

Fan Milk Plc 9M2025 Results

Current rating: HOLD

Current Price: GHS 8.0 | **Current Fair Value:** GHS 8.18 | **Upside:** 2.25%

Ghana | 05 November 2025

Growth Prospects Intact, But Gains Already Captured

Rating Summary

We revise our rating on Fan Milk PLC to a HOLD (from “ACCUMULATE” at HY2025) as we see limited near-term upside from the current price of GHS 8.00, following a 116.2% year-to-date rally that, in our view, has already priced in the company’s strategic initiatives. Our medium-term outlook anticipates sustained support from productivity investments and commercial revitalisation under the “Bring Back the Pride” roadmap (2024 – 2029). Key growth catalysts include Project SANKOFA, which reinforces vendor empowerment and execution discipline, and Project Kilimanjaro, which expands cold-chain infrastructure to strengthen last-mile delivery and distribution capacity. We forecast revenue to grow at a five-year CAGR of 18.9%, driven by improved route-to-market efficiency and enhanced product availability. However, profitability remains constrained by elevated input costs and foreign exchange exposure, as less than 50% of raw materials are sourced locally. CAPEX increased by 76.5% q/q to GHS 17.3mn in 9M2025, with a portion of related expenses recognised as exceptional items. We expect near-term margin pressure, with operating margin projected to decline from 11.6% in FY2024 to 10.4% in FY2025 and further to 8.1% in FY2026, reflecting cost absorption from expanded infrastructure. While we view these structural investments as critical to long-term competitiveness and revenue growth, we believe the current valuation fairly reflects the company’s value at current levels, warranting a neutral stance. We derived our fair value estimate using a blended valuation approach, assigning weights of 40% to discounted cash flow, 30% to the price-to-earnings multiple, and 30% to the price-to-book multiple. The intrinsic value reflects a risk-free rate of 15.69%, a weighted average cost of capital (WACC) of 19.4%, and a terminal growth rate of 5.0%.

9M2025 Earnings Update

Fan Milk Plc (“FML”) released its unaudited 9M2025 financial results on 31 October 2025, reporting an unexpected decline in profit, 10.0% below our projection. The large ice cream producer posted a net profit of GHS 42.4mn, representing a 3.7% y/y decline. The profit decline was largely driven by a 55.7% y/y surge in cost of sale to GHS 473.8mn, a 41.2% y/y increase in operating expense to GHS 194.6mn and a 66.6% y/y plunge in finance income to GHS 9.4mn. Revenue surged by 50.6% y/y to GHS 726.6mn, underpinned by a strategic focus on the outdoor business. However, we observed a contraction in margins, primarily due to the sharp increase in input costs and operating expenses. The surprise surge in operating expenses, despite the strong year-to-date Cedi appreciation and moderation in price pressures, was mainly on account of a 54.4% y/y surge in administrative expenses to GHS 59.9mn, a 36.8% y/y rise in sales and distribution costs to GHS 107.8mn and the introduction of exceptional item at GHS 6.0mn. In our view, the heightened cost pressures partly reflect pre-agreed contracts already locked-in at higher exchange rate and inflation levels before the marked turnaround in Ghana’s macroeconomic backdrop in 2025. We also believe the exceptional expense item included under operating expenses represents a non-recurring cost, likely attributable to the execution of Project Kilimanjaro and Sankofa. As a result, Gross margin declined by 2.2pp to 34.8%, operating margin declined by 0.9pp to 8.1% and net profit margin declined by 3.3pp to 5.8%. Overall, we are impressed by the significant surge in topline but disappointed in the decline in bottom-line 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.

9M2025 Performance: A surge in input cost, higher OPEX and plunge in finance income weigh on bottom-line performance

Revenue and Income Dynamics

- FML reported a 3.7% y/y decline in net profit to GHS 42.4mn in 9M2025, mainly as a result of a 55.7% y/y surge in cost of sale to GHS 473.8mn, a 41.2% y/y increase in operating expense to GHS 194.6mn and a 66.6% y/y plunge in finance income to GHS 9.4mn.
- Other income plummeted by 83.5% y/y to GHS 0.5mn
- Operating profit increased by 34.9% y/y to GHS 58.8mn

