

Unilever Nigeria Plc.

Opex pressures EBIT in Q2; but net finance income to the save, including for the FY

Update: UNILEVER published H1-18 result last week, with first quarter numbers restated. For the three months ended June (Q2), revenue grew 7.5% y/y, while EBIT was down 24% y/y. PAT grew by 36% y/y, thanks to net finance income of NGN1 billion (vs. loss of NGN780 million in Q2-17).

Q2-18 revenue in line; but estimate for 2018E is revised lower: UNILEVER's Q2-18 revenue of NGN24.65 billion is in line with our estimate for the period (0.3% variance). And at NGN48.13 billion, achieved revenue in H1-18 is 12.9% higher vs. H1-17, and tracks ahead of 2017FY's NGN90.8 billion, both (1) when annualized and (2) considering a seasonally stronger second half. But that said, we revise 2018E revenue estimate to come in 3% lower than previously expected, given the downward revision of the Q1-18 figure (by 9%). The revised result shows that Food revenue was actually lower by 6% y/y in Q1-18 (previously +16% y/y) while HPC growth was unchanged. In Q2, Food revenue grew 19% y/y while HPC was lower by 2%.

Gross margin estimate revised higher, on strong H1 formation: Over H1-18, gross margin came in at 31.8%, +70 bps vs. H1-17. In addition to the upward revision of Q1-18 gross margin (+51 bps) under the restated result, the margin of 35.3% achieved in Q2-18 was higher 213 bps y/y and beat our 31% estimate. This is consistent with our strong view on margin for 2018E, confirmed by the decision to retain our prior estimate of 32% for the year even during the sharp q/q contraction in Q1 (before restatement). Following the latest result, we revise 2018E gross margin estimate slightly higher to 32%, while reiterating key supporting factors as stable FX and selling prices, and importantly, management focus on cost containment leveraging local sourcing of inputs.

Opex pressure; lower net finance cost to the save: Opex grew at a surprise 49.4% y/y in Q2-18, and despite revising the Q1 figure lower (by 12%), growth in H1-18 stood at 26.8%. This particularly exerted pressure on EBIT, which grew by a marginal c.2% y/y in the six months period. We expect slightly lower opex in H2 – in line with historical trend – overall, equating to 13.8% growth (fastest since 2013) over 2018E.

Net finance cost of NGN1.3 billion was reported in H1-18. Asides from finance charges dropping significantly (-90% in H1-18) following the reduction of borrowings to record-low levels (NGN4.3 million in H2, lowest since the NGN4.5 million balance in 2012FY), finance income was equally strong (+300% in H1-18), benefiting from cash formation following the rights issue concluded in H2 last year. On balance, while EBIT is forecast to grow by c8% in 2018E, we forecast EPS to grow at a faster rate of c.50%.

Valuation: Our model produced a TP of NGN38.44 (previously NGN32.78) for UNILEVER, even as we cut risk-free rate to 13.6% (from 14.1%). Compared to the current market price of NGN52.55, our revised TP implies potential downside of 26.9%. Maintain SELL. The stock is trading at forward (2018E) P/E and EV/EBITDA multiples of 27.1x and 14.3x respectively, ahead of Bloomberg's Middle East Africa peer median multiples of 18.7x and 13.1x respectively.

Risks: This includes (1) price cuts and (2) FX pressure- albeit much lower.

SELL

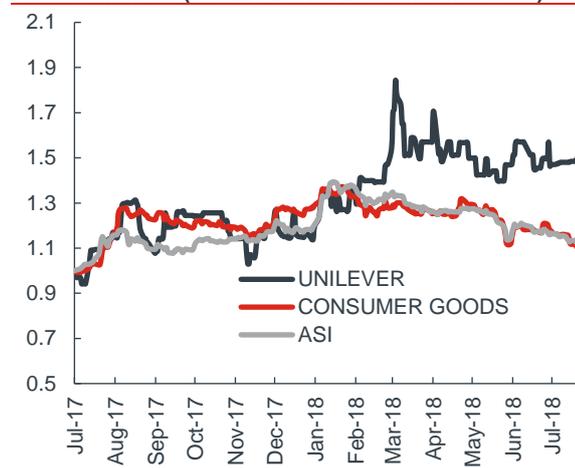
Target Price (NGN)	38.448
Current Price (NGN)	52.55
Implied Return (%)	-26.86

Company Data

NSE Code	UNILEVER
Bloomberg Code	UNILEVER:NL
Reuters Code	UNILEVER.LG
Sector	CONSUMER GOODS
Market Cap. (NGN' bn)	301.90
Free Float (%)	32.11

Ratios	Q2-2018	Q2-2017	2017FY
Gross margin	35.33%	28.38%	31.89%
Opex margin	24.06%	15.98%	17.60%
EBITDA margin	13.94%	15.21%	19.04%
EBIT margin	11.27%	12.42%	14.27%
PAT margin	11.44%	7.23%	8.21%
RoAE**	17.49%	42.63%	17.01%
EPS (NGN)	0.49	0.55	1.78

Price movement (UNILEVER vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (NGN'million).

