

## Weak Operating Performance as Non-Operating Income Boosts Bottom-Line

### INVESTMENT SUMMARY

The audited full year 2018 results released by Unilever Nigeria Plc showed impressive performance in its top-line as revenue increased by 9.05% to ₦92.90 billion (vs. ₦85.19 billion in full year 2017). The improvement in the top-line cuts across board as Food Products segment and Home & Personal Care segment of the company recorded improved revenues during the period. Due to higher cost of raw materials and consumables, cost of sales rose by 12.13% to ₦64.68 billion in FY'18 (vs. ₦57.68 billion in FY'17). As a result, cost of sales margin ratio increased by 192bps to 69.62% in FY'18 (vs. 67.70% in FY'17). However, operating expenses recorded a massive increase as selling & distribution expenses and marketing & administrative expenses increased by 11.83% and 28.20% respectively. Consequently, EBITDA declined by 25.40% to ₦12.18 billion in FY'18 (vs. ₦16.33 billion in FY'17).

During the period, Unilever Nigeria reported a significant improvement in its non-operating activities as finance income increased by 157.27% to ₦4.03 billion in FY'18 (vs. ₦1.57 billion in FY'17). The company continued to benefit from the proceeds of rights issue that was raised in 2017, reflected in its finance cost as it declined significantly by 81.17% to ₦0.60 billion in FY'18 (vs. ₦3.20 billion in FY'17). As a result, profit before tax increased by 19.12% to ₦12.62 billion in FY'18 (vs. ₦10.60 billion in FY'17). A provision of ₦3.49 billion was made for tax (vs. ₦3.53 billion in FY'17). Consequently, Profit after tax rose by 29.17% to ₦9.13 billion (vs. ₦7.07 billion in FY'17). 12-month trailing EPS declined by 5.92% to ₦1.59, from ₦1.69 reported in the previous period. The company rewarded its shareholders by proposing a final dividend of ₦1.50 per share for FY'18 (vs. ₦0.50 in FY'17). Based on the recent figures released by the company, we downgrade our target price per share to ₦34.11 and we maintain a **HOLD** rating on the stock.

Fig. 1: Quarterly results highlights

	4Q2018	3Q2018	4Q2017	Q/q Δ	Y/y Δ
Revenue (₦mn)	21,666	24,180	19,891	-10.40%	+8.92%
Operating profit (₦mn)	1,903	4,260	3,514	-55.33%	-45.85%
Net profit (₦mn)	2,143	3,846	2,488	-44.28%	-13.87%

Source: NSE, PAC Research

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### Price:

- Current	₦35.00
- Target	₦34.11
<b>Recommendation:</b>	<b>HOLD</b>

\* As at Wednesday April 17, 2019

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	- 9.46%/-37.96%
52-week range	₦55.00 - ₦33.50
30-day Average vol.	9,587,162
Shares Outstanding ('mn)	5,745.01
Market Cap. (₦mn)	192,457.68
EPS, ₦- 12months trailing	1.59
DPS, ₦- FY2018	1.50

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	FY'18	FY'17
Gross profit margin	30.38%	32.30%
Net profit margin	9.83%	8.30%
Equity multiplier	1.59x	1.60x
Asset turnover	1.12x	1.12x

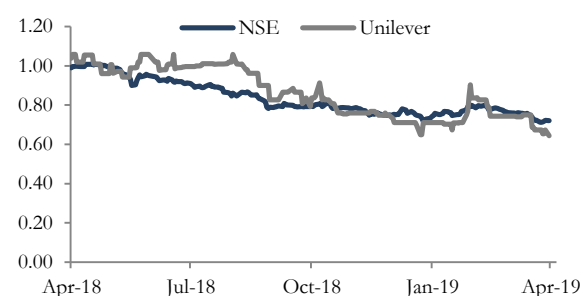
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2017	FY2018	FY2019F	FY2020F
P/E	27.22x	21.07x	16.33x	14.17x
P/B	2.54x	2.32x	2.19x	2.00x
Sales Per Share	14.83	16.17	18.40	20.98
EV/EBITDA	8.72x	11.40x	8.04x	6.51x
P/Sales	2.26x	2.07x	1.82x	1.60x
ROE	9.31%	11.03%	13.39%	21.00%
ROA	5.84%	6.93%	8.17%	8.46%
Div. Yield	1.49%	4.48%	4.48%	5.07%

