

## Impressive Results with Cautious Outlook

### INVESTMENT SUMMARY

The FY'17 audited report published by Unilever Nigeria Plc shows a stellar performance as the revenue grew by 30.09% to ₦90.77 billion (vs. ₦69.78 billion in FY'16). During the period, food products segment of the company contributed ₦42.86 billion (FY'16: ₦36.40 billion) to the revenue while home and personal Care segment contributed ₦47.91 billion (FY'16: ₦33.37 billion) to revenue. Due to high cost of raw materials and consumables, cost of sales increased by 24.95% to ₦61.83 billion in FY'17 from ₦49.48 billion in FY'16. Of the total cost of sales in 2017, raw materials and consumables of ₦47.33 billion (2016: ₦35.68 billion) accounted for 76.55% (2016: 72.10%). Consequently, gross profit rose by 42.61% to ₦28.94 billion in FY'17 (vs. ₦20.30 billion reported in FY'16). In 2017, Selling and distribution expenses increased by 26.72% to ₦3.99 billion (vs. ₦3.15 billion in 2016) while marketing and administrative expenses rose by 4.52% to ₦11.98 billion (vs. ₦11.46 billion reported in 2016). As a result of improvement on interest on call deposits and bank accounts, finance income increase by 63.10% to ₦1.67 billion in FY'17 (vs. ₦1.02 billion recorded in FY'16). Finance cost increase by 25.32% to ₦3.41 billion in FY'17 (vs. ₦2.72 billion in FY'16) largely due to exchange loss of ₦0.75 billion. Due to improvement in top line and proper management of cost and expenses in 2017, PBT increased by 172.92% to ₦11.21 billion (vs. 4.11 billion in FY'16) while PAT rose by 142.52% to ₦7.45 billion (vs. ₦3.07 billion in FY'16).

The company recommended DPS of ₦0.50 to shareholders in 2017 (vs. ₦0.10 paid in 2016). However, the management reported that they expect 2018 and beyond to be difficult and challenging. Based on valuation of the company and cautious outlook from the management, we recommend **SELL** on the stock as present forward estimate places the company share price at ₦43.60

Fig. 1: Quarterly results highlights

	4Q2017	3Q2017	4Q2016	Q/q Δ	Y/y Δ
Revenue (₦mn)	21,642	24,024	19,906	-9.92%	+8.72%
Operating profit (₦mn)	3,775	2,784	2,685	+35.60%	+40.60%
Net profit (₦mn)	2,624	1,240	1,505	+111.61%	+74.35%

Source: Bloomberg, PAC Research

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Price:

- Current	₦55.00
- Target	₦43.60
Recommendation:	SELL

\* As at Thursday April 19, 2018

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+34.15%/+65.91%
52-week range	₦31.81 - ₦65.00
30-day Average vol.	1,814,511
Shares Outstanding (mn)	5,745.01
Market Cap. (₦mn)	315,975.30
EPS, ₦- 12months trailing	1.78
DPS, ₦- FY2017	0.50

Source: NSE, Bloomberg, Company's Annual Reports, PAC Research

Fig. 3: Key ratios

	FY'17	FY'16
Gross profit margin	31.89%	29.09%
Net profit margin	8.21%	4.40%
Equity multiplier	1.60x	6.20x
Asset turnover	0.47x	0.62x

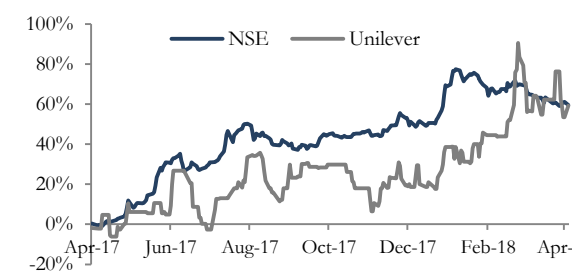
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2016	FY2017	FY2018F	FY2019F
P/E	67.74x	30.85x	28.35x	20.95x
P/B	17.80x	3.03x	4.05x	3.61x
Sales Per Share	12.15	15.80	18.72	22.00
EV/EBITDA	39.91x	15.60x	11.83x	8.97x
P/Sales	4.43x	3.48x	2.94x	2.50x
ROE	26.28%	9.81%	14.28%	17.19%
ROA	4.24%	6.15%	8.65%	10.42%
Div. Yield	0.18%	0.91%	1.82%	2.73%

