Fan Milk Plc 9M2026 Results

Current rating: HOLD

Year-to-date: +74.8%

Current Price: GHS 13.98 **| Current Fair Value:** GHS 13.70 **| Downside:** 2.0%

Ghana | 04 November 2026

Earnings Hit Full Stride as Margins Stage a Strong Comeback

9M2026 Earnings Update

Fan Milk Plc ("FML") released its unaudited 9M2026 financial results, reporting a 308.9% y/y surge in net profit to GHS 173.3mn, above our estimate by 48.3%. The growth in profit was mainly driven by a 30.2% y/y increase in revenue to GHS 945.8mn, a 14.1% y/y decline in cost of sales to GHS 407.0mn and a 55.1% y/y rise in finance income to GHS 14.6mn. We attribute the growth in revenue to wider distribution coverage under Project Kilimanjaro and firm demand across core product categories. Cost of sales fell 14.1% y/y despite a 40.2% y/y rise in skimmed milk powder prices, as lower cocoa prices supported the decline, with cocoa futures down 20.5% y/y at end-September 2026. We believe the cedi's 6.1% y/y appreciation against the US dollar also lowered the cost of imported inputs. In our view, management's cost optimisation initiatives, including solar freezers and borehole installation combined with input tax credits on embedded 5.0% levies under the new VAT regime, supported these savings. Consequently, gross profit rose 113.1% y/y to GHS 538.8mn, and gross margin expanded by 22.2pp y/y to 57.0%. Operating expenses rose 43.3% y/y to GHS 278.8mn, outpacing revenue growth. Sales and distribution costs climbed 52.3% y/y to GHS 164.1mn, which in our view, reflects the cost of expanding distribution coverage and the cold-chain network. Nevertheless, the gain in gross profit far exceeded the increase in operating expenses. Operating profit surged 342.5% y/y to GHS 260.0mn, resulting in expansion of operating margin by 19.4pp y/y to 27.5%. Looking ahead, Fan Milk's medium-term growth outlook remains constructive, supported by continued investment in cold-chain infrastructure, wider distribution coverage and the removal of the 20.0% excise duty on locally manufactured fruit juices, effective October 2026. We expect Project Kilimanjaro to sustain revenue expansion and strengthen market penetration, while the excise duty relief should provide incremental support to gross margins from 4Q2026. Historically strong fourth-quarter seasonality, coupled with improved product availability, further positions the company for stronger revenue performance in the final quarter of 2026. However, we expect some moderation in the exceptional margin gains recorded in 9M2026 as skimmed milk powder prices rise, cocoa-related cost benefits diminish and potential cedi depreciation feeds into future procurement costs. El Niño also presents an additional risk to global dairy and sugar supplies. Overall, we expect infrastructure-led growth and fiscal relief to support performance, although emerging input cost and currency pressures could temper margin expansion.

Valuation Update

We maintain our "HOLD" rating and fair value of GHS 13.70 per share for Fan Milk. We raised our fair value from GHS 9.46 in our 1H2026 update, when we upgraded the stock from the "SELL" recommendation in our 1Q2026 report. Since then, the share price has risen 5.1% to GHS 13.98, turning the previous 3.0% upside into a 2.0% downside. The 9M2026 results ran ahead of our expectations and strengthened the earnings case. However, with the stock up 74.9% year-to-date, we believe the market has already priced in much of the improvement. Further re-rating, in our view, would require evidence that the 9M2026 margin gains can be sustained as input cost tailwinds fade.

