Unilever Nigeria Plc

PAC Holdings
RC254413
| A PROPRIETARY INVESTMENT COMPANY |

Nigeria | Equities | Consumer Goods | November 30, 2018 PAC RESEARCH

Gain from Sale of Spreads Business and Higher Finance Income Boost Profit

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Price:	
- Current	**₦39.50**
- Target	**₦43.00**
Recommendation:	**HOLD**

** As at Thursday November 29, 2018*

INVESTMENT SUMMARY

The nine-month to September 2018 unaudited results released by Unilever Nigeria Plc showed improvement in its top-line and bottom-line. In its core operating activity, the company increased the revenue by 10.72% to ₦72.31 billion in 9M'18 (vs. ₦65.30 billion in 9M'17). The increase in the revenue can be attributed to the improvement in Food Products segment and Home & Personal Care segment of the company as they increased to ₦34.15 billion (9M'17: ₦28.44 billion) and ₦38.16 billion in 9M'18 (9M'17: ₦36.86 billion) respectively. Although the company continued to struggle with high cost of raw materials and consumables as cost of sales increased by 10.64% to ₦49.45 billion in 9M'18 (vs. ₦44.70 billion in 9M'17), cost-to-sales ratio remains relatively flat at 68.39% (vs. 68.44% in 9M'17). As a result, gross profit increased by 10.91% to ₦22.86 billion in 9M'18 (vs. ₦20.61 billion in 9M'17). Due to improvement in interest income from call deposits and bank accounts, finance income increase by 314.10% to ₦2.46 billion in 9M'18 (vs. ₦0.59 billion in 9M'17). During the period, the company sold its Spreads Business (Blueband Margarine) to Sigma Bidco and income of ₦2.03 billion was generated.

As a result of significant improvement in finance income and gain on sale of Spreads business, PBT increased by 94.09% to ₦12.65 billion in 9M'18 (vs. ₦6.52 billion in 9M'17). The company made a provision of ₦3.21 billion for tax in 9M'18 (vs. ₦1.92 billion in 9M'17). Consequently, PAT rose by 105.16% to ₦9.45 billion (vs. ₦4.60 billion in 9M'17). 12-month trailing EPS increased significantly by 101.21% to ₦2.14, from ₦1.06 recorded in the previous period. Based on the recent figures released by the company, we slightly upgrade our target price per share to ₦43.00 (Previous Target Price: ₦42.66). However, due to the current lower market price, we upgrade to a **HOLD** rating.

Fig. 1: Quarterly results highlights

	3Q2018	2Q2018	3Q2017	Q/q Δ	Y/y Δ
Revenue (₦'mn)	24,180	24,652	22,673	-1.91%	+6.65%
Operating profit (₦'mn)	4,260	2,778	2,649	53.35%	+60.82%
Net profit (₦'mn)	3,846	2,820	1,239	36.38%	+210.4%

Source: NSE, PAC Research

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-3.66/-1.50%
52-week range	₦38.95 - ₦65.00
30-day Average vol.	2,268,571
Shares Outstanding ('mn)	5,745.01
Market Cap. (₦'mn)	226,927.71
EPS, ₦- 12months trailing	2.14
DPS, ₦- FY2017	0.50

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	9M'18	9M'17
Gross profit margin	31.61%	31.56%
Net profit margin	13.06%	7.05%
Equity multiplier	1.60x	4.89x
Asset turnover	0.88x	4.05x

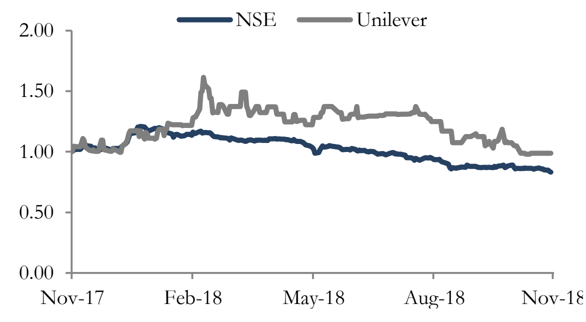
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2016	FY2017	FY2018E	FY2019E
P/E	73.87x	30.46x	17.87x	15.09x
P/B	19.41x	2.99x	2.75x	2.55x
Sales Per Share	12.15	15.80	17.70	20.79
EV/EBITDA	28.94x	10.38x	10.69x	7.59x
P/Sales	3.25x	2.50x	2.23x	1.90x
ROE	26.28%	9.81%	15.37%	16.92%
ROA	4.24%	6.15%	9.49%	10.52%
Div. Yield	0.25%	1.27%	2.53%	3.80%