Source: NSE, PAC Research

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



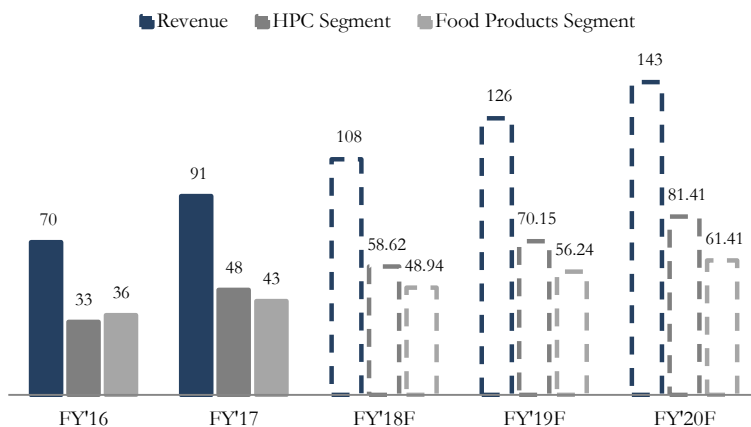
Source: Bloomberg, PAC Research

**Revenue increased by 30.09% YoY due to improvement in all segments:**

After a successful rights issue of ₦58.9 billion last year, Unilever reported a stellar performance in its 2017 audited reports. Revenue in FY'17 increased by 30.09% to ₦90.77 billion (vs ₦69.77 billion in FY'16) and this was majorly driven by improvement in food products and home and personal care segment. Food Products segment rose by 17.75% to ₦42.861 billion in FY'17 (vs. ₦36.40 billion reported in FY'16) while home and personal care segment increased by 43.54% to ₦47.91 billion in FY'17 (vs. ₦33.38 billion reported in FY'16). Home and personal care segment contributed 52.78% to revenue in in FY'17 (FY'16: 47.84%) while food products contributed 47.22% to revenue in FY'17 (FY'16: 52.16%).

*Revenue in FY'17 increased by 30.09% to ₦90.77 billion (vs ₦69.77 billion in FY'16) and this was majorly driven by improvement in food products and home and personal care segment.*

**Fig. 6: Revenue, HPC and Food Products Segment FY'16-FY'20F (Billion NGN)**



Source: NSE, PAC Research

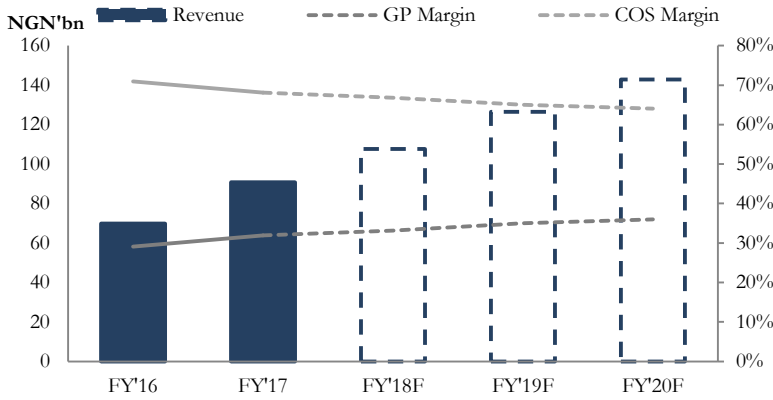
**Cost-to-sales declined as gross profit surged:** Cost of sales increased by 24.95% to ₦61.83 billion in FY'17 (vs. ₦49.48 billion in FY'16) as cost of raw materials and consumables increased to ₦47.33 billion in FY'17 from ₦35.68 billion in FY'16, representing an increase of 32.67% YoY. Enormous increase in the cost of raw materials and consumables remains a major concern as it contributed 76.55% to the cost of sales in FY'17 (FY'16: 72.10%). However, the company monitored its cost of sales and this reflected on cost-to-sales ratio as it declined by 2.80% to 68.11% in FY'17 (vs. 70.91% in FY'16). During the period, selling and distribution expenses increased by 26.72% to ₦3.99 billion (2016: ₦3.15 billion) while marketing and distribution expenses increased by 4.52% to ₦11.98 billion (2016: ₦11.46 billion). Consequently, total operating expenses increased by 21.39% to ₦77.80 billion in FY'17 from ₦64.10 billion recorded in FY'16.

