

## Fan Milk Plc FY2025 Results

**Current rating: ACCUMULATE**

**Year-to-date: +6.3%**

**Current Price: GHS 8.50 | Current Fair Value: GHS 9.46 | Upside: 11.26%**

Ghana | 12 February 2026

### Earnings beat on strong revenue, margins still constrained

#### Rating Summary

We revise our rating on Fan Milk PLC from “HOLD” to “ACCUMULATE”, implying a 15.6% upgrade to our previous fair value of GHS 8.18 which translates into an 11.26% upside from the current price of GHS 8.50. With the stock already up 6.3% YTD, this moderates our perceived near-term upside potential. Our valuation rests on the company’s strategic CAPEX investment, cold-chain expansion under Project Kilimanjaro, supportive VAT reforms and near-term margin constraints. Fan Milk delivered a robust 46.3% y/y increase in revenue to GHS 1.0bn, which we view as early validation of Project Kilimanjaro’s impact as the company scales its fleet of refrigerated trucks, cold rooms and vendor freezers to materially enhance last-mile delivery and deepen market penetration. We forecast revenue growth of 24.8% y/y to GHS 1.2bn in FY2026 and project a five-year revenue CAGR of 22.4%, ahead of the historical 21.8% but significantly lower than the FY2025 growth outturn. Our revenue outlook is supported by structural distribution gains and improved demand conditions amid the ongoing rebound in household real consumption spending. Capital expenditure surged 108.1% q/q in 4Q2025 to GHS 36.0mn at FY2025, reflecting accelerated cold-chain investments and borehole installations, which we expect to strengthen delivery efficiency, reduce reliance on external water supply and lift five-year average operating margins to 6.3% from the historical 3.6%. We also expect the reduction in the effective VAT rate from 21.9% to 20.0% and the removal of the 1.0% COVID levy to enhance consumer purchasing power and stimulate volume growth. Input costs rose sharply by 51.7% y/y to GHS 616.3mn, despite a 48.1% y/y decline in cocoa futures and a 21.0% y/y fall in skimmed milk powder prices. We attribute the increase to higher-priced forward FX contracts and rising cold-chain costs. However, the renewed ability to claim input tax credits on the embedded 5.0% levies should provide a meaningful cost cushion and strengthen earnings as commodity and currency benefits gradually filter through. That said, elevated operating costs remain a near-term headwind and cap the upside to our projections. We expect operating margin to decline by 1.8pp to 9.4% in FY2026 as the cost intensity of the ongoing expansion phase persists. We derived our fair value estimate using a blended valuation approach, assigning weights of 40% to discounted cash flow, 40% to the price-to-earnings multiple, and 20% to the price-to-book multiple. The intrinsic value reflects a risk-free rate of 15.01%, a weighted average cost of capital (WACC) of 18.6%, and a terminal growth rate of 5.0%.

#### FY2025 Earnings Update

Fan Milk Plc (“FML”) released its unaudited FY2025 financial results on 02 February 2026, reporting a 36.3% y/y surge in net profit to GHS 67.4mn, coming in 9.0% above our target. The growth in profit was largely driven by a 46.3% y/y rise in revenue to GHS 1.0bn and a 52.2% y/y plunge in finance costs to GHS 6.0mn. In our view, the growth in revenue was underpinned by sustained demand across its core product portfolio and deeper market penetration through Project Kilimanjaro. Cost of sales climbed sharply by 51.7% y/y to GHS 616.3mn, outpacing revenue growth and compressing gross margin by 2.2pp to 38.4%. We believe the company is yet to benefit from the 40.7% y/y appreciation of the cedi against the USD in FY2025 likely due to existing supply contracts which were based on higher Forward FX and inflation rates prior to the sharp macro shift. The surge in operating expense by 34.7% significantly above the 14.6% average inflation in FY2025 was largely due to a 45.5% y/y surge in sales and distribution cost to GHS 164.4mn and a 28.6% y/y rise in administrative expenses to GHS 81.7mn. As a result, operating margin declined by 0.2pp y/y to 11.2%. Finance costs declined by 52.2% y/y to GHS 6.0mn, reflecting lower borrowings and reduced interest burden, while net finance income weakened due to lower interest income relative to the prior year. The reduction in finance costs provided partial insulation to profit growth. However, margin remained broadly constrained due to cost escalation across input and operational levels. Overall, we view FML’s FY2025 earnings growth as impressive. However, we believe the sustainability of profitability improvements will depend on management’s capacity to mitigate input costs and extract greater operating leverage from its expanded revenue base. In an environment of easing inflation and relative FX stability in 2026, we think the company appears well-positioned to translate topline momentum into stronger margin recovery over the medium term as cost pressures are capped.