9M2026 Performance: Revenue growth and sharply lower cost of sales drive a step-change in earnings

Revenue and Income Dynamics

- Revenue ▲ 30.2% y/y → GHS 945.8mn
- Other Income ▼ Reversal → GHS 0.2mn expense (vs GHS 0.5mn income)
- Operating Profit ▲ 342.5% y/y → GHS 260.0mn
- Net Profit ▲ 308.9% y/y → GHS 173.3mn

Cost and Risk Management

- Input Cost ▼ 14.1% y/y → GHS 407.0mn
- Operating Expenses ▲ 43.3% y/y → GHS 278.8mn
- Finance Cost ▲ 740.5% y/y → GHS 32.6mn

Margin Performance

- Gross Margin ▲ 22.2pp y/y → 57.0%
- Operating Margin ▲ 19.4pp y/y → 27.5%
- Net Profit Margin ▲ 12.5pp y/y → 18.3%

Near-Term Outlook

Distribution-led growth and lower input costs drive earnings, but the sustainability of margin gains is the key test

Cold-Chain Investment Sustains Revenue Growth

- Fan Milk continues to progress Project Kilimanjaro, a strategic investment in cold-chain infrastructure aimed at enhancing production capacity and strengthening distribution efficiency. The 30.2% y/y revenue growth recorded in 9M2026 further strengthens the sustained benefits of these investments, highlighting their continued contribution to the company's revenue expansion. Meanwhile, capital expenditure rose to GHS42.0mn in 9M2026 from GHS21.3mn in 1H2026, underscoring the continued execution of its cold-chain expansion programme. We view the continued investment in cold-chain infrastructure as supportive of Fan Milk's medium to long-term growth prospects, with improved production and distribution capabilities to sustain revenue expansion and strengthen market penetration

Excise Duty Removal Now Effective, With Benefits Expected From 4Q2026

- The removal of the 20.0% excise duty on locally manufactured fruit juices, announced in the 2026 mid-year budget review, is no longer a proposal. Parliament passed the Excise Bill, 2026 in July, and took effect on 01 October 2026. The reform therefore had no impact on 9M2026 results, and it played no part in the strong gross margin performance. We expect the benefit to Fan Milk's fruit-based beverage portfolio to begin flowing through from 4Q2026. Given management's focus on protecting profitability, we expect it to retain a meaningful portion of the savings. We believe this should provide incremental support to gross margin and partly cushion any normalisation in input cost savings.

Cost Optimisation Drives a Step-Change in Margins, But FX And El Niño Risks Persist

- Fan Milk's cost optimisation initiatives delivered a step-change in margins in 9M2026, with cost of sales falling 14.1% y/y despite a 40.2% y/y rise in skimmed milk powder prices. We believe input tax credits on embedded 5.0% levies, the ongoing Phase II rollout of solar freezers, borehole installations and lower cocoa prices all supported the savings. In addition, Fan Milk typically sources key materials around six months before production. We believe this allowed management to secure imported inputs at favourable exchange rates, with the cedi 6.1% y/y stronger against the USD at end-September 2026. However, some of these tailwinds are fading. The y/y decline in cocoa futures narrowed to 20.5% from 46.5% at 1H2026, while skimmed milk powder price inflation accelerated from 28.0% y/y to 40.2% y/y. Fan Milk imports roughly half of its inputs, so the six-month procurement lag could transmit renewed cedi weakness into the future. We therefore view part of the gross margin gain as cyclical rather than structural. Also, El Niño presents an additional upside risk to Fan Milk's input costs, particularly for dairy-based ingredients and sugar, as adverse weather conditions across key producing regions could constrain agricultural output and tighten global supply. Given the company's reliance on imported inputs, any resulting commodity price increases could feed into future cost of sales and weigh on gross margins

Seasonal Demand and Expanded Distribution to Support 4Q2026 Revenue Growth

- Over 2021–2025, Fan Milk's fourth quarter was its strongest revenue quarter in four of five years: 2021, 2022, 2024 and 2025. In those years, the final quarter contributed 26.9% – 29.7% of annual revenue, against an even-spread benchmark of 25.0%. Fourth-quarter revenue also exceeded the average of the first three quarters by between 10.2% and 26.9%, an average uplift of 18.5%. This consistency points to a structural seasonal pattern, in line with stronger consumption over the festive period and the onset of the dry season. We note that 2023 was the only exception, and we attribute it to a company-specific disruption rather than weak seasonal demand. In July 2023, Fan Milk recalled 28 batches of FanYogo, a flagship product, after consumer complaints about poor texture. The recall cut 3Q2023 revenue by 6.6% y/y to GHS 106.6mn. In our view, the effects carried into 4Q2023, when revenue fell 11.3% y/y to GHS 137.3mn. With that disruption now behind the company, we expect seasonal demand to support a stronger 4Q2026 revenue performance. Wider distribution coverage and improved cold-chain availability under Project Kilimanjaro should help Fan Milk capture more of the festive-season uplift.

