline in inflation, foreign exchange volatility, elevated interest rates, utility tariff hikes, rising energy prices, price surge in skimmed milk powder and other key raw materials, intensified competition, unfavorable tax policy shifts, water scarcity and execution risk in route-to-market optimisation

Income statement

GHS mn	2023A	2024A	2025E	2026E	2027E
Revenue	549.42	683.82	836.31	951.73	1,042.14
Cost of Sales	(378.14)	(426.09)	(526.88)	(613.86)	(677.39)
Gross Profit	171.27	257.73	309.44	337.86	364.75
Impairment of financial assets	-	-	-	-	-
Distribution cost	(105.21)	(120.68)	(146.36)	(168.46)	(185.50)
Administrative expenses	(40.04)	(61.75)	(76.10)	(87.56)	(103.17)
Other Income	4.41	4.08	8.36	9.52	10.42
Operating profit	30.44	79.38	95.34	91.37	86.50
Finance income	33.88	7.94	4.38	7.70	13.05
Finance expenses	(27.28)	(12.52)	(5.53)	(5.15)	(5.27)
Profit before Income Tax	37.05	74.81	94.18	93.92	94.28
Taxation	(9.69)	(20.57)	(25.90)	(25.83)	(25.93)
Profit for the Year	27.35	54.23	68.28	68.09	68.35

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