Source: NSE, PAC Research

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



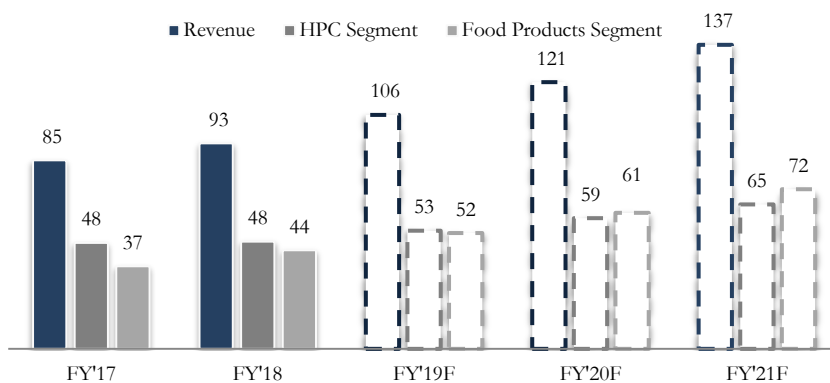
Source: NSE, PAC Research

### Revenue rises by 9.05% YoY, due to improvement in the entire business segment of the company

In full year 2018, Unilever Nigeria reported impressive figure in the top-line as revenue increased by 9.05% to ₦92.90 billion (vs. ₦85.19 billion reported in the full year of 2017). The Food Products segment and Home & Personal Care segment of the company contributed to the growth achieved in total revenue during the review period. The sales of Spreads Business (Blueband margarine) and all the assets attached to the business to Sigma Bidco B.V (an entity incorporated by KKR & Co LP) in July 2018 did not reduce the revenue of the Food Products segment of the company as it increased by 19.32% to ₦44.49 billion in FY'18 (vs ₦37.28 billion in FY'17). Revenue from Home & Personal Care segment rose by 1.05% to ₦48.41 billion in FY'18 (vs. ₦47.91 billion reported in FY'17). Home and Personal Care segment remained the largest contributor to the company's revenue as it contributed 52.11% to the total revenue (FY'17: 56.24%) while Food Products segment contributed 47.89% to total revenue in FY'18 (FY'17: 43.76%). In terms of revenue by geographical location of customers, Nigerian market accounted for 98.19% of total revenue (FY'17: 98.01%) while other countries accounted for 1.81% of total revenue in FY'18 (FY'17: 1.99%). The company increased its key distributors to 102 in 2018 (2017: 98) and none of them accounted for more than 10.00% of the company's revenue.

*In terms of revenue by geographical location of customers, Nigerian market accounted for 98.19% of total revenue (FY'17: 98.01%) while other countries accounted for 1.81% of total revenue in FY'18 (FY'17: 1.99%).*

Fig. 6: Revenue – FY'17-FY'21F (Billion NGN)



Source: NSE, PAC Research

### Unimpressive figure for cost of sales, reflected in higher cost of sales margin

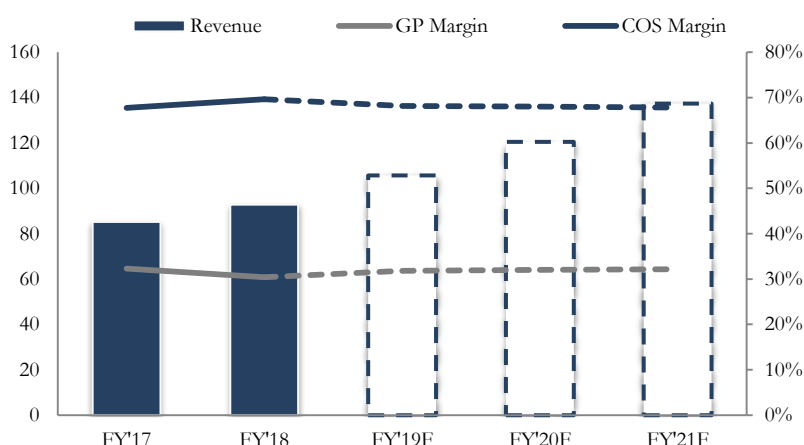
The company recorded unimpressive figure for cost of sales in full year 2018 as it rose by 12.13% to ₦64.68 billion (vs. ₦57.68 billion in FY'17). The increase in the cost of sales can be mainly attributed to higher cost of raw materials and consumables. Expenditure on raw materials and consumables, which contributed 77.51% to total cost of sale during the period, rose by 17.06% to ₦50.13 billion in FY'18 (vs. ₦42.82 billion in FY'17).