Cost and Risk Management

- Input costs surged by 55.7% y/y to GHS 473.8mn, driven by a 35.1% y/y rise in cocoa futures. However, the price of skimmed milk powder declined by 10.1% y/y. Skimmed milk powder and cocoa powder remain core inputs within FML’s product mix.
- Furthermore, OPEX elevated by 41.2% y/y to GHS 194.6mn, above 9M2025 average inflation of 17.3% (vs 9M2024 average inflation of 22.9%). Operating expense was mainly driven by a 54.4% y/y surge in administrative expense to GHS 59.9mn, a 36.8% y/y rise in sales and distribution expense to GHS 107.8mn and the introduction of exceptional item at GHS 6.0mn. In our view, the exceptional expense item included under operating expenses, represents a non-recurring cost, likely attributable to the execution of Project Kilimanjaro and Sankofa
- Finance cost impressively plunged by 64.6% y/y to GHS 3.9mn amid the sharp fall in domestic interest rates

Margin Performance

- Gross margin decreased by 2.2pp to 34.8%
- FML's operating margin declined by 0.9pp to 8.1% in 9M2025.
- Consequently, net profit margin dropped by 3.3pp to 5.8% in 9M2025.
- 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 growth

Foreign Exchange-Linked Cost Pressures to Cap Margin Upside

- Fan Milk's limited local sourcing continues to expose its cost base to foreign exchange volatility and imported inflation. The company currently sources less than 50% of its raw materials locally, leaving a substantial portion of input costs tied to global commodity markets. Despite the appreciation of the cedi in 2025, production costs have remained elevated as our check with management revealed that most raw materials are procured up to six months in advance. We believe this restricts the company's ability to immediately benefit from favourable currency movements. A significant share of inputs, particularly skimmed milk powder, remains imported and highly sensitive to fluctuations in global dairy prices and FX movements. Although management has made progress in sourcing cocoa locally through its partnership with fairAfrik and incorporating soya, cassava, and coconut into production, these locally sourced materials account for only a minor share of total input value. We forecast input costs to expand at a five-year CAGR of 21.0%, nearly double the historical five-year CAGR of 10.9%. Our sharp input cost growth caps the meaningful upside to gross margins. While we project gross margins to average 33.2% over the next five years, up from the historical average of 29.8%, the improvement remains constrained by persistent FX-linked cost pressures. In our view, Fan Milk's margin trajectory will continue to lag potential revenue growth unless the company accelerates local sourcing or hedges against currency exposure more effectively.

Cold-Chain Expansion to Support Revenue Growth Amid Near-Term Margin Pressure

- Fan Milk's Project Kilimanjaro represents a strategic investment in cold-chain infrastructure aimed at strengthening production and distribution capacity to meet rising consumer demand. The initiative expands the company's network of refrigerated trucks, cold rooms, and vendor freezers, enhancing last-mile delivery efficiency. Importantly, Project Kilimanjaro complements ongoing initiatives such as Bring Back the Pride and Project Sankofa, allowing Fan Milk to support larger sales volumes and deepen market penetration through improved product availability and vendor empowerment. We expect this structural improvement to underpin revenue growth, which we forecast at a five-year CAGR of 18.9%. However, the near-term profitability outlook remains pressured by higher capital expenditure and elevated operating costs associated with the expanded cold-chain network. We forecast operating margin to decline to 10.4% in FY2025 from 11.6% in FY2024, before contracting further to 8.1% in FY2026. Overall, while Project Kilimanjaro reinforces Fan Milk's long-term growth potential, it introduces short-term margin headwinds.

Strategic CAPEX Investment to Drive Long-Term Growth

- We view Fan Milk's aggressive investment in capital expenditure as a commitment to production and distribution capacity through Project Kilimanjaro. Total CAPEX surged 76.5% q/q to GHS 17.3mn in 9M2025, reflecting the company's strategic push to expand its cold-chain infrastructure, including refrigerated trucks, cold rooms, and vendor freezers. We expect this investment to enhance last-mile delivery efficiency, strengthen market penetration, and support rising consumer demand under initiatives such as Bring Back the Pride and Project Sankofa. We note that the operational expenses for the period include a non-recurring "exceptional item," which, in our view, likely relates to the upfront costs associated with Project Kilimanjaro. We view this structural investment as pivotal for sustaining long-term growth, improving market competitiveness, and reinforcing the company's revenue trajectory. This supports our five-year CAGR of 18.9% revenue forecast.

