Fan Milk Plc 1Q2026 Results

Current rating: **SELL**

Year-to-date: **+58.4%**

Current Price: GHS 12.67 **| Current Fair Value:** GHS 9.46 **| Downside:** 25.34%

Ghana | 07 May 2026

Revenue gains diluted by cost pressures

1Q2026 Earnings Update

Fan Milk Plc ("FML") released its unaudited 1Q2026 financial results, reporting a 14.6% y/y growth in net profit to GHS 27.6mn in 1Q2026. The growth in profit was mainly driven by a 32.8% y/y surge in revenue to GHS 321.6mn and a 15.0% y/y increase in finance income to GHS 3.9mn. We believe improved distribution reach through Project Kilimanjaro, coupled with sustained demand across major product categories, supported revenue growth during the period. Cost of sales increased by 13.1% y/y to GHS 171.4mn, despite a 58.2% y/y plunge in cocoa futures, a modest 7.3% y/y rise in the price of skimmed milk powder and a 41.2% y/y appreciation of the cedi against the US Dollar in 1Q2026. We believe the continued expansion of the company's cold chain infrastructure has started yielding topline benefits by supporting stronger product availability and deeper market penetration. However, the resulting growth in sales volumes has also translated into higher cost of sales. Operating expense surged by 50.5% y/y to GHS 90.8mn, despite the single digit 3.4% average inflation in 1Q2026, largely due to a 67.6% y/y surge in sales and distribution cost to GHS 56.1mn and a 33.9% y/y rise in administrative expenses to GHS 26.9mn. Overall, we expect investments under Project Kilimanjaro, borehole installation initiatives, and other revenue-suporting initiatives to further enhance operational resilience, support broader outlet coverage, and gradually improve revenue mix towards higher-value dairy SKUs, thereby strengthening revenue quality over time. However, we remain cautious on the earnings trajectory, as persistent cost pressures, largely related to execution of project Kilimanjaro, caps earnings growth. With limited visibility on rapid efficiency gains and utilisation improvements in the immediate term, we expect operating leverage to remain subdued, leaving downside risk to profitability if cost escalation continues to outpace revenue conversion. While the growth narrative remains intact, we maintain our fair value of GHS 9.46 from our FY2025 report, with a SELL bias given the risk that earnings expansion will lag the pace of cost escalation in the immediate term with current valuation already reflecting near-term earnings.

1Q2026 Performance: A surge in revenue and growth in finance income propel bottom-line growth

Revenue and Income Dynamics

- FML recorded a 14.6% y/y growth in net profit to GHS 27.6mn in 1Q2026, on the back of a 32.8% y/y surge in revenue to GHS 321.6mn and a 15.0% y/y increase in finance income to GHS 3.9mn
- Other income slumped by 81.8% y/y to GHS 0.1mn.
- Operating profit spiked by 91.8% y/y to GHS 59.6mn

Cost and Risk Management

- Input costs increased by 13.1% y/y to GHS 171.4mn, despite a 58.2% y/y plunge in cocoa futures, a modest 7.3% y/y rise in the price of skimmed milk powder and a 41.2% y/y appreciation of the cedi against the US Dollar in 1Q2026. We believe the continued expansion of the company's cold chain infrastructure has started yielding topline benefits by supporting stronger product availability and deeper market penetration. However, the resulting growth in sales volumes has also translated into higher cost of sales.
- Furthermore, OPEX surged by 50.5% y/y to GHS 90.8mn, despite the single digit 3.4% average inflation in 1Q2026, largely due to a 67.6% y/y surge in sales and distribution cost to GHS 56.1mn and a 33.9% y/y rise in administrative expenses to GHS 26.9mn.
- Finance costs rose by 89.2% y/y to GHS 2.4mn

Margin Performance

- Gross margin increased by 9.3pp to 46.7%
- FML's operating margin rose by 5.7pp to 18.5% in 1Q2026.
- Net profit margin dropped by 1.4pp to 8.6% in 1Q2026.

Near-Term Outlook

Distribution-led model and CAPEX investment to anchor revenue growth but near-term cost pressures persist

Distribution-led model positions cold chain expansion as a core driver of revenue growth

- Fan Milk Limited operates a distribution-led model, where revenue growth is closely tied to the scale and efficiency of its cold chain infrastructure. Given the temperature-sensitive and impulse-driven nature of its products, the company's ability to expand freezer capacity, cold storage, and refrigerated logistics directly supports volume growth and market penetration. We are already seeing early evidence of this dynamic, with revenue increasing by 32.8% y/y to GHS 321.6mn in 1Q2026, reflecting improved product availability and distribution reach. Each incremental investment in cold chain infrastructure effectively expands the company's addressable market and supports throughput, strengthening distribution as a key driver of topline performance. Overall, cold chain expansion remains a structurally embedded growth lever, with continued investment to sustain volume growth and support revenue momentum over the near-to-medium term, with support from Bring Back the Pride and Project SANKOFA as elaborated in our 9M2025 report.