Though the increase in cost of sales may be partly attributed to higher volume during the period, the higher cost of sales margin remain a major challenge. During the period, cost of sales margin increased by 192bps to 69.62% in FY'18, from 67.70% recorded in FY'17. Going forward, we expect the company to improve in the area of local raw materials patronisation as the increase in the cost of sales may be largely attributed to high dependence on imported raw materials.

Due to higher expenses on brand & marketing and higher staff costs, total marketing and administrative expenses increased by 28.20% to ₦14.71 billion in FY'18 (vs. ₦11.48 billion reported in FY'17). Selling and distribution expenses rose by 11.83% to ₦4.24 billion in FY'18 (vs. ₦3.79 FY'17). Consequently, EBITDA of the company declined by 27.31% to ₦11.87 billion in full year 2018 (vs. ₦16.33 billion reported in full year 2017).

*Going forward, we expect the company to improve in the area of local raw materials patronisation as the increase in the cost of sales may be largely attributed to high dependence on imported raw materials.*

**Fig. 7: Revenue, COS Margin & Gross Profit Margin – FY'17-FY'21F (Billion NGN)**



Source: NSE, PAC Research

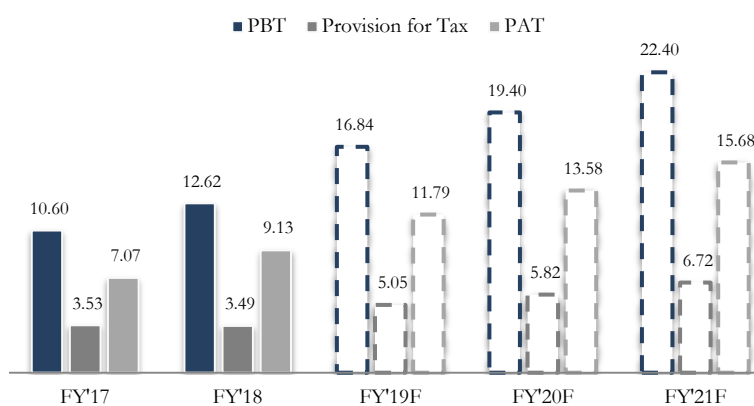
### **Non-operating activities of the company strengthens the bottom-line as profit after tax increased by 29.17% YoY**

In twelve months to December 2018, Unilever Nigeria suffered a major setback in its core operating activities as operating profit fell by 24.80% to ₦9.20 billion in FY'18 (vs. ₦12.23 billion in FY'17). However, the company reported impressive figures in its non-operating activities during the period. Finance income increased by 157.27% to ₦4.03 billion (vs. ₦1.57 billion in FY'17) while finance cost declined by 81.1% to ₦0.60 billion in FY'18 (vs. ₦3.20 billion reported in FY'17). The increase in finance income can be mainly attributed to exchange gain on translation of foreign currency denominated bank balances and higher interest income on call deposits & bank accounts.

Interest income on call deposits and bank accounts increased by 195.92% to ₦3.55 billion (₦1.20 billion in FY'17) while the company recorded an exchange gain of ₦430 million on translation of foreign currency denominated bank balances in FY'18. The benefit of right issues of 2017 reflected on lower finance cost as interest expenses declined by 75.08% to ₦0.59 billion in FY'18 (vs. ₦2.35 billion in FY'17).

