

Unilever Nigeria Plc.

Impressive 2017FY and Q4-17 results; SELL rating reiterated

Update: UNILEVER ended an impressive 2017FY with a strong Q4 performance. The full year revenue (+30% y/y), EBITDA (+107% y/y), and net profit (+143%) of NGN90.77 billion, NGN17.28 billion, and NGN7.45 billion beat consensus NGN89.49 billion, NGN13.46 billion, and NGN5.7 billion respectively. The result is broadly consistent with our estimates, except for wider variance on finance income and effective tax lines. The board proposed a final dividend of NGN0.50/s (28% payout vs. our 20% estimate), equating to a yield of 0.9% on the current market price.

Revenue bucked trend in Q4-17: Revenue growth of 8.7% y/y was below the average of 39% recorded quarterly between Q1-Q3. And compared to Q3, revenue was lower by 10%, the first in two years. Given that average price in Q4-17 was higher compared to Q4-16 by more than the rate of revenue growth, it is our view that the effect of seasonality on volume did not happen. We can confirm from the recent result published by a close competitor in the HPC business, that the bigger players are faced with strong competition from smaller players, whose activities have been strengthened by improved dollar liquidity. The growth of Food revenue dropped from 23% quarterly average to 3% while HPC fell to 14%, from 56% average. Both segments recorded 8% q/q and 12% q/q revenue declines, respectively.

Strong margin trend maintained in Q4-17: Gross margin expanded by 660 bps y/y and 338 bps q/q respectively to 35% – the highest since Q1-16. The gross margin, which is close to the pre-2016 average of c.36%, was achieved through reduction in per unit production cost (we estimate 4% q/q). EBIT margin expanded lesser on y/y basis (391 bps), following a (1) 23% y/y increase in operating expenses and (2) negative other income (vs. NGN120 million in Q4-16). The faster increase in opex in Q3-17 (+20% q/q, vs. 15% average in Q1-Q2) normalized in Q4 (-22% q/q), resulting in 586 bps q/q increase in EBIT margin.

Balance sheet: 2017FY ended with outstanding gross debt of NGN674.3 million. Proceeds of the rights issue (RI) were deployed towards fully repaying all outstanding intercompany loans. Consequently, the interest expense of NGN430 million recorded in Q4 was the lowest in all quarters of the year, and since Q2-16. In addition, trade payables, which closed the year at NGN33.5 billion (vs. NGN44.7 billion as at 9M-17), were partly settled using proceeds of the RI. Also, about half of the NGN50.5 billion in cash balance as at December ending (vs. NGN5.6 billion as at September ending) was held in fixed deposits, and produced a record finance income of NGN1 billion, which had significant impact on Q4-17 PBT (+69% y/y and +146 q/q).

Outlook: We expect net earnings growth to moderate in 2018E, as the impact of pricing on both revenue and margins tank. We forecast c.8% revenue and EBITDA growth, flatish gross and EBITDA margins, and 39% growth in net profit. Maintaining operational efficiency, as seen in Q4, will be crucial to earnings growth. A major catalyst to earnings is the expected significant reduction of finance charges on much deleveraged balance sheet. Compared to our previous estimate, we revised 2018E net earnings estimate higher by 11%, to reflect higher gross margin and much lower finance charges estimates.

Valuation: We reiterate SELL rating on TP of NGN30.47. On our estimate, the stock trades on a one-year (2018E) forward P/E and EV/EBITDA multiples of 30.4x and 14.1x respectively, representing significant discounts to the company's five-year historical averages of 57.1x and 17.9x, but at premium to Middle Eastern (16.1x and 6.8x) peers.

SELL

Target Price (NGN)	30.47
Current Price (NGN)	55.00
Implied Return (%)	-44.60

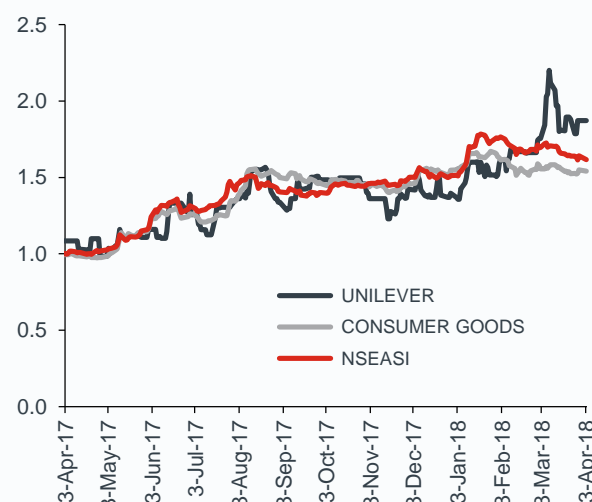
Company Data

NSE Code	UNILEVER
Bloomberg Code	UNILEVER:NL
Reuters Code	UNILEVER.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	315.98
Free Float (%)	39.95

Ratios	Q4-2017	Q4-2016	2017FY
Gross margin	34.70%	28.11%	31.89%
Opex margin	17.18%	15.17%	17.60%
EBITDA margin	28.51%	17.65%	19.04%
EBIT margin	17.44%	13.53%	14.27%
PAT margin	12.12%	7.56%	8.21%
RoAE*	9.57%	16.71%	17.01%
EPS (NGN)	0.46	0.40	1.78

*12 months

Price movement (UNILEVER vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Summary of 2017FY Results.