Going forward, we expect the company to start patronising local raw materials more as we believe that dependence on imported raw materials is the reason for an upsurge in the cost of sales.

*Enormous increase in the cost of raw materials and consumables remains a major concern as it contributed 76.55% to the cost of sales in FY'17 (FY'16: 72.10%).*

With fairly management of cost of sales and improvement in the turnover of the company, gross profit increased by 42.61% to ₦28.94 billion in FY'17 (vs. ₦20.30 billion reported in FY'16)

Fig. 7: Revenue, COS Margin and Gross Profit Margin (FY'16-FY'20F)

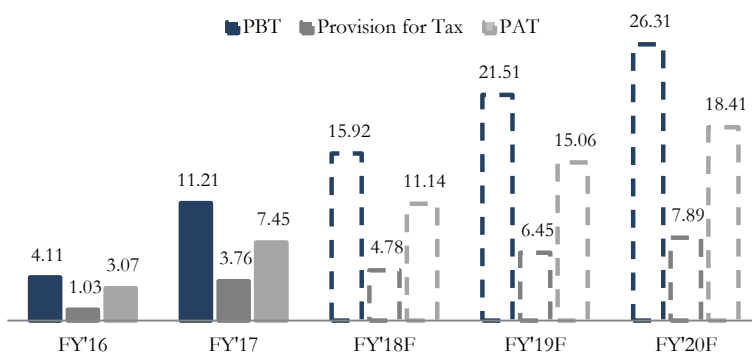


Source: NSE, PAC Research

**Impressive operating profit understated high net finance cost as PBT increased by 172.92% YoY:** As a result of improvement in interest on call deposits and bank account in 2017, finance income increased by 63.10% to ₦1.67 billion from ₦1.02 billion reported in 2016. However, finance cost increased by 25.32% to ₦3.41 billion in FY'17 (vs. ₦2.72 billion in FY'16) due to exchange loss of ₦0.75 billion during the period. Consequently, net finance cost increased by 2.58% to ₦1.74 billion in FY'17 (vs ₦1.70 billion in FY'16). Operating profit increased to ₦12.95 billion in FY'17 from ₦5.81 billion in FY'16, representing an increase of 123.08%. Meanwhile, impressive performance of operating activities trivialised effect of net finance cost as profit before tax rose by 172.92% to ₦11.21 billion in FY'17 (vs. ₦4.11 billion in FY'16). Provision for tax increased by 263.17% to ₦3.76 billion in FY'17 (vs. ₦1.04 billion reported in FY'16) hence, profit after tax increased to ₦7.45 billion from ₦3.07 billion reported in FY'16, representing an increase of 142.52%.

*As a result of improvement in interest on call deposits and bank account in 2017, finance income increased 63.10% to ₦1.67 billion from ₦1.02 billion reported in 2016*

Fig. 8: PBT, PAT and Tax Provision (FY'16-FY'20F)