Due to the impressive performance from non-operating activities of the company, profit before tax rose by 19.12% to ₦12.62 billion in FY'18 (vs. ₦10.60 billion in FY'17). The company made a provision of ₦3.49 billion for tax in FY'18 (vs. ₦3.53 billion reported in FY'17). Consequently, profit after tax improved by 29.17% to ₦9.13 billion in twelve-month to December 2018 (vs. ₦7.07 billion reported in twelve-month to December 2017).

Fig. 8: PBT, Taxation and PAT– FY'17-FY'21F (Billion NGN)



Source: NSE, PAC Research

### Balance sheet remains solid as the company rewarded the shareholders with improved dividend payments

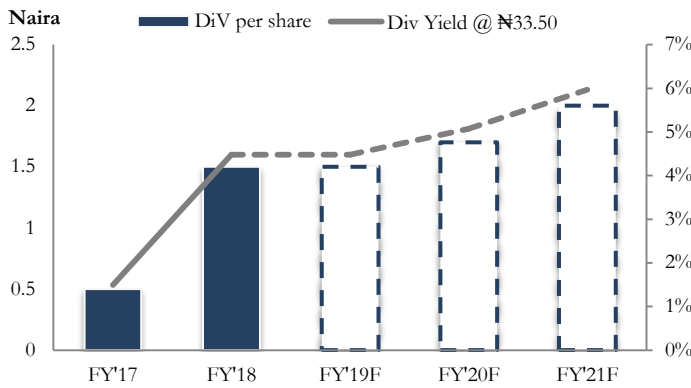
The company reported a significant improvement in its balance sheet, reflecting in higher net assets in 2018. With higher inventories, trade & other receivables and cash & bank balances, total assets rose by 8.89% to ₦131.84 billion in FY'18 (vs. ₦121.08 billion in FY'17). However, total liabilities increased by 8.58% to ₦49.05 billion in FY'18 (vs. ₦45.18 billion in FY'17). The increase in total liabilities is mainly attributed to higher liability on income tax and higher trade & other payables. Meanwhile, total loans and borrowings declined by 99.38% to ₦4.18 million in FY'18 (vs. ₦674.30 million in FY'17) as the company continues to benefit from the proceeds of rights issue of 2017 which was undertaken to enable the company repay its various outstanding loan obligations and to support working capital.

*The benefit of right issues of 2017 reflected on lower finance cost as interest expenses declined by 75.08% to ₦0.59 billion in FY'18 (vs. ₦2.35 billion in FY'17).*

*The company beat our final dividend per share forecast of ₦1.00 as shareholders were rewarded by proposing a final dividend of ₦1.50 per share for FY'18 (vs. ₦0.50 in FY.17).*

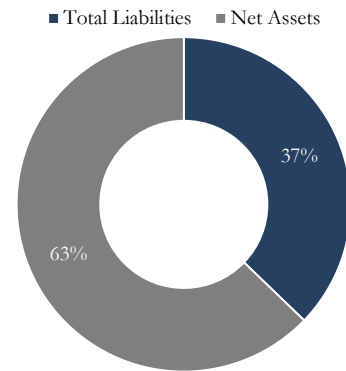
Consequently, net assets increased by 9.07% to ₦82.79 billion (vs. ₦75.91 billion in FY'17) while NAPS increased to ₦14.41 in FY'18 (vs ₦13.21 in FY'17). The company beat our final dividend per share forecast of ₦1.00 as shareholders were rewarded by proposing a final dividend of ₦1.50 per share for FY'18 (vs. ₦0.50 in FY.17).