Income Statement (NGN'bn)	31-Dec-17	31-Dec-16	y/y % Δ	Q4-17	Q4-17 y/y	Q4-17 q/q	Q3-17	Q2-17	Q1-17	Q4-16
Revenue	90.77	69.78	30.09%	21.64	8.72%	-9.91%	24.02	22.93	22.17	19.91
Cost of sales	61.83	49.48	24.95%	14.13	-1.25%	-14.35%	16.50	15.32	15.88	14.31
Gross profit	28.94	20.30	42.61%	7.51	34.23%	-0.19%	7.53	7.61	6.29	5.60
Operating expenses	15.98	14.62	9.31%	3.72	23.14%	-21.62%	4.74	3.97	3.54	3.02
Other income	-0.02	0.12	-114.51%	-0.02	-115.35%		0.00	-0.01	0.01	0.117
EBIT	12.95	5.81	123.08%	3.77	40.15%	35.71%	2.78	3.64	2.75	2.69
Finance income	1.67	1.03	62.29%	1.04	17.72%	310.98%	0.25	0.23	0.15	0.88
Financial charges	3.41	2.73	25.09%	0.43	-56.15%	-65.73%	1.25	1.00	0.72	0.98
Profit before tax	11.21	4.11	172.92%	4.38	68.91%	146.40%	1.78	2.86	2.18	2.60
Taxation	3.76	1.03	263.17%	1.76	61.40%	179.56%	0.63	0.79	0.58	1.09
Profit after tax	7.45	3.07	142.52%	2.62	74.36%	128.24%	1.15	2.07	1.60	1.50
Depreciation	4.33	2.55		2.40	192.45%	258.65%	0.67	0.65	0.62	0.82
EBITDA	17.28	8.35		6.17	75.68%	78.90%	3.45	4.29	3.37	3.51
Net interest income/(exp)				0.61			-1.00	-0.78	-0.57	-0.10
Ratios	31-Dec-17	31-Dec-16		Q4-17			Q3-17	Q2-17	Q1-17	Q4-16
Gross margin	31.89%	29.09%		34.70%			31.32%	33.20%	28.38%	28.11%
OPEX margin	17.60%	20.95%		17.18%			19.75%	17.31%	15.98%	15.17%
EBITDA margin	19.04%	11.97%		28.51%			14.36%	18.71%	15.21%	17.65%
EBIT margin	14.27%	8.32%		17.44%			11.58%	15.87%	12.42%	13.53%
PBT margin	12.35%	5.89%		20.26%			7.41%	12.49%	9.83%	13.04%
PAT margin	8.21%	4.40%		12.12%			4.78%	9.04%	7.23%	7.56%
COS margin	68.11%	70.91%		65.30%			68.68%	66.80%	71.62%	71.89%
Interest cover	3.80x	2.13x		8.8x			2.2x	3.6x	3.8x	2.7x
Tax rate	33.52%	25.19%		40.15%			35.39%	27.59%	26.47%	42.02%
RoAE	17.01%	31.20%								
RoAA	7.70%	5.01%								
EPS (N)	1.78	0.81								
Dividend	0.05	0.10								
Dividend yield	0.09%	0.30%								

Source: Company Accounts, Cordros Research

*Dividend yields were calculated using share prices at the dates the results were published

Financial Statement (NGN'million).

