

Unilever Nigeria Plc.

First Glance: Better-than-Expected Q2-17 PAT; Upward Revision to Forecasts Likely

UNILEVER released impressive Q2-17 result on Friday, wherein both revenue and net profit grew by 58% and 3873% y/y respectively. Compared to Q1-17, revenue grew 3.4% while net profit increased by 29.4%. Both the revenue of N22.9 billion and net profit of N2.1 billion were ahead of our estimates of N20.4 billion and N860 million respectively.

The q/q revenue growth in Q2 is UNILEVER's first since Q2-14. It is important to reiterate that while revenue continues to benefit from the increase in the prices of key products, recent results suggest that the company is increasing market share. We had mentioned that UNILEVER backed the recent price increases with strong promotional activities, and that the slow recovery of import-dependent competition is also supportive of sales. We note particularly, the recovery in the Personal Care division, wherein revenue growth was 53% in H1, after lagging other divisions in the last two years. Revenue in this category grew by 73% y/y and 1% q/q in Q2. Revenue in the Home Care division grew by 77% y/y and 17% q/q, and while Food revenue declined by 2% q/q, it grew by 24% y/y during the review period.

Another positive surprise from the second quarter result is the strong rebound in gross margin to 33.2%, from 28.4% in Q1-17, 27.9% in Q2-16, and above our 28% forecast. The quick margin recovery to historical level was underpinned by pricing actions, positive mix, and importantly, exchange rate-linked cost savings. The NGN appreciated significantly against the USD in Q2, thus the positive pass through to production cost, given that UNILEVER is a net importer of raw materials.

Operating expenses fell by 2.4% y/y and was 2.7% less than we estimated, taking the y/y decline to the fourth quarter in a row. Branding/marketing expenses fell by 14% y/y while overheads decreased by 10% y/y, after declining by 45% y/y and 11% y/y respectively in Q1. The lower spend on branding/marketing buttresses less-intense competition.

On the negative, finance charge increased by 186.6% y/y and 38.2% q/q, notwithstanding the reduction in gross debt to N19.95 billion, from N25.4 billion at the end of Q1-17. Over H1, finance charge is up 92.8%. Driving the increase are interest on intercompany FCY loan of USD60 million obtained in Q3-16 and exchange loss difference on same. UNILEVER is raising N58 billion via Rights Issue, the proceeds of which would be channeled to (1) deleveraging the balance sheet and (2) working capital and capital expenditure investments.

Over H1, UNILEVER's net profit is up by 236%, and well-ahead of consensus. Hence, we look for positive reaction to the latest result on expected upward revision to forecasts.

Income Statement (N'bn)	H1-17	y/y Δ	Q2-17	Q2-16	Q2-17 Cordros
Revenue	45.11	39.7%	22.93	15.50	20.40
Cost of sales	31.20	42.3%	15.32	11.18	14.69
Gross profit	13.91	34.3%	7.61	4.32	5.71
Operating expenses	7.51	-8.3%	3.97	4.07	4.08
Other income	0.00	#DIV/0!	-0.01	0.00	0.01
EBIT	6.39	195.9%	3.64	0.25	1.64
Finance income	0.37	69.8%	0.23	0.16	0.16
Financial charges	1.73	92.8%	1.00	0.35	0.55
Profit before tax	5.04	239.2%	2.86	0.07	1.24
Taxation	1.37	247.3%	0.79	0.02	0.38
Profit after tax	3.68	236.2%	2.07	0.05	0.86

SELL

Target Price (N)	26.61
Current Price (N)	33.00
Implied Return (%)	-19.36

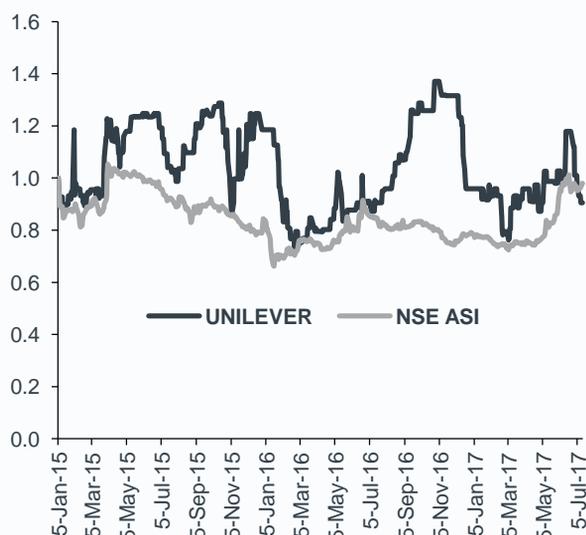
Company Data

NSE Code	UNILEVER
Bloomberg Code	UNILEVER:NL
Reuters Code	UNILEVER.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	124.85
Free Float (%)	39.95