Fig. 9: Dividend Per Share and Dividend Yield (FY'17-FY'21F)



Source: NSE, PAC Research

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



**Valuation**

Our valuation puts the target price of the stock at N34.11, representing an increase of 1.83% from the current price of N33.50. In arriving at the target price, we employed discounted cashflow valuation methodology. 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 N34.11, representing an increase of 1.83% from the current price of N33.50.*

Fig. 11: Share Price History (Naira)



Source: NSE, PAC Research

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

	2017	2018	2019F	2020F
Revenue	85,193	92,900	105,720	120,521
Change		9.05%	13.80%	14.00%
Cost of Sales	(57,679)	(64,675)	(72,069)	(81,954)
Change		12.13%	11.43%	13.72%
Gross Profit	27,514	28,225	33,651	38,567
Change		2.58%	19.22%	14.61%
Selling and distribution exp.	(3,791)	(4,239)	(4,842)	(5,520)
Change		11.83%	14.22%	14.00%
Marketing and admin. exp.	(11,476)	(14,713)	(16,122)	(18,379)
Change		28.20%	9.58%	14.00%
Core Operating Profit	12,231	9,198	12,686	14,667
Change		-24.80%	37.93%	15.62%
Finance Income	1,565	4,027	4,578	5,219
Change		157.27%	13.68%	14.00%
Finance Cost	(3,201)	(603)	(687)	(783)
Change		-81.17%	14.00%	14.00%
Profit Before Taxation	10,596	12,622	16,841	19,404
Change		19.12%	33.43%	15.22%
Taxation	(3,526)	(3,490)	(5,052)	(5,821)
Change		-1.03%	44.78%	15.22%
Profit After Taxation	7,070	9,132	11,789	13,583
Change		29.17%	29.09%	15.22%

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

	2017	2018	2019F	2020F
Property, plant and equip.	29,881	29,678	30,025	30,612
Intangible assets	706	448	529	603
Other non- current assets	79	48	53	60
Inventories	11,479	13,929	15,023	17,235
Trade and other receivable	27,621	30,188	34,412	39,230
Cash and bank balances	50,494	57,144	63,844	72,313
Employee loan receivable	79	49	53	60
Total Assets	121,084	131,843	144,324	160,534
Trade and other payables	33,409	38,611	44,868	51,149
Income Tax	2,799	4,556	5,286	6,026
Deferred income	-	-	-	-
Deferred tax liabilities	4,485	3,652	3,700	4,218
Pension Obligations	3,660	2,231	2,432	2,712
Total Liabilities	45,176	49,054	56,286	64,106
Net Assets	75,908	82,790	88,037	96,428

Fig. 14: Profitability Ratio

	2017	2018	2019F	2020F
Return on Equity	9.31%	11.03%	13.39%	21.00%
Return on Assets	5.84%	6.93%	8.17%	8.46%
Gross margin	32.30%	30.38%	31.83%	32.00%
EBITDA margin	19.17%	12.78%	15.14%	15.31%
PBT margin	12.44%	13.59%	15.93%	16.10%
Net Profit Margin	8.30%	9.83%	11.15%	11.27%

Fig. 15: Asset Utilisation

	2017	2018	2019F	2020F
cash/.sales	0.59	0.62	0.60	0.60
Sales to inventory (x)	7.42	6.67	7.04	6.99
Sales to total assets (x)	0.70	0.70	0.73	0.75
Sales to total fixed assets	2.85	3.13	3.52	3.94
Equity multiplier	1.60	1.59	1.64	1.66
fixed asset turnover	2.85	3.13	3.52	3.94

Fig. 16: Liquidity Ratios

	2017	2018	2019F	2020F
Quick ratio	2.14	2.02	1.96	1.95
Current ratio	2.45	2.35	2.26	2.25
Cash ratio	1.38	1.32	1.27	1.26
Interest Coverage	3.82	15.26	18.85	19.11
Debt/net income	0.70	0.40	0.31	0.31
Debt to asset	0.37	0.37	0.39	0.40
Debt to equity	0.07	0.04	0.04	0.04
Total liabilities/equities	0.60	0.59	0.64	0.66
Inventory turnover	7.42	6.67	7.04	6.99
Inventory turnover days	49.18	54.73	51.87	52.20

Fig. 17: Shareholders' Investment Ratios

	2017	2018	2019F	2020F
EPS (₦)	1.23	1.59	2.05	2.36
DPS (₦)	0.50	1.50	1.50	1.70
NAVPS (₦)	13.21	14.41	15.32	16.78
Earnings yield (%)	3.67%	4.75%	6.13%	7.06%

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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