Unilever Plc. 1H2025 Results

Current rating: HOLD

Year-to-date: +4.6%

Current Price: GHS 20.40 **| Current Fair Value:** GHS 19.75 **| Downside:** 3.21%

Ghana | 18 August 2025

Steady Hands, Tight Margins

Rating Summary

We assign a HOLD rating to Unilever Ghana as we expect steady topline growth in the short to medium term, supported by defensive Home Care demand, strong Personal Care positioning, and the gradual pay-off from brand investments. The company's strategic shift since 2018 towards higher-margin, culturally relevant essentials has reinforced brand loyalty and competitive positioning, particularly through Key Soap in rural and peri-urban markets and Pepsodent in oral care leadership. However, the Home Care category faces sustained competition pressure from lower-cost local and Asian rivals. This competitive dynamic, together with high marketing outlay, is likely to keep operating margins subdued, with our five-year forecast averaging 6.6%, compared to a historical average of 7.1%. Gross margins remain exposed to palm oil price volatility, given its role as a key raw material in both Home Care and Personal Care products. While we recognise early signs of revenue momentum, we believe the combination of weak pricing power in commoditised categories and reliance on smaller pack sizes will weigh on near-term earnings upside. Consequently, we forecast FY2025 net earnings to contract by 17.5% y/y to a net profit of GHS 53.5mn, underscoring our view that near-term upside remains capped.

1H2025 Earnings Update

Unilever Ghana ("UNIL") released its unaudited 1H2025 financial results on 30 July 2025, with an unexpected 54.6% y/y plunge in net profit to GHS 25.5mn. The decline in net profit stems from a modest revenue growth of 11.9% y/y to GHS 533.9mn, a 25.1% y/y surge in input cost to GHS 341.8mn, a 41.2% y/y plunge in finance income to GHS 0.8mn and a 45.7% y/y fall in other income to GHS 3.7mn. Operating profit declined by 29.4% y/y to GHS 49.4mn despite an impressive OPEX containment, as OPEX rose by just 4.1% y/y to GHS 146.3mn. The moderate growth in OPEX was supported by the absence of restructuring expenses and a 20.5% y/y decline in impairment losses on trade receivables to GHS 0.2mn., Despite sourcing approximately 75.0% of its raw materials locally, we believe the elevated raw material costs in 1H2025 reflect the lingering impact of prior procurement agreements locked in during periods of elevated exchange rates and inflation, compounded by palm oil price volatility. These legacy contracts continue to weigh on input costs, as the emerging stable macroeconomic environment is in its early phase. The modest revenue growth likely reflects weakened consumer demand amid sustained price hikes, signaling increased price sensitivity in the consumer goods market. We believe that the slight 0.7% y/y dip in inventory to GHS 133.5mn further reinforce this narrative. We perceive this to be slower stock replenishment due to cautious demand expectations and improved inventory efficiency in response to softer sales volumes. Although UNIL continues to invest in brand equity and demand-driving initiatives, the company is yet to fully translate these efforts into robust topline growth. This leaves us concerned about the near-term prospect for topline. Nevertheless, its 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 sixth consecutive quarter as disappointing with a downside risk to valuation, despite the company maintaining profitability for the eleventh straight quarter.

1H2025 Performance: Net profit dampened by surge in input cost

Revenue and Income Dynamics

- Net profit plunged by 54.6% y/y to GHS 25.5mn in 1H2025 due to a 25.1% y/y surge in input cost to GHS 341.8mn, a 41.2% y/y plunge in finance income to GHS 0.8mn. and a 45.7% y/y fall in other income to GHS 3.7mn.
- Revenue increased modestly by 11.9% y/y to GHS 533.9mn in 1H2025. Although we observed indications of recovery, the revenue growth was insufficient to offset the growth in input cost.
- Other income plunged by 45.7% y/y to GHS 3.6mn, reflecting a sharp contraction in non-operating contributions to earnings
- Additionally, financing cash flows experienced adverse movements as finance income declined by 41.2% y/y to GHS 0.8mn while finance cost inched up by 0.3% y/y to GHS 2.7mn.
- UNIL's operating profit fell by 29.4% y/y to GHS 49.4mn in 1H2025

Cost and Risk Management

- Input cost surged by 25.1% y/y to GHS 341.8mn, substantially eroding margins.
- Operating expense increased by 4.1% y/y to GHS 146.3mn. The OPEX reduction was primarily driven by the absence of restructuring expenses and lower impairment losses on trade receivables, compared to the prior year.
- Finance cost rose by 0.3% y/y to GHS 2.7mn.