Summary of Outlook for FY2026

- Fan Milk's medium-term growth outlook remains constructive, supported by continued investment in cold-chain infrastructure, wider distribution coverage and the removal of the 20.0% excise duty on locally manufactured fruit juices, effective October 2026. We expect Project Kilimanjaro to sustain revenue expansion and strengthen market penetration, while the excise duty relief should provide incremental support to gross margins from 4Q2026. Historically strong fourth quarter seasonality, coupled with improved product availability, further positions the company for stronger revenue performance in the final quarter. However, we expect some moderation in the exceptional margin gains recorded in 9M2026 as skimmed milk powder prices rise, cocoa-related cost benefits diminish and potential cedi depreciation feeds into future procurement costs. El Niño also presents an additional risk to global dairy and sugar supplies. Overall, we expect infrastructure-led growth and fiscal relief to support performance, although emerging input cost and currency pressures could temper margin expansion.

Valuation & Recommendation: HOLD

- Our "HOLD" rating is based on our weighted average fair value of GHS 13.70 per share, representing a downside of 2.0%, using the weighted average prices from our Discounted Cash Flow (DCF) and relative valuation models.
- FML is trading at a TTM P/E of 8.2x and EV/EBITDA of 3.8x (vs peer mean of 10.2x).

Key risks to valuation

Upside: Stronger-than-expected volume growth, sustained gross margin gains, lower costs of key inputs such as skimmed milk powder, sugar and cocoa powder, appreciation of the Ghanaian cedi, stable inflation, improved capacity utilisation under Project Kilimanjaro, stronger distribution execution, successful export expansion, retention of savings from the excise duty removal, effective rollout of the local sourcing strategy and favourable regulatory reforms.

Downside: Elevated cost pressures from infrastructure investments, higher 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, execution risk in route-to-market optimisation and weaker consumer demand.

Analyst, Insights:
Emmanuel Dadzoe: +233 30 825 0051

For further information, please contact our Research Team. T: 233 308-250051l +233 302-252517 Email: insights@ic.africa

Disclaimer:

This report is designed to be utilized by qualified institutional and professional investors only. Private investors must consult their investment adviser or broker for professional advice before seeking to act on the contents of this report. This advice has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. IC Securities' investment research reports are provided for informational purposes only. All information provided in this report is the intellectual property of IC Securities, is for the use of intended recipients only, and may not be reproduced in any form whatsoever without the express written consent of IC Securities. Descriptions are not intended to be complete and cannot be guaranteed to be accurate; therefore, IC Securities does not assume any legal liability or responsibility for any inaccuracies or misrepresentations contained in this report. Neither IC Securities nor its management, officers or employees accept responsibility or liability for, or make any representation, statement or expression of opinion or warranty, express or implied, with respect to the accuracy or completeness of the information or any oral communication in connection therewith. There may be regulatory or confidentiality obligations which prevent IC Securities from disclosing information, material or otherwise, which would normally be expected to be included in this report. The price of any securities stated in this report is the reported market price as of the date indicated, taken from sources IC Securities believes to be reliable. IC Securities does not represent that this price may be achieved in any transaction. Due to the inherently illiquid and relatively opaque nature of most of the Firm's coverage markets, any price stated in this report may not reflect the true trading price of the security referenced. This document does not constitute an offer by, or on behalf IC Securities to enter into any transaction with you and will not form the basis of a contract for any such transactions. This report does not constitute an offer to sell or solicitation of a purchase order in respect of any securities, derivative or other instrument by the Firm.