Source: NSE. PAC Research

Fig. 5: Unilever vs. NSE, 52-wk Movement (Rebased)



Source: NSE, PAC Research

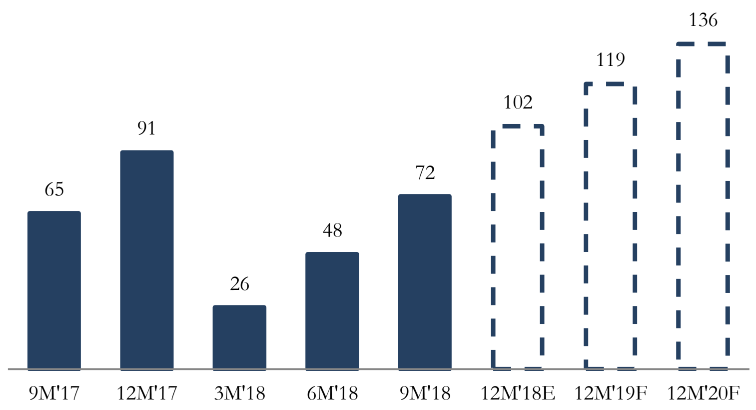
Please read the Important Disclosures at the end of this report.

Even with disposal of Spreads Business, revenue improves by 10.72% YoY

Effective July 1 2018, Unilever Nigeria Plc sold its Spreads Business (Blueband margarine) and all the assets attached to the business to Sigma Bidco B.V, an entity incorporated by KKR & Co LP. However, this did not affect the revenue of the Food Products segment of the company as it increased by 20.07% to ₦34.15 billion in 9M'18 (vs ₦28.44 billion in 9M'17). Home & Personal Care segment increased by 3.51% to ₦38.16 billion in 9M'18 (vs. ₦36.86 billion reported in 9M'17). As a result, total revenue rose by 10.72% to ₦72.31 billion in 9M'18 (vs. ₦65.30 billion in 9M'17). Home and Personal Care segment, which used to be the largest contributor to the company's revenue accounted for 52.77% of the total revenue in 9M'18 (9M'17: 56.45%) while Food Products segment accounted for 47.23% in 9M'18 (9M'17: 43.55%).

Home and Personal Care segment, which used to be the largest contributor to the company's revenue accounted for 52.77% of the total revenue in 9M'18 (9M'17: 56.45%) …

Fig. 6: Revenue – 9M'17-12M'20F (Billion NGN)



Source: NSE, PAC Research

Cost-to-sales ratio remains relatively stable as gross profit rises by 10.64%

During the period under review, the company reported high cost of sales as it increased by 10.64% to ₦49.45 billion (vs. ₦44.70 billion in 9M'17), due to increase in the cost of raw materials and consumables. However, we are impressed with the company's management of cost of sales and this reflected on cost-to-sales ratio as it remained almost flat at 68.39% in 9M'18 (vs. 68.44% recorded in 9M'17). As a result, gross profit improved by 10.91% to ₦22.86 in 9M'18, from ₦20.61 billion reported in 9M'17.

Selling and distribution expenses rose by 6.01% to ₦3.13 billion in nine-month to September 2018 (vs. ₦2.95 billion in nine-month to September 2017).

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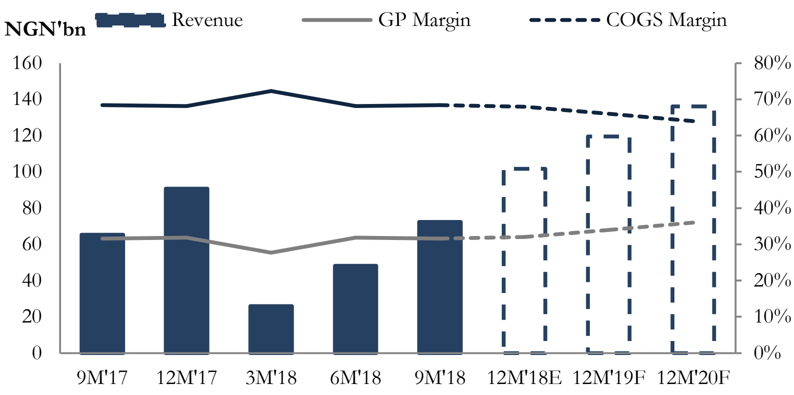
Mainly as a result of higher service fee, marketing and administrative expenses increased by 28.94% to ₦11.50 billion in 9M’18 (vs. ₦8.92 billion reported in 9M’17). Consequently, total operating expenses rose by 13.28% to ₦64.08 billion in 9M’18, from ₦56.56 billion reported in 9M’17.