FY2025 Performance: A surge in revenue and plunge in finance cost propel bottom-line growth

#### Revenue and Income Dynamics

- FML recorded a 36.3% y/y surge in net profit to GHS 67.4mn in FY2025, mainly anchored on a 46.3% y/y rise in revenue to GHS 1.0bn and a 52.2% y/y plunge in finance costs to GHS 6.0mn
- Other income slumped by 43.1% y/y to GHS 2.3mn.
- Operating profit increased by 44.3% y/y to GHS 112.0mn

#### Cost and Risk Management

- Input costs elevated by 51.7% y/y to GHS 616.3mn, despite a 48.1% y/y plunge in cocoa futures and a 21.0% y/y fall in the price of skimmed milk powder. In our view, the surge in input cost is due to funds locked up in forward FX contracts at higher rates, with the company yet to benefit from the cedi appreciation for FY2025 and price declines in raw materials for the period. Also, we believe the ongoing expansion of cold chain infrastructure under Project Kilimanjaro contributed to the rise in input cost as higher cold storage cost materially inflate cost of sales.
- Furthermore, OPEX surged by 34.7% y/y to GHS 274.6mn, above the 14.6% average inflation in FY2025, largely due to a 45.5% y/y surge in sales and distribution cost to GHS 164.4mn and a 28.6% y/y rise in administrative expenses to GHS 81.7mn.
- Finance costs plummeted by 52.2% y/y to GHS 6.0mn amid the sharp fall in domestic interest rates

### Margin Performance

- Gross margin reduced by 2.2pp to 38.4%
- FML's operating margin declined by 0.2pp to 11.2% in FY2025.
- Consequently, net profit margin dropped by 0.5pp to 6.7% in FY2025.
- The broad-based decline in FML's margins signals cost pressures, which mitigates topline gains and constrains valuation upside.

## Near-Term Outlook

Structural investments anchor revenue growth but near-term margin pressures persist

### Cold-Chain Expansion Under Project Kilimanjaro to Drive Revenue Growth in 2026

- Fan Milk continues to advance Project Kilimanjaro, a targeted investment in cold-chain infrastructure designed to scale production and strengthen distribution across the markets. We view the 46.3% y/y increase in revenue to GHS 1.0bn in FY2025 as early indication that the initiative is beginning to yield results. The project will expand the company's fleet of refrigerated trucks, cold rooms and vendor freezers, materially improving last-mile delivery and product availability. We expect these enhancements to support higher sales volumes and enable deeper market penetration as distribution reach improves. Over the medium term, we expect the structural gains from Project Kilimanjaro to sustain topline momentum, underpinning our five-year revenue CAGR forecast of 22.4%, ahead of the historical five-year CAGR of 21.8%. Accordingly, we project revenue to rise by 24.8% y/y to GHS 1.2bn in FY2026.

### Strategic CAPEX push to strengthen Fan Milk's growth and margin outlook

- We view Fan Milk's elevated capital spending as a deliberate and forward-looking effort to strengthen its operating base, although it imposes short-term cost pressure. Capital expenditure climbed sharply by 108.1% q/q in 4Q2025 to GHS 36.0mn in FY2025, driven by accelerated investments under Project Kilimanjaro alongside ongoing borehole installations. In our view, the company channeled a significant portion of this spend into expanding its cold-chain footprint, which we expect to enhance last-mile delivery efficiency, support volume growth and deepen market penetration. In addition, we expect the borehole installations to ease cost pressures by reducing reliance on externally supplied water and mitigating exposure to rising water tariffs. Overall, we consider this phase of capital investment to be structurally supportive of Fan Milk's long-term growth trajectory, reinforcing our five-year revenue CAGR forecast of 22.4% and underpinning an improvement in average operating margins to 6.3% over the next five years, compared with a historical five-year average operating margin of 3.6%.

### Lower VAT Regime to Lift Demand and Support Fan Milk's FY2026 topline performance

- We expect Fan Milk to benefit meaningfully from the reduction in the effective VAT rate to 20.0% in 2026 from the 21.9%, which lowers the tax burden on essential consumer goods and improves household purchasing power. The removal of the 1.0% COVID levy especially eases the cost of consumption, releases disposable income for further consumption, and creates a more supportive demand environment across the company's product portfolio. In our view, these tax reforms should stimulate higher sales volumes, reinforce topline momentum and deepen market penetration as macroeconomic conditions improve. This improved macro backdrop underpins our forecast of a 24.8% y/y increase in revenue to GHS 1.2bn in FY2026.

The renewed ability to claim input tax credits on the embedded 5.0% levies provides a meaningful cost buffer for Fan Milk. Input costs climbed 51.7% y/y to GHS 616.3mn in FY2025, even as cocoa futures and skimmed milk powder prices fell by 48.1% y/y and 21.0% y/y respectively. In our view, higher-priced forward FX contracts and increased cold-chain storage and distribution costs under Project Kilimanjaro delayed the benefits of cedi appreciation and lower raw material prices, inflating cost of sales. Against this backdrop, we expect the input tax credit to provide a meaningful cost cushion for Fan Milk, allowing the company to recover taxes previously embedded in raw material costs in a period when Fan Milk's input cost remains elevated

### Near-Term margin pressure from elevated OPEX with medium-term recovery in view

- Operating expenses surged by 34.7% y/y to GHS 274.6mn in FY2025, compressing operating margin by 0.2pp to 11.2%. The increase largely reflects a 45.5% y/y rise in sales and distribution costs to GHS 164.4mn and a 28.6% y/y increase in administrative expenses to GHS 81.7mn, underscoring the cost intensity of the company's expansion phase. While we expect some moderation as expensive supply arrangements unwind in the medium term, we anticipate costs will remain elevated in FY2026, given the scale of ongoing investment. Consequently, we forecast operating margin to decline by a further 1.8pp to 9.4% in FY2026, reflecting near-term margin pressure but staying above the five-year historical average of 3.6%.

