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Equity Research

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BUY

Fan Milk PLC – Ratings & Earnings Update

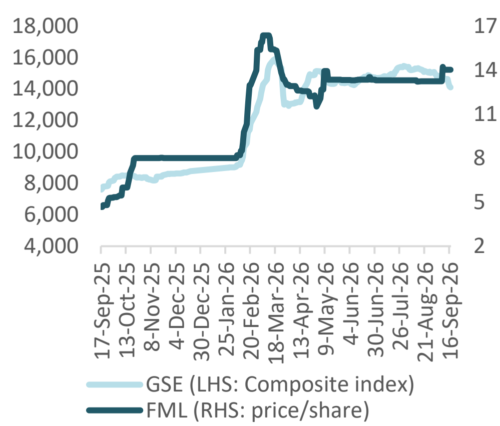
Sustainable Earnings Growth Strengthens Our Investment Case

Stock data

Share price (GHS)	14.02
Target price (GHS)	21.10
Est. potential	50.53%
12M price range (GHS)	4.67 – 16.35
Market Cap. (GHS'mn)	1,629.23
Market Cap. (USD'mn)	141.06
Shares outstanding (mn)	116.21
Free float shares	13%
12M turnover (GHS'mn)	45.8
Avg daily turnover (GHS)	183,294
Dividend yield	0.79%
Fiscal year end	December
Sector	FMCG
Sub-sector	Food & Beverage
Sector rating	Positive
Bloomberg ticker	FML GN
GSE ticker	FML

	2023A	*2024A*	*2025A*	*2026E*
EPS (GHS)	(0.4)	0.2	0.4	0.6
BVPS (GHS)	1.8	2.0	2.3	3.9
P/E (x)	(8.4)	15.7	9.7	12.7
P/BV (x)	1.7	1.7	1.6	1.9
EV/EBITDA(x)	nm	6.3	3.1	4.1

12M Market Trend - GSE-CI & FML Share Price



Data & Graph source: GSE, FML financials & Laurus Africa Securities

We maintain our "BUY" rating on Fan Milk PLC ("FML") and raise our 12-month target price to GHS21.10/share, implying 51% upside potential. FML's 1HY-2026 performance reinforces our conviction in its recovery, with revenue rising 25.5% y/y and operating profit surging 258.4% y/y on stronger distribution, volume recovery and significant gross-margin expansion. We see growing vendor activity, as key drivers of sustained earnings growth.

Investment rationale

1. Elevated tailwinds for revenue growth on the back of improved company specific fundamentals and steady disinflation
2. Stable margins influenced by both revenue growth and calm cost pressures on the back of reduced macroeconomic volatility
3. Improved asset quality aided by efficient utilization is expected to generate sufficient cashflow to fund operations and drive organic growth
4. Lower debt burden is expected to unlock higher cashflows to equity investors

Analysis of Latest Financial Results (June-2026)

Revenue growth remains anchored by distribution expansion. FML generated Q2-2026 revenue of GHS313.8mn, down 2.4% q/q but up 18.7% y/y, and 1.5% ahead of our estimate. The modest sequential decline is not concerning, given the exceptionally strong Q1 performance, which leaves 1HY-2026 revenue at GHS635.5mn (+25.5% y/y and +0.71% vs. our estimate). We believe the sustained topline momentum reflects improving consumer demand alongside stronger commercial execution and expanding distribution reach. Notably, FML now serves more than 50,000 outlets through approximately 800 agents and 8,000 vendors, while daily active vendors have increased to 70% from 60% in 2024. We believe the improvement in vendor activity should translate into better product availability and higher sales.

Gross margin expands sharply on lower direct costs and abolished Covid-19 levy. FML's gross profit jumped by 115.6% y/y to GHS165.7mn. Gross margin consequently expanded to 52.8%, from 29.3% in Q2-2025 and 46.7% in Q1-2026. This brought 1HY-2026 gross profit to GHS316.0mn (+88.6% y/y) and gross margin to 49.7%, a substantial improvement from the same period in 2025. Beyond the moderated input costs resulting from reduced currency volatility, we believe the abolition of the 1% COVID-19 levy on inputs was a significant driver of the decline in cost of sales.