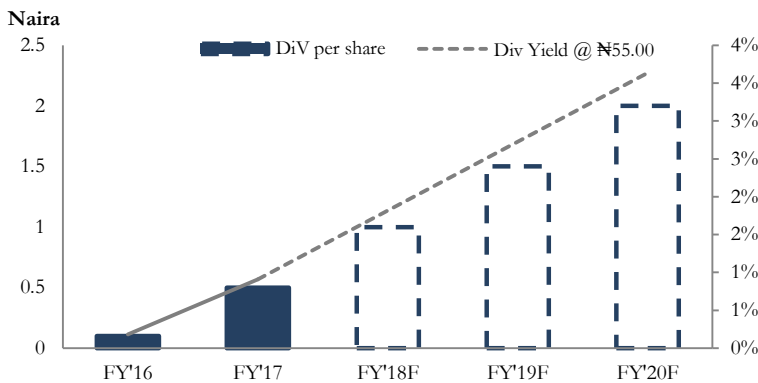
Source: NSE, PAC Research

**Even with strong balance sheet, dividend payment remains unimpressive due to poor EPS:** Historically, the company is known for unimpressive EPS and dividend yield. In 2017, history repeated itself as EPS stayed at ₦1.30, though with an increase of 142.52% from ₦0.53 reported in FY'16. As a result, DPS of ₦0.50 was recommended to the shareholders in 2017 (vs. ₦0.10 paid in 2016), representing an increase of 400%. Dividend yield at current price of ₦55.00 remains unimpressive as it remained at 0.91% in FY'17 (FY'16: 0.18%).

During the period, the company increased its net assets by 548.67% to ₦75.83 billion in FY'17 from ₦11.69 billion in FY'16 as the NAPS increased by 549.35% to ₦13.21 in FY'17 (vs ₦2.03 in FY'16). The massive increase in net assets is attributed to a huge increase in cash and bank balances and a reduction in short term loans and borrowings, probably as a result of rights issue of 2017. Cash and bank balances increased by 304.79% to ₦50.49 billion in FY'17 (vs. ₦12.47 billion in FY'16) while loans and borrowings reduced by 97.78% to ₦0.50 billion in FY'17 (vs. ₦20.50 billion reported in FY'16).

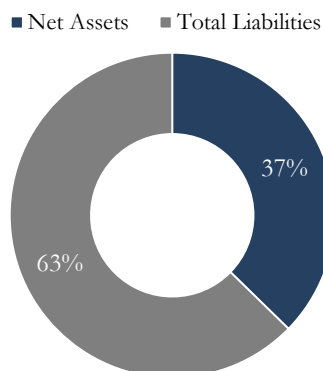
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Fig. 9: Dividend Per Share and Dividend Yield (FY'16-FY'20F)



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in FY'17



Source: NSE, PAC Research

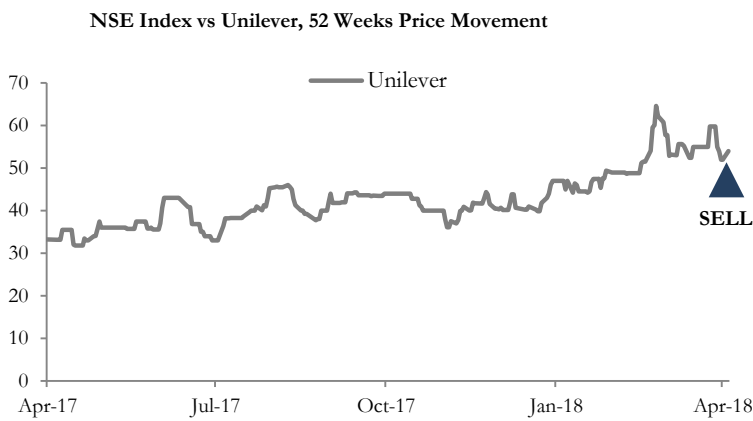
**Valuation**

Our valuation puts the target price of the stock at ₦43.60 and this shows that the stock is overvalued by 26.15% at current price of ₦55.00. In arriving at the target price, we employed retained earnings model. Consequently, we maintained **SELL** 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, reduction in consumers’ purchasing power and a cautious outlook from the management.

