

# Unilever Nigeria Plc.

## What an Impressive Start; But Watch It!

Unilever Nigeria Plc's (UNILEVER) Q1-17 result, released yesterday, outperformed on two fronts: (1) revenue grew by 32% y/y while (2) operating expenses fell by 14.1% y/y. Both came in well-ahead of our +9% y/y and +2% y/y estimates respectively. On the negative, gross margin contracted by 756 bps y/y to 28.4% (and below our benchmark of 31%) while finance costs, higher by 33% y/y, came in 55% above our estimate. Overall, PBT and PAT grew by 53.6% y/y and 53.9% y/y respectively.

While noting the limited visibility on sales volume performance (albeit the result suggests UNILEVER may have increased market share during the period), we believe that revenue continued to benefit strongly from the increase in the prices of key products. We had noted earlier this month that UNILEVER increased the prices of *CloseUp*, *Knorr*, *Lipton*, *Omo* and *Sunlight* in February and March. And bearing in mind the continued resilience of the Food (+22% y/y) and Home Care (+50% y/y) divisions, we note that the surge in Personal Care revenue (37% y/y) contributed immensely to the overall strong top-line performance.

Another positive surprise from the first quarter result is the decline in operating expenses, with brand/marketing and overheads expenses specifically falling by 45% y/y and 11% y/y respectively.

Despite the price increases, the gross margin of 28.4% realized during the period was 756 bps shy of Q1-16 margin, and barely improved from the 28.1% achieved in the final quarter of 2016. This is suggestive of sticky, and perhaps, rising per unit production cost, consequently pressuring gross profit which grew by a marginal 4.3% y/y.

Still on the negatives, finance costs increased by 32.8% y/y, mirroring the increase in gross debt to N25.4 billion, from N20.9 at the end of 2016. During the period, the company drew on an overdraft facility of N3.5 billion and increased other short term borrowings by about N1 billion. In a press release last week, the company officially announced the plan to raise capital via Rights Issue, the proceeds of which would be channeled to (1) deleveraging the balance sheet and (2) working capital and capital expenditure investments.

**This morning, UNILEVER notified the Nigerian Stock Exchange (NSE) of the recent announcement by its parent company -- Unilever Group -- of the intention to divest its spreads business as part of the outcome of the strategic review embarked on. In line with this announcement, we expect UNILEVER to launch the process to sell its spreads business (Blue Band), which by our estimate -- (1) accounts for about 24% of gross revenue and (2) has the biggest share of the spreads market -- and according to management, continues to perform impressively (with expansion plan recently decided at the group level).**

While the latest result appears impressive from the point of view of revenue and opex, our focus is on the continued pressure on gross profit. This, if not addressed, portends imminent earnings weakness in the event that revenue growth runs out of steam and opex starts to rise (as we expect). But in the mean time, we expect investors to react positively to the announced PAT, which, if we annualized, is ahead of consensus by 112.3%.

# SELL

Target Price (N)	21.06
Current Price (N)	33.15
Implied Return (%)	-36.46

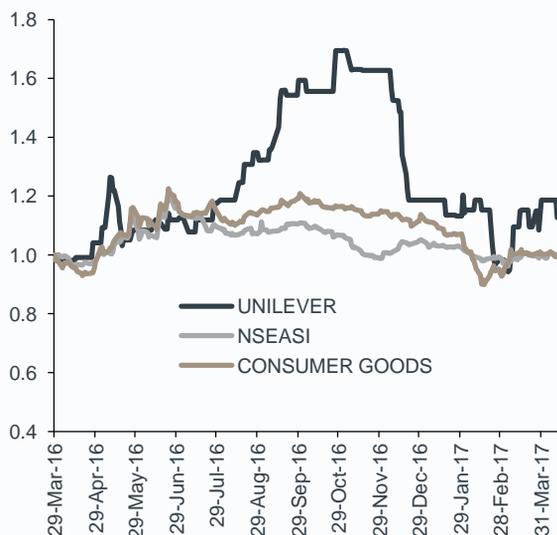
### Company Data

NSE Code	UNILEVER
Bloomberg Code	UNILEVER:NL
Reuters Code	UNILEVER.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	125.42
Free Float (%)	39.95

Ratios	Q1-2017	Q1-2016	2016FY
Gross margin	28.4%	36.0%	29.1%
Opex margin	16.0%	23.7%	20.9%
EBIT margin	12.4%	11.4%	8.3%
PAT margin	7.2%	6.2%	4.4%
RoAE	32.5*	19.2*	31.2%
EPS (N)	0.4	0.3	0.8