Distribution expense weighs on Opex, but operating profit skyrocket. Despite the substantial improvement at the gross profit level, operating expenses remain an important constraint. Distribution costs increased 52.7% y/y in Q2-2026 to GHS57.0mn, while administrative expenses rose 12.8% to

GHS30.31mn. Nevertheless, the strong gross profit expansion more than absorbed the higher distribution and administrative expenses. Operating profit increased 1,228% y/y in Q2-2026 to GHS70.9mn, while 1HY-2026 operating profit rose 258.4% y/y to GHS130.6mn. Operating margin consequently improved to 22.6% in Q2-2026 and 20.6% in 1HY-2026, compared with approximately 2.0% and 7.1%, respectively, in the corresponding periods of 2025.

Earnings conversion strengthens despite higher tax. FML reported Q2-2026 profit before tax (PBT) of GHS74.8mn, up 781.2% y/y and 22.3% q/q, significantly ahead of our GHS28.3mn estimate by 164.3%. On a 1HY-2026 basis, PBT increased 225.8% y/y to GHS136.0mn, exceeding our estimate by 52.0%. The sharp improvement in pre-tax profitability reflects the combination of robust revenue growth, substantially stronger gross margins and relatively contained finance costs. Finance costs declined 2.2% below our 1HY estimate to GHS3.9mn, while finance income increased 18.1% y/y to GHS9.3mn, providing additional support to PBT. Profit after tax (PAT) increased 2,690% y/y in Q2-2026 to GHS54.2mn, bringing 1H2026 earnings to GHS81.9mn (+214.3% y/y). Net margin expanded to 17.3% in Q2-2026 and 12.9% in 1HY-2026, compared with approximately 2.0% and 5.3%, respectively, a year earlier.

Our Views & Outlook

Looking ahead, we believe distribution expansion, volume recovery and infrastructure investment will remain the principal drivers of topline growth. We expect progress under *"Bring Back the Pride"*, rising vendor activity and the continued rollout of *"Project Kilimanjaro"* to provide a credible platform for sustained volume expansion. We are also encouraged by the potential benefits from solar freezers, boreholes and procurement optimization, which will likely contain structural operating costs and improve resilience against energy and utility pressures. That said, we remain mindful that the current margin performance may not be fully sustainable at the 1HY-2026 peak. Operating expenses are rising rapidly as FML invests aggressively in distribution and cold-chain capacity, while imported inputs continue to expose the company to FX-related cost pressures. However, the 1HY-2026 results strengthen our view that FML is transitioning from a recovery story into a structurally stronger consumer franchise, supported by improving distribution, volume recovery, cost discipline and a stronger balance sheet. We therefore remain constructive on the medium-term earnings outlook, with the sustainability of margins and continued cash conversion as key catalyst to unlock the upside.

Valuation & Rating

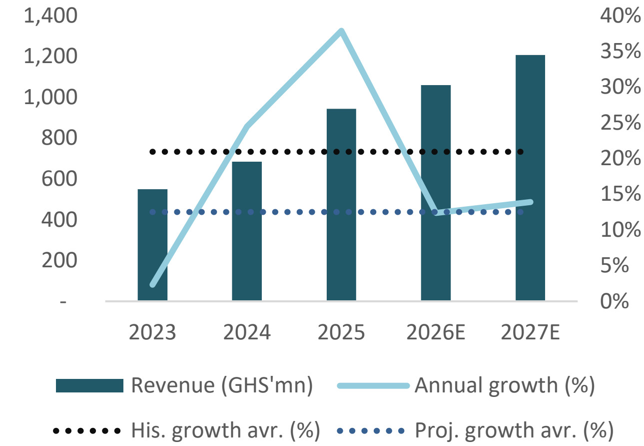
We maintain our **"BUY"** rating with an upgraded 12-month target price of **GHS21.10/share (+50.53% upside potential)**, determined by a 60/40 blend of DCF and sector relative valuation (P/E, EV/Sales and EV/EBITDA). The DCF fair value is derived from our FCFE projections with a cost of equity of 16.40% and a 11% terminal growth rate. For EV/Sales, EV/EBITDA and P/E fair value valuation, we use the adjusted mean of relevant African peers.