*Our valuation puts the target price of the stock at N43.60 and this shows that the stock is overvalued by 26.15% at current price of N55.00.*

**Fig. 11: Share Price History**



Source: NSE, PAC Research

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

	2016	2017	2018F	2019F
Revenue	69,777	90,771	107,564	126,388
Change		30.09%	18.50%	17.50%
Cost of sales	(49,481)	(61,828)	(71,885)	(82,152)
Change		24.95%	16.27%	14.28%
Gross profit	20,296	28,943	35,679	44,236
Change		42.61%	23.27%	23.98%
Selling & Distr. expenses	(3,151)	(3,993)	(4,905)	(5,624)
Change		26.72%	22.84%	14.67%
Other income	124	(18)	172	152
Change		-144.51%	-1054%	-11.88%
Operating profit	5,805	12,950	18,038	23,849
Change		123.08%	39.30%	32.21%
Finance income	1,023	1,668	1,775	2,149
Change		63.10%	6.42%	21.06%
Finance cost	(2,721)	(3,410)	(3,894)	(4,487)
Change		25.32%	14.18%	15.23%
Profit Before Taxation	4,106	11,207	15,919	21,511
Change		172.92%	42.05%	35.12%
Taxation	(1,035)	(3,757)	(4,776)	(6,453)
Change		263.17%	27.11%	35.13%
Profit After Taxation	3,072	7,450	11,144	15,058
Change		142.52%	49.58%	35.12%

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

	2016	2017	2018F	2019F
Property, plant & equip.	29,272	29,881	30,118	32,861
Intangible assets	940	706	774	859
Other non-current assets	140	79	97	114
Employee loan receivable	112	130	161	190
Retirement benefit surplus	485	329	387	455
Inventories	9,878	11,479	13,983	16,430
Trade and other receivables	18,946	27,621	34,420	40,444
Cash and bank balances	12,474	50,494	48,404	53,083
Employee loan receivable	73	79	108	126
Total Assets	72,491	121,084	128,786	144,562
Trade and other payables	32,477	33,409	36,561	40,444
Income Tax	503	2,799	3,313	3,893
Loans and borrowings	20,501	455	1,076	1,264
Deferred income	33	33	54	63
Deferred tax liabilities	3,942	4,485	5,271	6,067
Other employee benefits	74	86	108	126
Pension Obligations	2,794	3,660	4,303	5,056
Loans and borrowings	414	220	237	253
Total Liabilities	60,801	45,176	50,749	56,988
Total liabilities and Equity	72,491	121,084	128,786	144,562
Net Assets	11,690	75,908	78,038	87,574

Fig. 14: Profitability Ratio

	2016	2017	2018F	2019F
Gross margin	29.09%	31.89%	33.17%	35.00%
Net Profit Margin	4.40%	8.21%	10.36%	11.91%
Operating profit margin	8.32%	14.27%	16.77%	18.87%
Return on Equity	26.28%	9.81%	14.28%	17.19%
Return on Assets	4.24%	6.15%	8.65%	10.42%
EBITDA margin	8.32%	14.27%	16.77%	18.87%
ROCE	30.59%	15.35%	20.55%	24.12%

Fig. 15: Asset Utilization

	2016	2017	2018F	2019F
cash/.sales	0.18	0.56	0.45	0.42
Sales to inventory (x)	7.06	7.91	7.69	7.69
Sales to total assets (x)	0.96	0.75	0.84	0.87
Sales to total fixed assets	2.38	3.04	3.57	3.85
Equity multiplier	6.20	1.60	1.65	1.65
fixed asset turnover	2.38	3.04	3.57	3.85

Fig. 16: Liquidity Ratios

	2016	2017	2018F	2019F
Quick ratio	0.59	2.14	2.03	2.05
Current ratio	0.78	2.45	2.37	2.41
Cash ratio	0.23	1.38	1.18	1.16
Interest Coverage	2.13	3.80	4.63	5.32
Debt/net income	7.96	0.66	0.57	0.49
Debt to asset	0.84	0.37	0.39	0.39
Debt to equity	2.09	0.07	0.08	0.08
Total liabilities/equities	5.20	0.60	0.65	0.65
Inventory turnover	7.06	7.91	7.69	7.69
Inventory turnover days	51.67	46.16	47.45	47.45

Fig. 17: Shareholders' Investment Ratios

	2016	2017	2018F	2019F
Earnings per share (₦)	0.81	1.78	1.94	2.62
DiV per share (₦)	0.10	0.50	1.50	2.00
NAVPS (₦)	3.09	18.17	13.58	15.24
Earnings yield (%)	1.48	3.24	3.53	4.77
FCFPS (₦)	9.09	9.01	9.10	9.19

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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