We still believe that more dependence on imported raw materials is the reason for an upsurge in the cost of sales and we expect the company to improve in the area of local raw materials patronisation.

Fig. 7: Revenue, COS Margin & Gross Profit Margin – 9M’17-12M’20F (Billion NGN)



Source: NSE, PAC Research

Profitability strengthened by higher finance income and gain from sale of Spreads unit

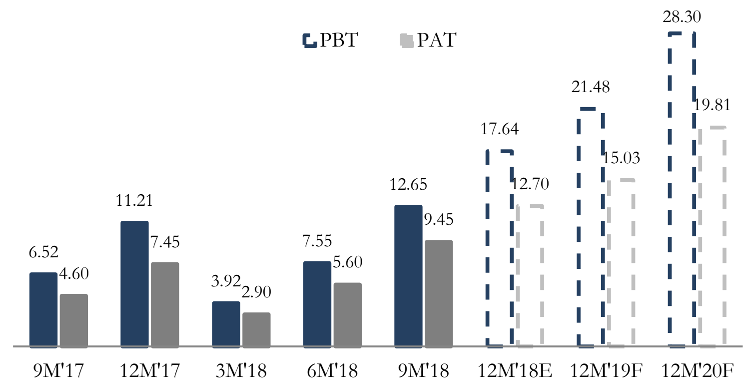
The company witnessed an unimpressive performance in its core operating activity as operating profit declined by 5.16% to ₦8.29 billion in 9M’18 (vs. ₦8.74 billion in 9M’17). However, finance income reported an impressive figure as it rose by 314.10% to ₦2.46 billion in 9M’18 (vs. ₦0.60 billion reported in 9M’17). The significant increase in finance income was majorly boosted by improvement in interest income from call deposits and bank accounts as it rose by 324.30% to ₦2.44 billion in 9M’18 (vs. ₦0.58 billion in 9M’17). The company also benefited from lower finance cost as it fell by 90.26% to ₦0.27 billion in 9M’18 (vs. ₦2.82 billion in 9M’17), due to decrease in interest on third party bank loans, zero interest on intercompany loans and zero exchange loss difference on bank accounts. In addition, the company gained ₦2.18 billion from the sale of Spreads business and sale of Aba factory during the period under review. However, we are keen to highlight that the sale of Spreads Business and Aba factory are non-reoccurring items and are not expected to re-occur in the years ahead.

In addition, the company gained ₦2.18 billion from the sale of Spreads business and sale of Aba factory during the period under review.

Due to the Impressive performance from non-operating activities of the company, profit before tax rose by 94.09% to ₦12.65 billion in 9M’18 (vs. ₦6.52 billion in 9M’17). The company made a provision of ₦3.21 billion for tax in 9M’18 (vs. ₦1.92 billion reported in 9M’17).

Consequently, profit after tax increased by 105.16% to ₦9.45 billion in nine-month to September 2018 (vs. ₦4.60 billion reported in nine-month to September 2017).

Fig. 8: Profit Befor Tax and Profit After Tax – 9M'17-12M'20F (Billion NGN)



Source: NSE, PAC Research

Balance sheet remains strong as the company continues to benefit from the proceeds of rights issue of last year.

The company continues to benefit from the proceeds of rights issue of last year which was undertaken to enable the company repay its various outstanding loan obligations and to support working capital. This is reflected in the total assets and the liabilities of the company. Total assets increased by 68.00% to ₦132.46 billion in Q3'18 (vs. ₦78.84 billion in Q3'17) while total liabilities declined by 20.49% to ₦49.86 billion in Q3'18 (vs. ₦62.71 billion in Q3'17). The increase in total assets is mainly attributed to cash and bank balances as it increased by 738.33% to ₦46.76 billion in Q3'18 (vs. ₦5.58 billion in Q3'17). In addition, the reduction in liabilities is attributed to significant reduction in total loans and borrowings as it reduced by 99.95% to ₦4.30 million in Q3'18 (vs. ₦7.96 billion in Q3'17).