Cold Chain Expansion Supports Product Mix and Reduces Revenue Leakage

- Fan Milk Limited continues to leverage its cold chain infrastructure as a key driver of both revenue quality and volume realisation, with expansion supporting a shift towards higher-margin products while reducing operational inefficiencies. The enhanced temperature-controlled distribution allows the company to introduce and sustain premium SKUs such as FanMaxx and other dairy-based offerings, which are structurally more margin-accretive than mass market Fan Ice. These products require stricter storage and handling conditions, and without a reliable cold chain, they cannot reach the end consumer in sellable condition. As such, continued investment in cold chain infrastructure allows the company to benefit from revenue mix towards higher-value products, supporting margin expansion alongside topline growth. Weak distribution conditions result in spoilage losses, effectively eroding sellable inventory and suppressing realised revenue. Strengthening cold chain infrastructure mitigates these losses by preserving product quality across the distribution network. Overall, we envisage the cold chain expansion to support volume growth through improved availability, and enhance revenue quality via premiumisation and loss reduction, positioning it as a structurally important lever for sustained earnings growth.

CAPEX investments to support efficiency gains and deeper market penetration

- Capital expenditure (CAPEX) in 1Q2026 amounted to GHS 3.4mn, reflecting continued investment in strategic infrastructure, albeit 22.7% lower against a high prior-year comparative base. We believe the investment in CAPEX is driven by Project Kilimanjaro and ongoing borehole installation. In our view, the company's capital expenditure during the period primarily to investments under Project Kilimanjaro and ongoing borehole installation initiatives, remain aligned with its broader operational and infrastructure enhancement strategy. We continue to believe that the borehole installations will reduce reliance on externally supplied water and help mitigate exposure to rising water tariffs over the medium term. In addition, we expect continued investment in the company's cold chain footprint to deepen market penetration and support distribution efficiency, consistent with our view outlined in the FY2025 report.

Near-term cost pressures weigh on earnings despite strong revenue growth

- We expect Fan Milk to face sustained near-term cost pressures as it continues to scale its cold chain infrastructure. Operating expenses increased by 50.5% to GHS 90.8mn, associated with the ongoing expansion. We believe this cost uplift poses near-term earnings drag from its distribution-led growth strategy, where infrastructure investment directly translates into higher recurring operating costs. We expect these pressures to persist in the near term as the company continues to deploy additional freezers, cold rooms, and refrigerated distribution assets. While these investments are structurally supportive of long-term volume growth and revenue quality, they elevate costs in the short term, particularly through utilities, maintenance, depreciation charges and selling and distribution cost. This cost expansion has already weighed on earnings performance, partially offsetting the strong 32.8% y/y revenue growth to GHS 321.6mn in 1Q2026. Overall, we view cold chain expansion as a strategic but cost-intensive phase, with near-term earnings pressure to persist until scale efficiencies and higher utilisation begin to offset the elevated operating cost base.

Summary of Outlook for FY2026

- Fan Milk Limited remains positioned for sustained revenue growth in 2026, supported by continued expansion of its cold chain infrastructure and distribution footprint. The company's distribution-led model continues to strengthen market penetration and improve product availability. We expect ongoing investments under Project Kilimanjaro and borehole installation initiatives to enhance operational efficiency, reduce exposure to rising water tariffs, and support broader outlet coverage. In addition, improved temperature-controlled distribution should allow the company to benefit from revenue mix towards higher-value dairy SKUs, supporting revenue quality and reducing spoilage-related losses. However, we expect elevated operating expenses to continue weighing on near-term earnings performance until scale efficiencies and stronger asset utilisation begin to offset the higher operating cost base.

Valuation & Recommendation: SELL

- Our "SELL" rating is based on our weighted average fair value of GHS 9.46 per share, representing a downside of 25.34%, using the weighted average prices from our Discounted Cash Flow (DCF) and relative valuation models.
- FML is trading at a P/E of 20.8x(vs peer mean of 24.9x) and EV/SALES of 3.4x

Key risks to valuation

Upside: Low and stable 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 Kilimanjaro.

Downside: Elevated cost pressures from infrastructure investments**,** 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

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Disclaimer: