Fan Milk Plc 1H2026 Results

Current rating: HOLD

Year-to-date: +66.3%

Current Price: GHS 13.30 **| Current Fair Value:** GHS 13.70 **| Upside:** 3.01%

Ghana | 13 August 2026

Strategic Investments Unlock Growth as Earnings Gain Momentum

1H2026 Earnings Update

Fan Milk Plc ("FML") released its unaudited 1H2026 financial results, reporting a 214.3% y/y growth in net profit to GHS 81.9mn in 1H2026. The growth in profit was mainly driven by a 25.4% y/y surge in revenue to GHS 635.5mn, a 5.8% y/y decline in cost of sales to GHS 319.5mn, a 32.9% y/y rise in other income to GHS 0.5mn and an 18.1% y/y increase in finance income to GHS 9.3mn. We attribute the revenue growth to stronger distribution coverage under Project Kilimanjaro, alongside firm demand across core product categories. Cost of sales dropped despite a 28.0% y/y rise in skimmed milk powder. We believe the decline in input costs reflects the early benefits of management's cost optimisation initiatives. Although the installation of solar freezers remains in Phase II, we are confident the initial rollout has already begun to lower electricity costs across parts of storage cost. We maintain that the installation of boreholes has reduced water-related production costs. In addition, we believe the company's ability to claim input tax credits on the embedded 5.0% levies has provided a meaningful cost buffer. These initiatives together with a 46.5% plunge in cocoa futures supported the decline in cost of sales. Consequently, gross margin expanded by 16.7pp y/y to 49.7%. 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 operating costs, with operating expenses rising 41.4% y/y to GHS 185.9mn. This was driven by a 59.7% y/y increase in sales and distribution costs to GHS 113.1mn, alongside a 21.8% y/y rise in administrative expenses to GHS 57.2mn, as well as a 13.5% y/y increase in depreciation and amortisation to GHS 15.6mn. Nevertheless, the strong revenue growth and lower cost of sales more than offset the increase in operating expenses, leading to a 13.4pp y/y expansion in operating margin to 20.5%. As a result, net profit margin improved by 7.7pp y/y to 12.9%. Looking ahead, we expect Fan Milk's medium-term growth to remain anchored by stronger distribution, rising capacity utilisation and continued cold-chain investment. Management's execution of Bring Back the Pride and Project Kilimanjaro should support volume growth as product availability and market reach improve. Higher active vendor engagement and expanding exports should also broaden revenue opportunities across Ghana and neighbouring markets. On margins, ongoing cost optimisation and the proposed excise duty reform should provide additional support. However, elevated operating costs could constrain earnings conversion in the near term while Fan Milk's lower local sourcing exposure leaves margins vulnerable to renewed cedi depreciation. Overall, we expect volume growth and infrastructure-led scale benefits to drive the outlook, with execution and FX risks remaining key factors to monitor.

Valuation Update

We raise our fair value for Fan Milk to GHS 13.70 from GHS 9.46, representing a 44.8% increase in our valuation from our "SELL" recommendation in 1Q2026 to "HOLD". At the current price, our revised fair value implies only 3.01% upside, warranting a HOLD recommendation. While we remain constructive on Fan Milk's medium-term earnings trajectory, the limited valuation upside suggests that the stock now offers a more balanced risk-reward profile. Further re-rating, in our view, would require stronger-than-expected earnings delivery and evidence that margin improvements can be sustained.

1H2026 Performance: A surge in revenue, lower cost of sales and non-core income propel bottom-line growth

Revenue and Income Dynamics

- Revenue ▲ 25.4% y/y→ GHS 635.5mn
- Other Income ▲ 32.9% y/y → GHS 0.5mn
- Operating Profit ▲ 258.4% y/y → GHS 130.6mn
- Net Profit ▲ 214.3% y/y → GHS 81.9mn

Cost and Risk Management

- Input Cost ▼ 5.8% y/y → GHS 319.5mn
- Operating Expenses ▲ 41.4% y/y → GHS 185.9mn
- Finance Cost ▲ 52.2% y/y → GHS 3.9mn

Margin Performance

- Gross Margin ▲ 16.7pp y/y → 49.7%
- Operating Margin ▲ 13.4pp y/y → 20.5%
- Net Profit Margin ▲7.7pp y/y → 12.9%

Near-Term Outlook

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

Distribution expansion should sustain volume-led growth

- Fan Milk's strengthened distribution network provides a credible platform for sustained volume growth across Ghana and neighbouring markets. Management continue to invest in channel execution and last-mile availability. The company now serves more than 50,000 outlets through approximately 800 agents and 8,000 vendors. Daily active vendors have increased to 70%, compared with 60% in 2024. We expect this improvement to translate into stronger product availability and greater consumer reach. We expect further gains as Fan Milk continues to strengthen its trade execution and distribution infrastructure. Management has identified last-mile execution as a core growth priority for the next three to five years. This supports our view that distribution expansion will remain a key revenue driver.

Project "Bring Back the Pride" gains momentum as Fan Milk closes in on its 100kt volume ambition

- In our 1H2025 report, we mentioned Fan Milk's "Bring Back the Pride" initiative which represents a five-year strategic roadmap spanning 2024 – 2029, aimed at recovering lost volumes and reaching 100 kilotonnes. Management indicated at the Facts Behind the Figures engagement held on 12 August 2026 that, volumes reached 47 kilotonnes in 2024, before increasing by 20% in 2025 to approximately 56 kilotonnes. This represents 56% of the company's 100-kilotonne ambition, highlighting meaningful progress towards its medium-term target. We expect continued execution of the roadmap to support sustained volume growth, particularly as Fan Milk strengthens distribution and product availability. Higher volumes should support topline growth and provide a stronger foundation for earnings expansion over the medium term.

Project Kilimanjaro should continue to strengthen capacity utilisation and distribution-led growth

- Fan Milk continues to advance Project Kilimanjaro, a targeted investment in cold-chain infrastructure designed to strengthen production and distribution across its markets. Management has linked higher production volumes to better utilisation of its manufacturing assets, while maintaining a focus on core products with strong demand. The company also indicated at its Annual General Meeting that ongoing projects currently contribute approximately 70% of revenue, highlighting the growing importance of these investments to its earnings base. We view the 25.4% y/y increase in 1H2026 revenue to GHS 635.5mn as an indication that these initiatives are gaining traction. Although cold-chain and distribution expansion remains cost intensive in the near term, we expect improved infrastructure and last-mile execution to enhance product availability and deepen market penetration. We believe higher volumes should ultimately support stronger topline growth as Fan Milk scales its distribution network.

Excise duty reform to support margin expansion

- We expect the proposed removal of the 20.0% excise duty on locally manufactured fruit juices to benefit Fan Milk's fruit-based beverage portfolio. We expect the reform to lower the tax burden on these products and provide a direct uplift to margins. Given Fan Milk's focus on protecting profitability, we expect management to retain a meaningful portion of the savings rather than fully passing them through to consumers. This should support gross margin expansion and strengthen earnings as the benefit flows through. Following legislative approval, we expect the positive impact to become more visible from 4Q2026.

Strategic CAPEX continues to strengthen operating infrastructure

- Fan Milk recorded GHS 21.3mn in capital expenditure in 1H2026, indicating increased investment from GHS 3.4mn posted in 1Q2026. This reflects continued investment in its operating infrastructure. We believe a significant portion of this spending supports cold-chain expansion and ongoing borehole installations. These investments should improve distribution capacity, product availability and operational efficiency as the company scales its footprint. While the higher CAPEX intensity increases near-term cash requirements, we view the spending as supportive of Fan Milk's medium-term growth strategy as outlined in our FY2025 report.

Regional exports create an additional growth lever

- During the company's Fact Behind the Figures, management highlighted Togo and Côte d'Ivoire as key markets in Fan Milk's export strategy and reaffirmed its ambition to expand its regional footprint. Fan Milk continues to serve Francophone West African markets from its Ghanaian manufacturing base, allowing the company to leverage existing production capacity beyond the domestic market. We believe the ongoing projects should support higher export volumes as factory utilisation generates additional scale benefits. We expect management's continued focus on regional expansion to diversify revenue sources and reduce reliance on Ghanaian demand. Over the medium term, we see the export strategy as an additional growth lever that could strengthen Fan Milk's competitive position across West Africa.

Cost optimisation supports margins, but FX exposure remains a key risk

- Fan Milk's cost optimisation initiatives are beginning to support stronger margins despite higher prices for key inputs, including skimmed milk powder. The ongoing rollout of solar freezers should gradually reduce electricity-related storage costs, while borehole installations should lower water-related production expenses. We also believe input tax credits on embedded 5.0% levies have provided a meaningful cost buffer. In addition, Fan Milk typically sources key materials around six months prior to production. We believe this allowed the company to secure imported inputs at more favourable exchange rates during the cedi's appreciation against the US dollar. This likely contributed to the decline in input costs recorded in 1H2026. However, local sourcing remains a key downside to monitor. Fan Milk sources nearly 50% of its input locally, leaving a significant portion of its cost base exposed to underlying FX pressures. A renewed depreciation of the cedi could raise imported component costs. This could gradually erode the margin gains from the company's cost optimisation initiatives.

Operating cost growth could temper earnings conversion

- Fan Milk's distribution-led expansion continues to support strong topline growth, with revenue rising 25.4% y/y to GHS 635.5mn in 1H2026. However, operating expenses grew faster, increasing 41.4% y/y to GHS 185.9mn. The faster rise in costs reflects the expense burden associated with expanding distribution coverage and strengthening the cold-chain network. We expect operating expenses to remain elevated in the near term as Fan Milk continues to invest in distribution capacity and supporting infrastructure. Higher selling and distribution costs, alongside rising depreciation and administrative expenses, could limit the pace at which revenue growth converts into earnings. We therefore view operating cost growth as a key near-term constraint on earnings.

Summary of Outlook for FY2026

- We maintain a constructive medium-term outlook on Fan Milk, supported by strengthening distribution, improving capacity utilisation and continued investment in cold-chain infrastructure. Management's progress under Bring Back the Pride and Project Kilimanjaro should sustain volume growth as the company expands market reach and improves product availability. The increase in active vendors and growing export focus should further diversify revenue opportunities across Ghana and neighbouring markets. Meanwhile, cost optimisation initiatives and the proposed excise duty reform should provide additional support to margins. However, elevated operating costs remain a near-term constraint on earnings conversion, while Fan Milk's lower local sourcing exposure leaves margins vulnerable to renewed cedi depreciation. Overall, we expect volume growth and infrastructure-led scale benefits to remain the key drivers of revenue growth, although execution and currency risks warrant close monitoring.

Valuation & Recommendation: HOLD

- Our "HOLD" rating is based on our weighted average fair value of GHS 13.70 per share, representing an upside of 3.01%, using the weighted average prices from our Discounted Cash Flow (DCF) and relative valuation models.
- FML is trading at a TTM P/E of 12.5x and EV/EBITDA of 7.1x (vs peer mean of 13.0x)

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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