

Unilever Nigeria Plc.

Q4-16 - First Glance: A Surge in PAT From Near-Zero Levels

Unilever Nigeria Plc (UNILEVER) released Q4-2016 and 2016 full year results late yesterday. The full year result, boosted by the company's performance in the fourth quarter, significantly beat consensus. Revenue in 12 months grew by 17.8% while PAT increased by 157.6%. The Board is recommending a 10 kobo/share dividend (vs. 5 kobo/share in 2015).

Following Q2 and Q3 of almost no profits, UNILEVER reported a PBT of N2.60 billion in Q4, 65% ahead of Q4-15 and 10,812% above Q3-15. During the three months period, revenue grew by 20.5% y/y and 13.1% q/q, thanks to the Food (17% y/y and 10% q/q) and Home Care divisions (104% y/y and 87% q/q). Both divisions reported y/y revenue growth in all four quarters of 2016, supported by relatively stable demand and sharp price increases (Home Care). After the price-hike driven growth in Q3, revenue from the Personal Care division fell by 32% y/y and 36% q/q under the review period on lower sales volume. We understand that the price of *CloseUp*, the flagship brand in the PC division, was increased quite significantly between August and December 2016.

Also positive for the Q4, and in whole, 2016 results, was the 22.9% y/y and 11.3% q/q decline in operating expenses (opex) in the final quarter. In absolute terms, the opex is the lowest since Q4-2014 and relative to revenue (15.2%), it also came in at record low. Noteworthy, the y/y decline in opex is the third in a row, and follows the relatively lower spending on marketing and administrative activities (accounting for c.80% of gross opex). The decline in opex in 2016 (11.3%) is UNILEVER's first since 2008, and we think it may have followed a deliberate decision by the management to scale back marketing and advert spending (after Q1-2016) as bigger outlay may not have simultaneously translated to sales growth in a severely challenged consumer environment.

On the downside, Q4-16 gross margin is shy Q4-15 by 932bps, while the q/q expansion (340bps) is the weakest among the FMCG names (in our coverage) that have filed fourth quarter results. While noting the fact that UNILEVER's production cost is greatly exposed to imports, the relatively lower q/q expansion of gross margin may also be attributed to the fact that unlike other FMCG names, UNILEVER did not significantly increase prices across the SKUs.

A bigger downside to the Q4 result was the 26.2% y/y and 15.3% q/q increase in finance charges, in continuation of the sharp rise witnessed in the third quarter. In Q3, UNILEVER reported an intercompany loan of USD32.3 million, and an increase in the USD loan to USD48 million (as at end-2016, by our estimate) broadened overall outstanding debt (to N20.9 billion as at year end).

Overall, we expect investors to react positively to the surge in Q4 PAT from near-zero levels in the previous two quarters. That said, to sustain this performance will require the sustenance of margin recovery, continued resilience of the Food and Home Care divisions, tight lid on opex, and importantly, a less-volatile FX environment. "Achieving all of these in 2017 is very unlikely".

SELL

Target Price (N)*	15.14
Current Price (N)	32.30
Implied Return (%)	-53.11

Company Data

NSE Code	UNILEVER
Bloomberg Code	UNILEVER:NL
Reuters Code	UNILEVER.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	122.20
Free Float (%)	41.47

Ratios	Q4-2016	Q4-2015	2016FY
Gross margin	28.1%	37.4%	29.1%
Opex margin	15.2%	23.7%	20.9%
EBIT margin	13.5%	13.7%	8.3%
PAT margin	7.6%	6.4%	4.4%
RoAE	16.7**	37.1**	31.2%
EPS (N)	0.4	0.3	0.8

*Under Review

** Trailing

Income Statement

(N'bn)	Q4-16a	Q4-16 y/y	Cordros est.
Revenue	19.91	20.5%	18.47
Cost of sales	(14.31)	-238.4%	(12.93)
Gross profit	5.60	-9.5%	5.54
Operating expenses	(3.02)	-177.1%	(4.99)
Other income	0.12	12368.0%	0.00
EBIT	2.69	18.7%	0.55
Finance income	0.88	1035.5%	0.07
Financial charges	(0.98)	26.2%	(0.61)
Profit before tax	2.60	65.3%	0.01
Taxation	(1.09)	-310.4%	(0.00)
Profit after tax	1.50	43.1%	0.01

Disclosures

Analyst:

Christian Orajekwe (*christian.orajekwe@cordros.com*)

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