Income Statement	2014a	2015a	2016a	2017a	2018e	2019e	Profitability Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Revenue	55,754	59,222	69,777	90,771	97,579	105,385	Gross profit margin	36.2%	35.5%	29.1%	31.9%	31.9%	31.9%
Cost of sales	-35,584	-38,174	-49,481	-61,828	-66,455	-71,761	EBITDA margin	12.1%	11.4%	12.0%	19.0%	19.1%	19.1%
Gross profit	20,170	21,048	20,296	28,943	31,124	33,624	Operating profit margin	8.3%	7.8%	8.3%	14.3%	14.3%	14.3%
Operating expenses	-15,561	-16,485	-14,615	-15,976	-17,183	-18,569	PBT margin	5.2%	3.0%	5.9%	12.3%	15.4%	15.4%
Other income/expense	6	78	124	-18	20	21	Net profit margin	4.3%	2.0%	4.4%	8.2%	10.6%	10.6%
Finance income	168	302	1,028	1,668	1,156	1,233	RoAE	28.7%	15.4%	31.2%	17.0%	13.0%	13.3%
Finance costs	-1,910	-3,171	-2,726	-3,410	-69	-69	RoAA	5.4%	2.5%	5.0%	7.7%	8.2%	8.2%
Profit before tax	2,873	1,771	4,106	11,207	15,047	16,241	RoACE	12.1%	5.3%	11.6%	13.6%	12.9%	13.2%
Tax expense	-461	-579	-1,035	-3,757	-4,665	-5,035							
Profit after tax	2,412	1,192	3,072	7,450	10,383	11,206							
Financial Position	2014a	2015a	2016a	2017a	2018e	2019e	Liquidity Ratios	2014a	2015a	2016a	2017a	2018e	2019e
PPE	24,831	27,369	29,272	29,881	32,541	34,675	Working capital (NGN'm)	-12,800	-13,690	-11,971	53,263	58,600	59,056
Intangible assets	1,398	1,169	940	329	359	382	Current ratio	0.6x	0.6x	0.8x	2.5x	2.5x	2.3x
Other non-current assets	398.2	208.8	140.2	79.5	87	92	Quick ratio	0.3x	0.4x	0.6x	2.1x	2.2x	2.0x
Employee loan receivable	128.3	128.0	111.7	705.9	142	151	Cash ratio	0.0x	0.1x	0.2x	1.4x	1.4x	1.3x
Retirement benefit surplus	410	290	485	130	769	819							
Non-current assets	27,165	29,165	30,949	31,126	33,897	36,120	Efficiency Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Inventories	8,615	6,173	9,878	11,479	12,500	13,320	Fixed assets turnover	2.2x	2.2x	2.4x	3.0x	3.0x	3.0x
Trade and other receivables	8,544	10,143	18,946	27,621	30,080	32,054	Current assets turnover	3.0x	2.8x	1.7x	1.0x	1.0x	1.0x
Employee loan receivable	77	85	73	79	86	92	Total assets turnover	1.2x	1.2x	1.0x	0.7x	0.7x	0.8x
Assets held for sale	-	171	171	-	-	-	Inventory turnover	4.6x	5.2x	6.2x	5.8x	5.5x	5.6x
Derivative assets	-	-	-	286	286	286	Receivables turnover	6.7x	6.3x	4.8x	3.9x	3.4x	3.4x
Cash and cash equivalents	1,335	4,435	12,474	50,494	55,014	58,642	Payables turnover	2.0x	2.0x	1.8x	1.9x	1.9x	1.9x
Current assets	18,571	21,008	41,543	89,959	97,967	104,394	Days inventory outstanding	80	71	59	63	66	66
Total Assets	45,736	50,172	72,491	121,084	131,864	140,514	Days collection/sales outstanding	55	58	76	94	108	108
Trade and other payables	15,111	22,543	32,477	33,409	35,875	41,389	Days payable outstanding	155	216	240	197	197	211
Current tax liabilities	213	160	503	2,799	3,002	3,455	Cash conversion cycle	-20	-87	-104	-41	-23	-37
Bank overdraft	3,953	4,536	-	-	-	-							
Loans and borrowings	12,061	7,427	20,501	455	455	455	Solvency Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Deferred income	33	33	33	33	35	40	Debt-to-capital	0.7x	0.6x	0.6x	0.0x	0.0x	0.0x
Current liabilities	31,371	34,698	53,513	36,695	39,367	45,338	Debt-to-equity	199.4%	162.2%	212.4%	1.5%	0.8%	0.8%
Deferred tax liabilities	2,853	3,061	3,942	4,485	4,809	5,535	Net debt/EBITDA	2.3x	1.2x	1.0x	-2.9x	-2.9x	-2.9x
Retirement benefit obligation	2,757	3,369	2,613	3,454	3,704	4,263	Net debt-to-equity	2.1x	1.0x	0.7x	-0.7x	-0.7x	-0.7x
Long service awards	342	267	181	206	221	254	Interest coverage	2.4x	1.5x	2.1x	3.8x	203.6x	219.9x
Other employee benefits	44	88	74	86	92	106							
Deferred income	128	96	63	30	32	37	Investment Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Loans and borrowings	763	591	414	220	220	220	Earnings per share (NGN)	0.64	0.32	0.81	1.78	1.81	1.95
Total non-current liabilities	6,887	7,472	7,288	8,481	9,079	10,415	Dividend per share (NGN)	0.10	0.05	0.10	0.71	1.72	1.85
Total Liabilities	38,257	42,169	60,801	45,176	48,445	55,753	Payout	15.7%	15.9%	12.3%	40.1%	95.0%	95.0%
SHF	7,479	8,003	11,690	75,908	83,418	84,761	Dividend yield	0.3%	0.1%	0.3%	1.7%	3.1%	3.4%
							P/E	56.1x	120.0x	43.1x	23.0x	30.4x	28.2x
							EV/EBITDA	22.3x	22.3x	16.9x	6.7x	14.1x	12.8x

Source: Company Accounts, Cordros Research

Disclosures

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SELL (UNDERWEIGHT) - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

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