Key risks to our expectation and fair value: FX & input cost volatility, consumer demand shocks, sudden jump in interest rates, energy risk, competition in the beverage industry, high taxes & utility challenges.

Quarterly Earnings Analysis (Q2-2026)

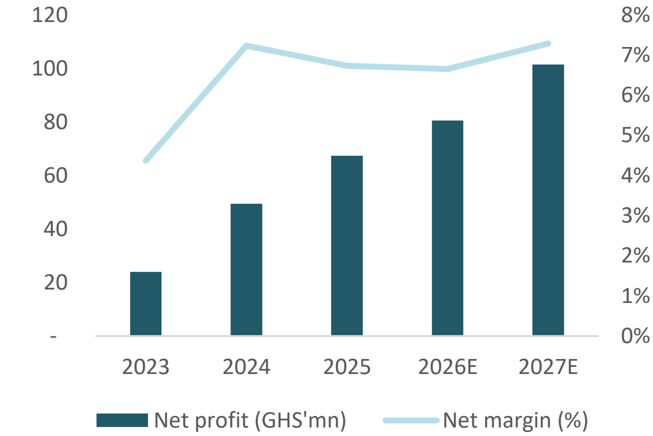
GHS'000	Q2-2025A	Q1-2026A	Q2-2026A	Y/Y	Q/Q	Q2-2026E	Variance
Revenue	264,373	321,641	313,814	19%	-2%	309,316	1%
COGS	187,506	171,370	148,088	-21%	-14%	207,242	-29%
Griss profit	76,867	150,271	165,726	116%	10%	102,074	62%
Operating expense	71,526	90,762	95,119	33%	5%	75,010	27%
Operating profit	5,341	59,635	70,946	1228%	19%	27,837	155%
Pre-tax profit	8,490	61,157	74,812	781%	22%	28,302	164%
Tax expense	6,546	33,538	20,571	214%	-39%	8,491	142%
Net profit	1,944	27,619	54,241	2690%	96%	19,812	174%
EPS (GHS/share)	0.02	0.24	0.47	2690%	96%	0.17	174%

Figure 1: Revenue growth trend



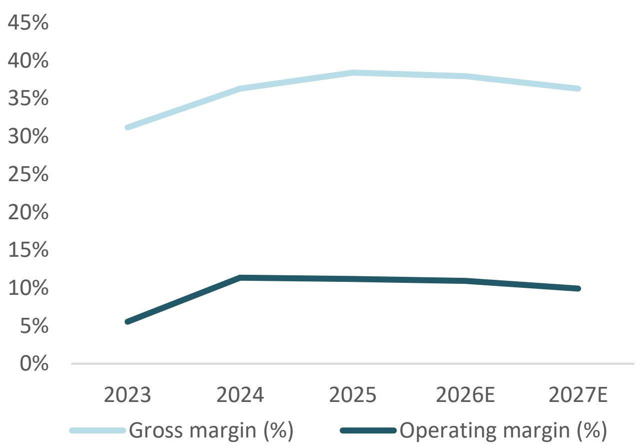
Source: FML financials & Laurus Africa Securities

Figure 2: Bottomline growth overview



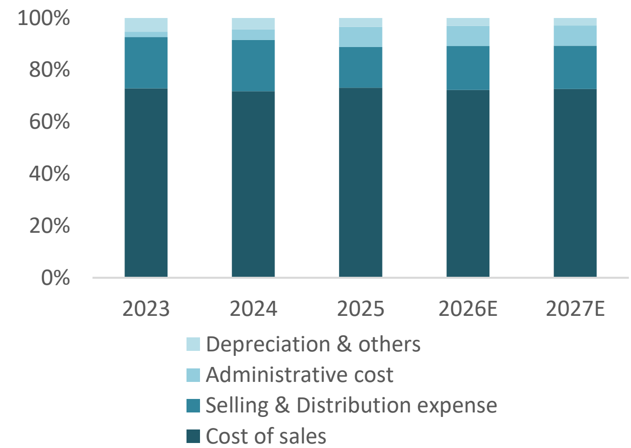
Source: FML financials & Laurus Africa Securities

Figure 3: Gross margin and operating margin trend



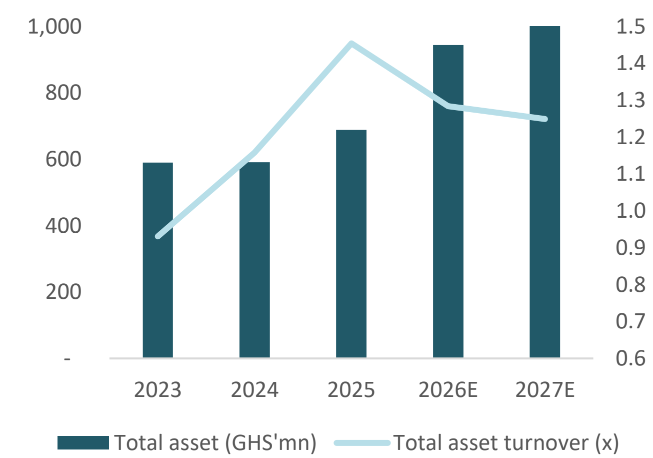
Source: FML financials & Laurus Africa Securities

Figure 4: Cost mix



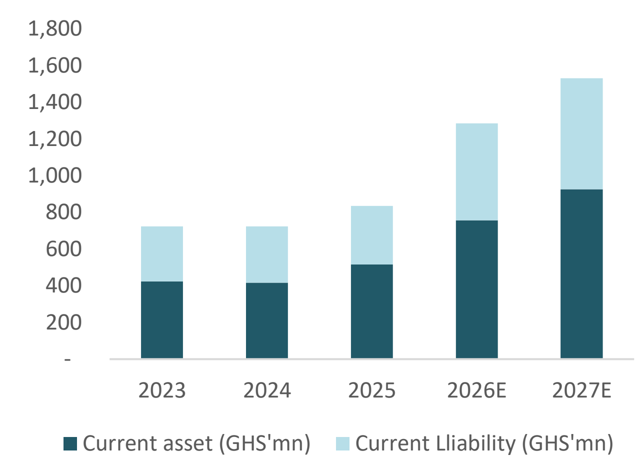
Source: FML financials & Laurus Africa Securities

Figure 5: Asset performance



Source: FML financials & Laurus Africa Securities

Figure 6: Operating capital trend



Source: FML financials & Laurus Africa Securities

Appendix:

Table 1: Income Statement

All Amounts are in GHS'000	2023A	2024A	2025A	2026E	2027E	2028E
Revenue	549,416	683,822	1,000,667	1,211,903	1,370,249	1,549,470
Cost of sales	(378,144)	(435,537)	(616,341)	(674,184)	(831,351)	(939,770)
Gross profit	**171,272**	**248,285**	**384,326**	**537,719**	**538,898**	**609,701**
Selling & Distribution expense	(102,369)	(118,986)	(164,414)	(211,767)	(226,797)	(256,639)
Administrative cost	(11,136)	(25,198)	(81,654)	(98,827)	(99,152)	(112,104)
Other income/(expense)	1,601	1,038	2,320	(2,783)	(1,785)	(2,122)
EBITDA	**59,368**	**105,139**	**140,578**	**224,342**	**211,164**	**238,836**
Depreciation & Amortization	(28,919)	(27,499)	(28,572)	(29,891)	(30,184)	(32,217)
Operating profit	**30,449**	**77,640**	**112,006**	**194,451**	**180,980**	**206,618**
Finance income	33,884	7,942	1,160	11,809	5,930	5,741
Finance cost	(27,278)	(12,661)	(6,047)	(5,844)	(3,709)	(4,978)
Profit before tax	**37,055**	**72,921**	**107,119**	**200,415**	**183,200**	**207,380**
Income tax	(12,426)	(21,643)	(34,763)	(66,043)	(44,876)	(50,782)
Growth and sustainability levy	(617)	(1,823)	(2,620)	(6,102)	(6,759)	(7,643)
Profit for the year	**24,012**	**49,455**	**69,736**	**128,271**	**131,566**	**148,956**