Margin Performance

- Gross margin fell by 6.8pp y/y to 36.0% in 1H2025 (vs 37.4% at FY2024)
- UNIL's operating margin declined by 5.4pp y/y to 9.3% in 1H2025 (vs 10.3% at FY2024).
- Consequently, net profit margin dropped by 7.0pp to 4.8% in 1H2025 (vs 7.0% at FY2024).
- The broad-based decline in UNIL's margins reflect cost pressures, which offset topline gains

Investment Thesis & Outlook

Early signs of revenue recovery but uncertainty lingers

Intense price competition especially within the Home Care category pose persistent margin headwinds for Unilever Ghana

- Unilever Ghana's margins remain exposed to several risks that could constrain margin expansion over the short to medium term despite a relatively stable macroeconomic outlook. The Home Care category, especially the laundry bars, faces intense price competition from lower-priced alternatives offered by local manufacturers and Asian imports, which limits UNIL's ability to pass on input cost increases without risking volume losses. To defend market share, management has relied on smaller, lower-priced Stock Keeping Unit (SKUs) and periodic promotions, strategies that protect volumes but dilute per-unit profitability. In commoditised Home Care categories, we note that lower-cost rivals continue to sustain thinner margins, enabling them to undercut Unilever's prices and forcing the company to absorb cost increases internally or offset them through operational savings, a strategy that is not sustainable in prolonged cost-up cycles. The company continues to invest heavily in brand-building and demand activation to defend market share against cheaper alternatives. However, we believe that if these initiatives fail to deliver measurable volume uplift or enable price premiums, the high marketing outlay will weigh on operating margins without delivering strategic benefits. Given its role as an essential raw material in both the Home Care and Personal Care brands, palm oil price volatility remains a key risk to UNIL's gross margin. However, we view competitive pricing pressure from lower-cost alternatives as the most immediate and persistent headwind to topline momentum and margin recovery. Without a durable progress in portfolio premiumisation, operational efficiency gains, and measurable returns on brand investment, we believe operating margin is likely to remain subdued. We thus forecast a five-year average operating margin of 6.6%, compared to historical average of 7.1%.

Local relevance drives product differentiation and customer loyalty, preserving core demand

- Since divesting from the Spread business in 2018 and the Tea category in 2021, Unilever Ghana Plc has recalibrated its portfolio to concentrate on higher-margin, culturally relevant essentials within the Home Care and Personal Care segments. This deliberate shift has sharpened category focus, deepened brand loyalty, and reinforced the company's competitive positioning in products closely tied to Ghanaian hygiene habits and daily consumption routines. The Home Care segment, anchored by detergents, bleach, and surface cleaners, retains a strong emotional and cultural resonance with Ghanaian households. Key Soap, a generational brand embedded in household routines, remains a cornerstone of the category. Its positioning as the "soap of mothers" and its affordability, albeit with margin pressure, protect it from aggressive price competition, particularly in rural and peri-urban markets. In contrast, Omo and Sunlight cater to more urban and middle-income households seeking premium quality, while Sunlight also caters to cost-conscious consumers who value multi-purpose utility. The Personal Care category is the UNIL's strongest growth driver, underpinned by health-conscious consumption and strong public engagement. The Pepsodent brand continues to enjoy market leadership, reinforced by long-standing oral health campaigns and partnerships with schools and Non-Governmental Organisations (NGOs). The ability to offer affordable price points through smaller tubes and sachets keeps penetration high, even in periods of reduced consumer spending. Our analysis indicates that Home Care demand is largely defensive, rooted in necessity, habit, and brand attachment, while Personal Care offers incremental growth potential through aspirational and health-led positioning. Unilever Ghana's ability to blend cultural understanding with effective distribution and tailored pack-price formats has been the key to sustaining relevance across economic cycles. While ongoing investments in brand equity and demand activation have not significantly translated into revenue growth, we observe early signs of top-line momentum, which we attribute to the gradual materialisation of returns from these initiatives. Against this background, we expect continued brand loyalty to anchor Unilever Ghana's topline growth, supporting our forecast topline grow of 19.3% y/y to GHS 1.1bn in FY2025 with a Compounded Annual Growth Rate (CAGR) of 30.4% over the next five-years (2025 - 2029).

Leveraging a strategic route-to-market and targeted outlet engagement to sustain market leadership and drive growth

- We view Unilever Ghana's route-to-market as the backbone of its competitive positioning and a critical driver of both volume defence and market share resilience. The company's route-to-market strategy blends national reach with channel-specific execution, ensuring that its products remain visible, accessible, and affordable across every consumer segment. Through an extensive network of primary distributors and secondary wholesalers, Unilever Ghana achieves deep penetration in rural and peri-urban markets, where brand loyalty to Key Soap and affordability drive repeat purchases. In urban centres, we believe UNIL's partnerships with modern trade chains, pharmacies, and high-retail outlets position its premium Personal Care SKUs for higher-margin sales, while smaller pack sizes are targeted at kiosks and open markets to sustain frequency of purchase. Unilever's route-to-market effectiveness is reinforced by robust demand activation, including in-store promotions, community campaigns, and co-branded health initiatives. These include collaborations with local health NGOs to promote hygiene awareness and maternal wellness programmes which deepen brand engagement and maintain relevance in a competitive FMCG landscape. The company's ability to align pack-price formats to local purchasing power while ensuring consistent product availability provides a competitive buffer against both local and imported competitors. However, we think sustaining this advantage requires disciplined execution to ensure efficient stock management and avoid stock-outs. In our view, continued optimisation of the route-to-market framework with sharper focus on outlet segmentation will be instrumental in maintaining Unilever Ghana's market leadership and supporting steady topline growth in the medium term.

