

# Unilever Nigeria Plc.

## First Glance: Q3-17 PAT; Strong, Amidst Surprise Increase in Finance Costs

Unilever Nigeria Plc's (UNILEVER) Q3-17 result, released this afternoon, shows revenue and net profit grew by 36.6% y/y and 142.7% y/y respectively. Compared to our estimate, the reported revenue was ahead by 2% while PAT lagged by 37% on significantly higher-than-expected (278% variance) finance charges.

Finance costs increased by 48% y/y and 25% q/q, on the repayment of short term USD intercompany loans. As at end September, gross debt stood at N7.96 billion, the lowest since Q1-14, suggesting – and validated by the N30.7 billion outflow reported under financing cash flow – that management has commenced the process of significantly deleveraging the balance sheet following the recently concluded Rights Issue. **The higher-than-expected finance cost signal possible changes (presumably exchange rate) to the terms of the intercompany borrowings.**

The higher revenue relative to 2016 continues to reflect the stronger prices of key products, albeit we estimate that unit sales volume grew by low single-digit. Feedback from our routine checks is that prices were stable during the three months period. In fact, UNILEVER ran promotions for some products during the quarter, wherein star key distributors were rewarded with product incentives. These, we understand, were passed on to retailers by way of slightly lower prices. For the segments, the y/y growth of Food revenue was unchanged at 24%, while growth in HPC lowered to 50%, from 75% in Q2-17.

Compared to Q3-16, gross margin (31%) was higher by 661 bps and beat our 30% estimate. **With inflation visibly contained, the 188 bps contraction q/q however suggests to us that UNILEVER may have taken back prices by a small fraction during the period.** Operating expenses increased by 39% y/y and c.20% q/q, reflecting mainly higher brand and marketing spend.

On net, UNILEVER's Q3 result is impressive, with net profit as at 9M-17 already 4% ahead of consensus' 12-months forecast. That said, we expect to revise our forecast of N7.48 billion lower, in consideration of the surprisingly higher finance costs. Our estimates are under review.

Income Statement (N'bn)	30-Sep-17	Q3-17	Q3 y/y	Q3 q/q	Cordros est.
Revenue	69.13	24.02	36.55%	4.76%	23.62
Cost of sales	-47.70	-16.50	24.56%	7.71%	-16.53
Gross profit	21.43	7.53	73.08%	-1.17%	7.09
Operating expenses	-12.26	-4.74	39.37%	19.50%	-4.25
Other income	0.00	0.00			0.01
EBIT	9.18	2.78	192.52%	-23.59%	2.84
Finance income	0.63	0.25	-430.66%	12.29%	0.14
Financial charges	-2.98	-1.25	47.56%	25.39%	-0.33
Profit before tax	6.82	1.78	7380.51%	-37.88%	2.65
Taxation	-2.00	-0.63	-240.00%	-20.31%	-0.82
Profit after tax	4.83	1.15	142.73%	-44.57%	1.83

Source: Company Account, Cordros research estimates

## SELL

Target Price (N)*	36.23
Current Price (N)	44.00
Implied Return (%)	-17.67

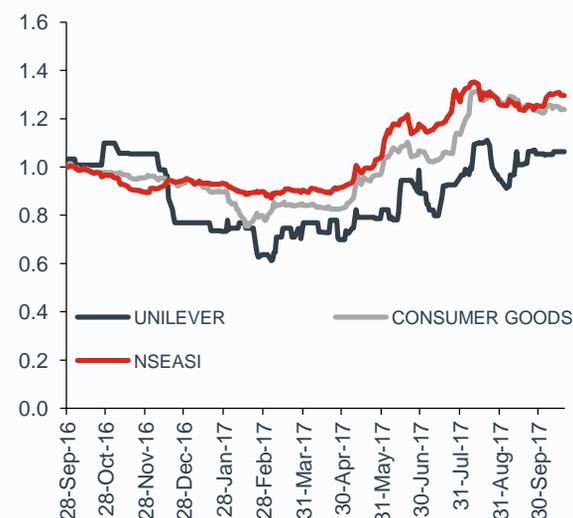
### Company Data

NSE Code	UNILEVER
Bloomberg Code	UNILEVER:NL
Reuters Code	UNILEVER.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	166.47
Free Float (%)	39.95

Ratios	Q3-2017	Q3-2016	2016FY
Gross margin	31.3%	24.7%	29.1%
Opex margin	19.8%	19.4%	20.9%
EBIT margin	11.6%	5.4%	8.3%
PAT margin	4.8%	2.7%	4.4%
EPS (N)	0.3	0.1	0.8

\*Under Review

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



Source: NSE, Bloomberg, Cordros research

# Disclosures

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