### Summary of Outlook for FY2026

- Looking ahead, we expect the expanding cold-chain capacity, improving distribution efficiency and supportive tax reforms to strengthen consumer demand. We expect Project Kilimanjaro to sustain volume growth and deepen market penetration, while ongoing capital investments enhance operational resilience and margin recovery. The restoration of input tax credits should provide additional cost relief as currency and commodity benefits gradually materialise. We believe the company's structural improvements position it for steady revenue growth and improving profitability in the near-to-medium term. However, we expect elevated costs to weigh on margins in the near term, before structural efficiencies drive a gradual recovery over the medium term.

## Valuation & Recommendation: **ACCUMULATE**

- Our “ACCUMULATE” rating is based on our weighted average fair value of GHS 9.46 per share, representing an upside of 11.26%, 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 P/E of 14.7x(vs peer mean of 21.4x) and EV/SALES of 0.8x

### 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 provides 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 40.0% weighting to both P/E and DCF, and a 20% to P/B. Our DCF model focuses on the intrinsic value of the company based on its future cash flows, adjusted for the time value of money.

### Valuation inputs – Cost of Capital

| Parameter             | Value  | Note   |
|-----------------------|--------|--|
| Risk-free rate        | 15.01% | 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 January 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   | 5.0%   | This aligns with the mid-band of our preferred range from 4.0% to 6.0% and reflects our view of the prevailing 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                  | 18.6%  | Based on a book value equity of GHS 330.8mn while no debt was recorded for the period, we calculate the WACC with a cost of equity of 18.6%  |
| 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 |
|-------|------|------|--------------|
| 12.96 | 6.13 | 9.11 | 9.46         |

### Key risks to valuation

**Upside:** More rapid than expected disinflation, 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 Kilimanjaro.

**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 000                         | 2024A             | 2025A             | 2026E             | 2027E             | 2028E             | 2029E             | 2030E             |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenue                         | 683,822.00        | 1,000,667.00      | 1,248,832.42      | 1,517,331.39      | 1,866,317.60      | 2,261,220.07      | 2,747,382.38      |
| Cost of Sales                   | (406,349.00)      | (616,341.00)      | (780,520.26)      | (986,265.40)      | (1,269,095.97)    | (1,548,935.75)    | (1,881,956.93)    |
| <b>Gross Profit</b>             | <b>277,475.00</b> | <b>384,326.00</b> | <b>468,312.16</b> | <b>531,065.98</b> | <b>597,221.63</b> | <b>712,284.32</b> | <b>865,425.45</b> |
| Distribution cost               | (112,963.00)      | (164,414.00)      | (221,043.34)      | (270,084.99)      | (335,937.17)      | (407,019.61)      | (494,528.83)      |
| Administrative expenses         | (63,475.00)       | (81,654.00)       | (114,892.58)      | (150,215.81)      | (186,631.76)      | (226,122.01)      | (274,738.24)      |
| Depreciation and Amortization   | (27,474.00)       | (28,572.00)       | (28,023.00)       |                   |                   |                   |                   |
| Other Income                    | 4,077.00          | 2,320.00          | 12,488.32         | 15,173.31         | 18,663.18         | 22,612.20         | 27,473.82         |
| <b>Operating profit</b>         | <b>77,640.00</b>  | <b>112,006.00</b> | <b>116,841.56</b> | <b>125,938.50</b> | <b>93,315.88</b>  | <b>101,754.90</b> | <b>123,632.21</b> |
| Finance income                  | 7,942.00          | (1,160.00)        | 8,517.95          | 18,567.07         | 29,313.19         | 34,048.42         | 37,482.33         |
| Finance expenses                | (12,661.00)       | (6,047.00)        | (4,350.51)        | (4,479.27)        | (4,627.39)        | (4,725.47)        | (4,726.09)        |
| <b>Profit before Income Tax</b> | <b>72,921.00</b>  | <b>104,799.00</b> | <b>121,009.00</b> | <b>140,275.23</b> | <b>118,001.69</b> | <b>131,077.85</b> | <b>156,388.45</b> |
| Taxation                        | (21,643.00)       | (34,763.00)       | (30,252.25)       | (35,068.81)       | (29,500.42)       | (32,769.46)       | (39,097.11)       |
| <b>Profit for the Year</b>      | <b>49,455.00</b>  | <b>67,416.00</b>  | <b>87,731.52</b>  | <b>101,699.54</b> | <b>85,551.22</b>  | <b>95,031.44</b>  | <b>113,381.63</b> |

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