Optimised Distribution Backbone to Support Sales Volume Growth

- Fan Milk's five-year roadmap, "Bring Back the Pride" (2024 – 2029), outlines the company's strategic objective to restore lost volumes and reach 100 kilotonnes. At the heart of this recovery plan lies Project SANKOFA, a key commercial revitalisation programme that has strengthened ties with trade partners and reinstated disciplined execution across the value chain. The company currently leverages a comprehensive route-to-market network, comprising 800 net agents, 21 primary distributors, and nearly 7,000 vendors, which continues to serve as the operational backbone for volume-driven growth in the near to medium term. Management has adopted a targeted approach to enhance this footprint, focusing on boosting the performance of top-tier distributors, onboarding 50 additional agents, and refining trade incentive structures to accelerate results. We anticipate that the scale, integration, and coordination of this enhanced route-to-market system will deliver meaningful volume momentum and underpin revenue expansion over the medium term, as Fan Milk capitalises on these structural improvements to reclaim market share in core segments and strengthen retail penetration.
- Project SANKOFA represents a cornerstone of Fan Milk's strategy to reinforce its trade ecosystem and drive sustainable growth. The initiative focuses on structured vendor empowerment across four strategic dimensions, combining skill development, operational support, and engagement programmes to strengthen commercial execution. The first pillar, Fan Academy, has provided training to over 2,700 street vendors in essential areas such as financial literacy, road safety, and operational best practices, embedding human capital development within the company's route-to-market model. Complementing this, the Right to Dream programme has equipped fifteen high-potential vendors with fully operational agent setups, enabling them to expand their reach and contribute more effectively to market penetration. Fan Milk has also prioritised enhancing vendor visibility through the deployment of 45,000 trade premiums, which have reinforced brand presence and strengthened interactions with customers at the point of sale. Finally, the Happy Feet internal engagement initiative has engaged 600 agents across six regions, fostering collaboration in marketing, innovation, and adherence to health and safety standards. In our view, the structured empowerment of trade partners under Project SANKOFA positions Fan Milk to capture incremental volume and revenue growth, which we forecast at a five-year compound annual growth rate of 18.9%, with FY2025 expected to deliver 22.3% y/y growth.

Summary of Outlook for FY2025

- Looking ahead, we expect Fan Milk to sustain revenue momentum as productivity initiatives, distribution expansion, and vendor empowerment begin to translate into stronger sales volumes. The ongoing execution of Project Kilimanjaro and Project SANKOFA should enhance route-to-market efficiency, improve product availability, and deepen retail penetration, particularly within urban and peri-urban markets. However, we anticipate continued margin pressure in the near term as elevated input costs and project investments weigh on margin.

Valuation & Recommendation: **HOLD**

- Our “HOLD” rating is based on our weighted average fair value of GHS 8.18 per share, representing an upside of 2.25%, using the weighted average prices from our Discounted Cash Flow (DCF) and relative valuation models. We view FML as a hold, with anticipated gains in financial performance likely to stem from the company’s strategic productivity efforts.
- FML is trading at a TTM P/E of 9.2x and EV/SALES of 1.0x

Valuation panel

In valuing Fan Milk Plc, we used two 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	15.69%	This rate reflects the average yield on restructured bonds listed on the Ghana Fixed Income Market (GFIM) as of the valuation date by end of October 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	19.4%	Based on a book value equity of GHS 338.8mn and book value debt of GHS 29.0mn, we calculate the WACC with a cost of debt of 12.2% and cost of equity of 20.0%
Peer mean ratio (P/B)	7.8	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
9.57	6.34	9.24	8.18

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: Unexpected upward reversal 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	2028E	2029E
Revenue	549.42	683.82	836.31	951.73	1,089.73	1,340.26	1,623.98
Cost of Sales	(378.14)	(426.09)	(535.24)	(628.14)	(741.01)	(911.45)	(1,104.30)
Gross Profit	171.27	257.73	301.07	323.59	348.71	428.92	519.67
Impairment of financial assets	-	-	-	-	-	-	-
Distribution cost	(105.21)	(120.68)	(146.36)	(168.46)	(193.97)	(241.27)	(292.31)
Administrative expenses	(40.04)	(61.75)	(76.10)	(87.56)	(107.88)	(134.04)	(162.40)
Other Income	4.41	4.08	8.36	9.52	10.90	13.40	16.24
Operating profit	30.44	79.38	86.98	77.09	57.76	67.02	81.20
Finance income	33.88	7.94	4.38	12.13	21.59	26.20	29.04
Finance expenses	(27.28)	(12.52)	(4.73)	(4.35)	(4.48)	(4.63)	(4.73)
Profit before Income Tax	37.05	74.81	86.62	84.87	74.87	88.59	105.51
Taxation	(9.69)	(20.57)	(23.82)	(23.34)	(20.59)	(24.36)	(29.01)
Profit for the Year	27.35	54.23	62.80	61.53	54.28	64.23	76.50

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