The increase in total assets is mainly attributed to cash and bank balances as it increased by 738.33% to ₦46.76 billion in Q3'18 (vs. ₦5.58 billion in Q3'17).

Total equity increased by 411.84% to ₦82.60 billion in Q3'18 (vs. ₦16.14 billion in Q3'17) while NAPS increased by 411.84% to ₦14.38 in Q3'18 (vs ₦2.81 in Q3'17). In recent years, the performance of the company in the area of dividend payment has been very poor and we expect this trend to continue as the company's 12-month trailing EPS remains at ₦2.14, though with a notable increase when compared with corresponding previous 12-month trailing EPS of ₦1.06. Based on our projection, we do not expect the company to pay more than ₦1.00 per share in FY'18 (vs. ₦0.50 paid in FY'17).

Fig. 9: Dividend Per Share and Dividend Yield (FY'16-FY'20F)

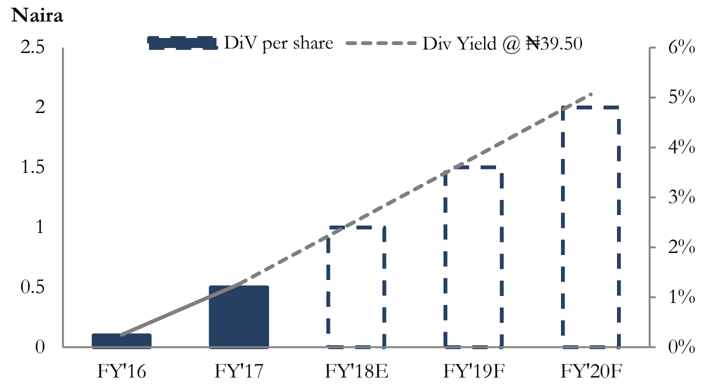
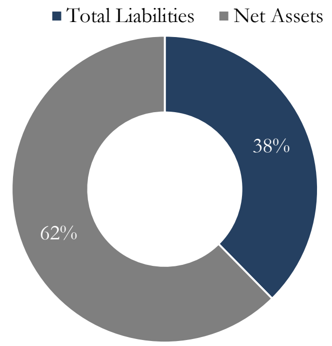


Fig. 10: Total Liabilities Vs Net Asset in Q3'18



Source: NSE, PAC Research

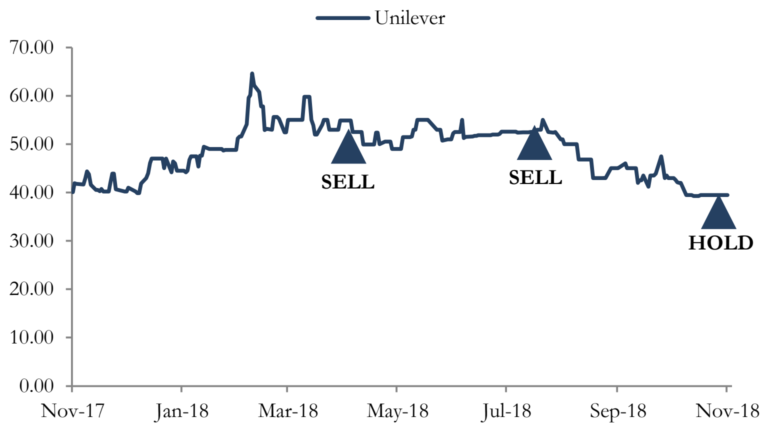
Valuation

Our valuation puts the target price of the stock at ₦43.00 and this shows that the stock is undervalued by 8.86% at current price of ₦39.50. In arriving at the target price, we employed retained earnings model. Consequently, we maintained a **HOLD** recommendation on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company, the challenging operating environment in Nigeria and increase competition within the industry.

Our valuation puts the target price of the stock at N43.00 and this shows that the stock is undervalued by 8.86% at current price of N39.50.