Ratios	Q2-2017	Q2-2016	2016FY
Gross margin	33.2%	27.9%	29.1%
Opex margin	17.3%	26.2%	20.9%
EBIT margin	15.9%	1.6%	8.3%
PAT margin	9.0%	0.3%	4.4%
RoAE	47.3%*	27.3%*	31.2%
EPS (N)	0.55	0.01	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	88,689	95,341	Gross profit margin	36.2%	35.5%	29.1%	28.1%	31.0%
Cost of sales	-35,584	-38,174	-49,481	-63,771	-65,776	EBITDA margin	11.7%	11.4%	12.0%	12.6%	12.2%
Gross profit	20,170	21,048	20,296	24,918	29,565	Operating profit margin	8.3%	7.8%	8.3%	9.3%	8.2%
Operating expenses	-15,561	-16,485	-14,615	-16,847	-21,938	PBT margin	5.2%	3.0%	5.9%	7.3%	6.4%
Other income/expense	6	78	124	159	171	Net prof it margin	4.3%	2.0%	4.4%	5.1%	4.4%
Finance income	168	302	1,028	620	681	RoAE	28.7%	15.4%	31.2%	33.1%	24.0%
Finance costs	-1,910	-3,171	-2,726	-2,389	-2,389	RoAA	5.4%	2.5%	5.0%	5.6%	4.4%
Profit before tax	2,873	1,771	4,106	6,461	6,090	RoACE	12.1%	5.3%	11.6%	12.5%	10.0%
Tax expense	-461	-579	-1,035	-1,904	-1,888						
Profit after tax	2,412	1,192	3,072	4,557	4,202	Liquidity Ratios					
Financial Position (N'm)							2014a	2015a	2016a	2017f	2018f
PPE	24,831	27,369	29,272	30,455	33,428	Working capital (N'm)	-12,800	-13,690	-11,971	-8,643	-7,952
Intangible assets	1,398	1,169	940	911	1,000	Current ratio	0.6x	0.6x	0.8x	0.9x	0.9x
Other non- current assets	398.2	208.8	140.2	103	114	Quick ratio	0.3x	0.4x	0.6x	0.7x	0.7x
Employee loan receivable	128.3	128.0	111.7	111	122	Cash ratio	0.0x	0.1x	0.2x	0.3x	0.3x
Pension scheme surplus	409.7	290.4	484.6	525	576	Efficiency Ratios					
Non-current assets	27,165	29,165	30,949	32,105	35,239	Fixed assets turnover	2.2x	2.2x	2.4x	2.9x	2.9x
Inventories	8,615	6,173	9,878	9,419	10,338	Current assets turnover	3.0x	2.8x	1.7x	1.5x	1.5x
Trade and other receivables	8,544	10,143	18,946	27,521	30,208	Total assets turnover	1.2x	1.2x	1.0x	1.0x	1.0x
Employee loan receivable	77.22	85.20	72.92	72.47	79.54	Inventory turnover	4.6x	5.2x	6.2x	6.6x	6.7x
Assets held for sale	-	171.41	171.41	177.09	194.38	Receivables turnover	6.7x	6.3x	4.8x	3.8x	3.3x
Cash and cash equivalents	1,335	4,435	12,474	22,138	24,299	Payables turnover	2.0x	2.0x	1.8x	1.7x	1.4x
Current assets	18,571	21,008	41,543	59,328	65,120	Days inventory outstanding	80	71	59	55	55
Total Assets	45,736	50,172	72,491	91,432	100,359	Days collection/sales outstanding	55	58	76	96	111
Trade and other payables	15,111	22,543	32,477	43,163	48,203	Days payable outstanding	155	216	240	247	267
Current tax liabilities	213	160	503	778	836	Cash conversion cycle	-20	-87	-104	-96	-102
Bank overdraft	3,953	4,536	-	3,496.13	3,496.13	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	0.5x	0.5x
Current liabilities	31,371	34,698	53,513	67,971	73,072	Interest coverage	2.4x	1.5x	2.1x	3.4x	3.3x
Deferred tax liabilities	2,853	3,061	3,942	4,268	4,587	Investment Ratios					
Retirement benefit obligation	2,757	3,369	2,613	2,585	2,778		2014a	2015a	2016a	2017f	2018f
Long service awards	342	267	181	195	209	Earnings per share (N)	0.64	0.32	0.81	1.20	1.11
Other employee benefits	44	88	74	76	81	Dividend per share (N)	0.10	0.05	0.10	0.24	1.06
Deferred income	128	96	63	55	59	Payout	15.7%	15.9%	12.3%	20.0%	95.0%
Loans and borrowings	763	591	414	414	414	Dividend yield	0.3%	0.1%	0.3%	0.7%	3.0%
Total non-current liabilities	6,887	7,472	7,288	7,593	8,128						
Total Liabilities	38,257	42,169	60,801	75,564	81,200						
SHF	7,479	8,003	11,690	15,868	19,159						

Source: Company Accounts, Cordros Research

Disclosures

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