Summary of Outlook

- We expect Unilever Ghana to deliver steady revenue growth in the short to medium term, supported by defensive Home Care demand, strong Personal Care positioning, and the gradual pay-off from brand investments. However, intense price competition and palm oil price volatility are likely to keep margins subdued, at least in the short-term. The company's diversified product mix and the essential nature of its offerings should continue to anchor demand, underpinned by brands that are deeply rooted in Ghanaian cultural norms and enjoying longstanding emotional equity across income segments. Nonetheless, the combination of weak sales momentum and rising input costs presents a downside risk to near-term performance.

Valuation & Recommendation: HOLD

- Our "HOLD" rating is based on our weighted average fair value of GHS 19.75 per share, representing a downside of 3.21%, using the weighted average prices from our Discounted Cash Flow (DCF) and relative valuation models. We see a compelling case for holding Unilever Ghana in anticipation of improvement in financial performance in the medium term.
- UNIL is currently trading at an annualised P/E of 18.6x and P/Sales of 2.4x

Valuation panel

In valuing Unilever Ghana 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 Enterprise Value-to-Sales (EV/Sales) multiples. We opted to utilize a weighted average of the intrinsic prices from all three models, considering the inherent strengths and weaknesses of each model. The relative valuation model for both P/E and EV/Sales ratios provide a more comprehensive and balanced assessment of Unilever's value. Whereas the P/E focuses on earnings and profitability, the EV/Sales complements this by reflecting the company's overall enterprise value relative to revenue. Using both provides a balanced perspective on both earnings and overall business value relative to revenue. This dual approach helps to mitigate the limitations of each individual ratio. We assigned a 20.0% weighting to P/E and a 40.0% weighting to each of DCF and EV/Sales. 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. Similarly, EV/Sales was given a significant weighting because it captures the company's total enterprise value relative to revenue, allowing for a valuation perspective that is less sensitive to short-term earnings.

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	0.364	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	19.5%	Based on a book value equity of GHS 232.7mn and book value debt of GHS 10.9mn, we calculate the WACC with a cost of debt of 9.2% and cost of equity of 19.9%
Peer mean ratio (P/E)	18.00	The peer mean P/E is computed using the P/E of FMCGs including Fan Milk, Benso Oil Palm Plantation, Guinness Ghana Breweries and Unilever Nigeria,

Valuation summary (GHS/share)

P/E	DCF	EV/Sales	WEIGHTED AVG
15.42	18.88	22.77	19.75

Key risks to valuation

Upside: Faster-than-expected decline in inflation, appreciation of the Ghanaian cedi, lower costs of key inputs like palm oil, slower utility tariff hikes, a softer VAT regime in 2026, improved local sourcing strategy, successful penetration into new markets, improved macroeconomic environment, favorable regulatory reforms and effective marketing and brand activation campaigns boosting market share.

Downside: Higher-than-expected inflation, foreign exchange volatility, elevated interest rates, utility tariff hikes, rising energy prices, price surge in palm oil and other key raw materials, intensified competition, unfavorable tax policy shifts and continued underperformance of marketing and product innovation initiatives to generate sufficient sales uplift

Income statement

GHS 000	2023A	2024A	2025E	2026E	2027E
Revenue	908,647.0	930,801.0	1,110,445.6	1,430,253.9	1,852,178.8
Cost of Sales	(569,972.0)	(582,931.0)	(743,998.6)	(979,723.9)	(1,315,047.0)
Gross Profit	**338,675.0**	**347,870.0**	**366,447.1**	**450,530.0**	**537,131.9**
Distribution cost	(19,599.0)	(20,876.0)	(38,865.6)	(45,768.1)	(59,269.7)
Brand and marketing Inv.	(79,627.0)	(87,626.0)	(98,829.7)	(110,129.6)	(142,617.8)
Administrative expenses	(25,290.0)	(135,120.0)	(172,119.1)	(207,386.8)	(222,261.5)
Restructuring costs	(3,354.0)	(19,774.0)	(1,110.5)	(4,290.8)	(5,556.5)
Impairment on trade receivables	957.0	(43.0)	(1,499.1)	(1,630.6)	(1,611.4)
Operating profit	**222,779.0**	**95,873.0**	**76,232.1**	**109,929.3**	**142,858.6**
Finance income	1,547.0	1,739.0	1,337.4	1,904.5	2,541.8
Finance expenses	(9,999.0)	(5,365.0)	(3,712.6)	(4,984.5)	(4,636.3)
Profit before Income Tax	**214,327.0**	**92,247.0**	**73,856.8**	**106,849.4**	**140,764.1**
Income Tax Expense	(72,884.0)	(27,341.0)	(20,310.6)	(29,383.6)	(38,710.1)
Profit for the Year	**141,443.0**	**64,906.0**	**53,546.2**	**77,465.8**	**102,054.0**

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