Fig. 11: Share Price History



Source: NSE, PAC Research

Fig. 12: Statement of Profit or Loss, N'mn

	2016	2017	2018E	2019F
Revenue	69,777	90,771	101,664	119,455
Change		*30.09%*	*12.00%*	*17.50%*
Cost of Sales	(49,481)	(61,828)	(69,131)	(78,840)
Change		*24.95%*	*11.81%*	*14.04%*
Gross Profit	20,296	28,943	32,532	40,615
Change		*42.61%*	*12.40%*	*24.84%*
Selling and distribution exp.	(3,151)	(3,993)	(4,372)	(5,256)
Change		*26.72%*	*9.48%*	*20.23%*
Marketing and admin. exp.	(11,464)	(11,983)	(15,860)	(17,321)
Change		*4.52%*	*32.36%*	*9.21%*
Core Operating Profit	5,805	12,950	12,301	18,038
Change		*123.08%*	*-5.01%*	*46.63%*
Finance Income	1,023	1,668	494	1,506
Change		*63.10%*	*-70.37%*	*204.74%*
Finance Cost	(2,721)	(3,410)	(407)	(717)
Change		*25.32%*	*-88.08%*	*76.25%*
Profit Before Taxation	4,106	11,207	17,639	21,478
Change		*172.92%*	*57.39%*	*21.77%*
Taxation	(1,035)	(3,757)	(4,939)	(6,443)
Change		*263.17%*	*31.45%*	*30.46%*
Profit After Taxation	3,072	7,450	12,700	15,035
Change		*142.52%*	*70.47%*	*18.38%*

Fig. 13: Statement of Financial Position, N'mn

	2016	2017	2018E	2019F
Property, plant and equip.	29,272	29,881	28,466	31,058
Intangible assets	940	706	559	657
Other non- current assets	140	79	41	48
Inventories	9,878	11,479	12,708	13,737
Trade and other receivable	18,946	27,621	44,732	47,782
Cash and bank balances	12,474	50,494	46,765	48,977
Employee loan receivable	73	79	102	119
Total Assets	72,491	121,084	133,861	142,952
Trade and other payables	32,477	33,409	40,666	41,809
Income Tax	503	2,799	3,131	3,679
Deferred income	33	33	51	60
Deferred tax liabilities	3,942	4,485	4,982	5,734
Pension Obligations	2,794	3,660	2,033	2,389
Total Liabilities	60,801	45,176	51,228	54,101
Net Assets	11,690	75,908	82,632	88,851

Fig. 14: Profitability Ratio

	2016	2017	2018E	2019F
Return on Equity	26.28%	9.81%	15.37%	16.92%
Return on Assets	4.24%	6.15%	9.49%	10.52%
Gross margin	29.09%	31.89%	32.00%	34.00%
EBITDA margin	11.63%	18.78%	16.60%	19.65%
PBT margin	5.89%	12.35%	17.35%	17.98%
Net Profit Margin	4.40%	8.21%	12.49%	12.59%

Fig. 15: Asset Utilisation

	2016	2017	2018E	2019F
cash/.sales	0.18	0.56	0.46	0.41
Sales to inventory (x)	7.06	7.91	8.00	8.70
Sales to total assets (x)	0.96	0.75	0.76	0.84
Sales to total fixed assets	2.38	3.04	3.57	3.85
Equity multiplier	6.20	1.60	1.62	1.61
fixed asset turnover	2.38	3.04	3.57	3.85

Fig. 16: Liquidity Ratios

	2016	2017	2018F	2019E
Quick ratio	0.59	2.14	2.08	2.12
Current ratio	0.78	2.45	2.37	2.42
Cash ratio	0.23	1.38	1.06	1.07
Interest Coverage	2.13	3.80	30.45	25.30
Debt/net income	7.96	0.66	0.41	0.40
Debt to asset	0.84	0.37	0.38	0.38
Debt to equity	2.09	0.07	0.06	0.07
Total liabilities/equities	5.20	0.60	0.62	0.61
Inventory turnover	7.06	7.91	8.00	8.70
Inventory turnover days	51.67	46.16	45.63	41.98

Fig. 17: Shareholders' Investment Ratios

	2016	2017	2018E	2019F
EPS (₦)	0.53	1.30	2.21	2.62
DPS (₦)	0.10	0.50	1.00	1.50
NAVPS (₦)	2.03	13.21	14.38	15.47
Earnings yield (%)	1.35%	3.28%	5.60%	6.63%

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

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