\*Trailing

### Price movement (UNILEVER vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

# Financial Statement (N'million).

Income Statement (N'm)						Profitability Ratios					
	2014a	2015a	2016a	2017f	2018f		2014a	2015a	2016a	2017f	2018f
Revenue	55,754	59,222	69,777	73,266	78,761	Gross profit margin	36.2%	35.5%	29.1%	31.0%	31.0%
Cost of sales	-35,584	-38,174	-49,481	-50,553	-54,337	EBITDA margin	11.7%	11.4%	12.0%	12.1%	12.1%
Gross profit	20,170	21,048	20,296	22,712	24,424	Operating profit margin	8.3%	7.8%	8.3%	8.1%	8.1%
Operating expenses	-15,561	-16,485	-14,615	-16,851	-18,123	PBT margin	5.2%	3.0%	5.9%	6.1%	6.3%
Other income/expense	6	78	124	81	88	Net profit margin	4.3%	2.0%	4.4%	4.2%	4.3%
Finance income	168	302	1,028	364	400	RoAE	28.7%	15.4%	31.2%	23.5%	21.5%
Finance costs	-1,910	-3,171	-2,726	-1,865	-1,865	RoAA	5.4%	2.5%	5.0%	4.1%	4.3%
Profit before tax	2,873	1,771	4,106	4,442	4,924	RoACE	12.1%	5.3%	11.6%	9.0%	9.3%
Tax expense	-461	-579	-1,035	-1,377	-1,526						
<b>Profit after tax</b>	<b>2,412</b>	<b>1,192</b>	<b>3,072</b>	<b>3,065</b>	<b>3,397</b>	Liquidity Ratios					
Financial Position (N'm)							2014a	2015a	2016a	2017f	2018f
PPE	24,831	27,369	29,272	30,500	33,478	Working capital (N'm)	-12,800	-13,690	-11,971	-10,543	-10,387
Intangible assets	1,398	1,169	940	980	1,075	Current ratio	0.6x	0.6x	0.8x	0.8x	0.8x
Other non-current assets	398.2	208.8	140.2	146	160	Quick ratio	0.3x	0.4x	0.6x	0.6x	0.6x
Employee loan receivable	128.3	128.0	111.7	116	128	Cash ratio	0.0x	0.1x	0.2x	0.2x	0.2x
Pension scheme surplus	409.7	290.4	484.6	505	554	Efficiency Ratios					
<b>Non-current assets</b>	<b>27,165</b>	<b>29,165</b>	<b>30,949</b>	<b>32,247</b>	<b>35,395</b>	Fixed assets turnover	2.2x	2.2x	2.4x	2.4x	2.4x
Inventories	8,615	6,173	9,878	10,293	11,298	Current assets turnover	3.0x	2.8x	1.7x	1.7x	1.7x
Trade and other receivables	8,544	10,143	18,946	19,740	21,667	Total assets turnover	1.2x	1.2x	1.0x	1.0x	1.0x
Employee loan receivable	77.22	85.20	72.92	75.98	83.39	Inventory turnover	4.6x	5.2x	6.2x	5.0x	5.0x
Assets held for sale	-	171.41	171.41	178.60	196.04	Receivables turnover	6.7x	6.3x	4.8x	3.8x	3.8x
Cash and cash equivalents	1,335	4,435	12,474	12,997	14,266	Payables turnover	2.0x	2.0x	1.8x	1.5x	1.6x
<b>Current assets</b>	<b>18,571</b>	<b>21,008</b>	<b>41,543</b>	<b>43,285</b>	<b>47,511</b>	Days inventory outstanding	80	71	59	73	73
<b>Total Assets</b>	<b>45,736</b>	<b>50,172</b>	<b>72,491</b>	<b>75,532</b>	<b>82,906</b>	Days collection/sales outstanding	55	58	76	96	96
Trade and other payables	15,111	22,543	32,477	32,788	36,818	Days payable outstanding	155	216	240	237	247
Current tax liabilities	213	160	503	506	544	Cash conversion cycle	-20	-87	-104	-68	-79
Bank overdraft	3,953	4,536	-	-	-	Solvency Ratios					
Loans and borrowings	12,061	7,427	20,501	20,501	20,501	Debt-to-capital ratio	0.7x	0.6x	0.6x	0.6x	0.6x
Deferred income	33	33	33	33	35	Net debt-to-equity ratio	-2.1x	-1.2x	-0.2x	-0.1x	0.0x
<b>Current liabilities</b>	<b>31,371</b>	<b>34,698</b>	<b>53,513</b>	<b>53,828</b>	<b>57,898</b>	Interest coverage	2.4x	1.5x	2.1x	3.2x	3.4x
Deferred tax liabilities	2,853	3,061	3,942	3,965	4,263	Investment Ratios					
Retirement benefit obligation	2,757	3,369	2,613	2,628	2,826	Earnings per share (N)	0.64	0.32	0.81	0.81	0.90
Long service awards	342	267	181	182	196	Dividend per share (N)	0.10	0.05	0.10	0.16	0.85
Other employee benefits	44	88	74	75	80	Payout	15.7%	15.9%	12.3%	20.0%	95.0%
Deferred income	128	96	63	63	68	Dividend yield	0.3%	0.1%	0.3%	0.5%	2.4%
Loans and borrowings	763	591	414	414	414						
<b>Total non-current liabilities</b>	<b>6,887</b>	<b>7,472</b>	<b>7,288</b>	<b>7,328</b>	<b>7,847</b>						
<b>Total Liabilities</b>	<b>38,257</b>	<b>42,169</b>	<b>60,801</b>	<b>61,156</b>	<b>65,745</b>						
<b>SHF</b>	<b>7,479</b>	<b>8,003</b>	<b>11,690</b>	<b>14,376</b>	<b>17,161</b>						

Source: Company Accounts, Cordros Research

# Disclosures

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