Table 2: Statement of Financial Position

Amounts are in GHS'000	2023A	2024A	2025A	2026E	2027E	2028E
ASSETS						
Non-current assets						
Property, plant and equipment	153,112	162,965	164,396	175,638	175,673	176,076
Right-of-use assets	5,400	3,705	-	3,035	2,247	1,761
Other non-current assets	9,059	7,860	7,860	8,175	7,965	8,000
Current assets						
Inventories	105,554	114,206	99,455	208,826	227,961	241,835
Trade and other receivables	246,452	192,887	142,577	359,234	410,234	455,213
Other current assets	4,751	-	42,433	4,714	12,258	11,398
Cash and cash equivalents	65,922	109,105	231,613	174,902	295,479	419,612
Total Assets	**590,250**	**590,728**	**688,334**	**934,524**	**1,131,817**	**1,313,896**
EQUITY AND LIABILITIES						
Equity attributable to owners						
Stated capital	10,000	10,000	10,000	10,000	10,000	10,000
Retained earnings	219,091	262,735	320,854	428,900	521,985	631,471
Non-current liabilities						
Lease liabilities	5,060	2,257	1,300	2,108	2,433	2,439
Medium-Term Loan	55,000	-	-	-	-	-
Other non-current liabilities	454	9,122	38,158	20,042	30,733	34,022
Current liabilities						
Lease liabilities	1,505	2,272	1,494	2,449	2,108	2,455
Trade and other payables	296,063	303,582	315,769	470,886	564,394	633,336
Other current liabilities	3,077	760	759	140	164	173
Total Liabilities and Shareholders' Equity	**590,250**	**590,728**	**688,334**	**934,524**	**1,131,817**	**1,313,896**

Table 3: Cash Flow Statement

Amounts are in GHS'000	2023A	2024A	2025A	2026E	2027E	2028E
Profit/Loss before tax	**37,055**	**72,921**	**107,119**	**200,415**	**183,200**	**207,380**
Depreciation & Amortization	28,919	27,499	28,572	29,891	30,184	32,217
Impairment of financial assets	2,789	3,252	2,766	2,927	3,002	2,782
Net finance (income)/cost	(6,605)	4,719	4,887	381	7,947	9,894
Disposal & others	(63)	1,470	(2,039)	(1,020)	(1,129)	(938)
Changes in working capital	(27,981)	49,509	77,247	(170,928)	23,397	10,098
Cash generated from operations	**34,113**	**159,370**	**214,503**	**61,666**	**246,601**	**261,434**
Interest paid	(27,278)	(12,661)	(6,047)	(12,190)	(13,877)	(15,635)
Interest received	33,883	7,942	13,378	11,809	5,930	5,741
Tax paid	(13,503)	(11,073)	(50,517)	(72,145)	(51,635)	(58,425)
Net cash generated from operating activities	**27,215**	**143,578**	**171,317**	**(10,860)**	**187,019**	**193,115**
Cash flows from investing activities						
Purchase of property, plant and equipment	(7,415)	(39,968)	(36,000)	(26,052)	(28,347)	(29,345)
Other investing activities	2,673	4,746	-	2,760	3,021	2,496
Net cash used in investing activities	**(4,742)**	**(35,222)**	**(36,000)**	**(23,292)**	**(25,326)**	**(26,849)**
Cash flows from financing activities						
Medium term loan	(15,000)	(55,000)	-	-	-	-
Dividend & Other financing activities	(2,871)	(10,173)	(12,809)	(22,559)	(41,116)	(42,133)
Net cash used in financing activities	**(17,871)**	**(65,173)**	**(12,809)**	**(22,559)**	**(41,116)**	**(42,133)**
Increase/(decrease) in cash and cash equivalents	**4,602**	**43,183**	**122,508**	**(56,711)**	**120,577**	**124,133**
Cash and cash equivalents at the beginning of the year	61,320	65,922	109,105	231,613	174,902	295,479
Cash and cash equivalents at the end of the year	**65,922**	**109,105**	**231,613**	**174,902**	**295,479**	**419,612**

Key Financial Metrics

	2023A	2024A	2025A	2026E	2027E	2028E
Relevant Growth Trend						
Revenue growth (%)	2%	24%	46%	21%	13%	13%
Operating profit growth (%)	-201%	155%	44%	74%	-7%	14%
EPS growth (%)	-158%	106%	41%	84%	3%	13%
Asset growth (%)	1%	0%	17%	36%	21%	16%
Equity growth (%)	12%	19%	21%	33%	21%	21%
Liability growth (%)	-5%	-12%	12%	39%	21%	12%
Return, Profitability & Expense Ratios						
ROA	4%	8%	10%	14%	12%	11%
ROE	10%	18%	21%	29%	25%	23%
ROCE	9%	32%	77%	51%	53%	64%
Gross profit margin	31%	36%	38%	44%	39%	39%
Operating profit margin	6%	11%	11%	16%	13%	13%
Net profit margin	4%	7%	7%	11%	10%	10%
SG&A margin	20%	21%	24%	26%	24%	24%
Depreciation&Amortizastion margin	5%	4%	3%	2%	2%	2%
Liquidity Ratios						
Operating capital margin	10%	0%	-7%	8%	5%	4%
Current ratio (x)	1.41	1.36	1.62	1.58	1.67	1.77
Quick ratio (x)	1.04	0.98	1.18	1.13	1.25	1.38
Cash ratio (x)	0.22	0.36	0.73	0.37	0.52	0.66
Asset Utilization & Operating Efficiency						
Total asset turnover ratio (x)	0.93	1.16	1.45	1.30	1.21	1.18
Core fixed asset turnover ratio (x)	3.47	4.10	6.09	6.78	7.70	8.71
Account Receivable turnover (x)	2.23	3.55	7.02	3.37	3.34	3.40
Inventory turnover (x)	3.58	3.81	6.20	3.23	3.65	3.89
Accounts Payable turnover (x)	1.28	1.43	1.95	1.43	1.47	1.48
Accounts Receivale (Days)	164	103	52	108	109	107
Inventory turnover in days (Days)	102	96	59	113	100	94
Accounts Payable in days (Days)	286	254	187	255	248	246
Solvency & Leverage Ratios						
Total asset/Equity	2.58	2.17	2.08	2.13	2.13	2.05
Debt (Est. Interest bearing)/Equity	0.27	0.02	0.01	0.01	0.01	0.01
Interest coverage	2.02	0.06	0.02	0.02	0.03	0.02
Operating leverage	nm	6.34	0.96	3.49	-0.53	1.08

Important Disclosures and Disclaimer:

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Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price over the next twelve month is likely to return at least 20.00% and more.

Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price over the next twelve month is likely range within -10.00% and 20.00%.

Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price over the next twelve month is likely return below -10.00%.

Please note that we may designate a stock as "**Not Rated"** where we do not issue a rating, due to reasons such earlier target price exceeded after the target period with the security under review for re-rating, existing investment banking mandates, stock not currently in our coverage universe, or other considerations that may prevent us from providing an independent opinion.

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2. That the research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

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