Income Statement	2015a	2016a	2017a	2018e	2019e
Revenue	59,222	69,777	90,771	99,848	107,836
Cost of sales	-38,174	-49,481	-61,828	-67,711	-73,117
Gross profit	21,048	20,296	28,943	32,137	34,719
Operating expenses	-16,485	-14,615	-15,976	-18,172	-19,000
Other income/expense	78	124	-18	0	0
Finance income	302	1,028	1,668	2,485	1,670
Finance costs	-3,171	-2,726	-3,410	-309	-0.44
Profit before tax	1,771	4,106	11,207	16,141	17,388
Tax expense	-579	-1,035	-3,757	-5,004	-5,390
Profit after tax	1,192	3,072	7,450	11,138	11,998
Financial Position	2015a	2016a	2017a	2018e	2019e
PPE	27,369	29,272	29,881	31,494	33,558
Intangible assets	1,169	940	329	611	651
Other non- current assets	208.8	140.2	79.5	37	39
Employee loan receivable	128.0	111.7	705.9	68	73
Retirement benefit surplus	290	485	130	372	396
Non-current assets	29,165	30,949	31,126	32,582	34,717
Inventories	6,173	9,878	11,479	13,377	14,254
Trade and other receivables	10,143	18,946	27,621	37,103	39,534
Employee loan receivable	85	73	79	42	44
Assets held for sale	171	171	-	-	-
Derivative assets	-	-	286	286	286
Cash and cash equivalents	4,435	12,474	50,494	49,709	55,668
Current assets	21,008	41,543	89,959	100,516	109,786
Total Assets	50,172	72,491	121,084	135,616	144,503
Trade and other payables	22,543	32,477	33,409	40,219	46,060
Current tax liabilities	160	503	2,799	4,184	4,792
Bank overdraft	4,536	-	-	-	-
Loans and borrowings	7,427	20,501	455	0	0
Deferred income	33	33	33	0	0
Current liabilities	34,698	53,513	36,695	44,404	50,852
Deferred tax liabilities	3,061	3,942	4,485	4,993	5,718
Retirement benefit obligation	3,369	2,613	3,454	1,769	2,026
Long service awards	267	181	206	219	251
Other employee benefits	88	74	86	54	62
Deferred income	96	63	30	0	0
Loans and borrowings	591	414	220	4	4
Total non-current liabilities	7,472	7,288	8,481	7,039	8,060
Total Liabilities	42,169	60,801	45,176	51,443	58,913
SHF	8,003	11,690	75,908	84,173	85,590

Profitability Ratios	2015a	2016a	2017a	2018e	2019e
Gross profit margin	35.5%	29.1%	31.9%	32.2%	32.2%
EBITDA margin	11.4%	12.0%	19.0%	17.7%	18.2%
Operating profit margin	7.8%	8.3%	14.3%	14.0%	14.6%
PBT margin	3.0%	5.9%	12.3%	16.2%	16.1%
Net profit margin	2.0%	4.4%	8.2%	11.2%	11.1%
RoAE	15.4%	31.2%	17.0%	13.9%	14.1%
RoAA	2.5%	5.0%	7.7%	8.7%	8.6%
RoACE	5.3%	11.6%	13.6%	13.9%	14.1%

Liquidity Ratios	2015a	2016a	2017a	2018e	2019e
Working capital (NGN'm)	-13,690	-11,971	53,263	56,112	58,934
Current ratio	0.6x	0.8x	2.5x	2.3x	2.2x
Quick ratio	0.4x	0.6x	2.1x	2.0x	1.9x
Cash ratio	0.1x	0.2x	1.4x	1.1x	1.1x

Efficiency Ratios	2015a	2016a	2017a	2018e	2019e
Fixed assets turnover	2.2x	2.4x	3.0x	3.2x	3.2x
Current assets turnover	2.8x	1.7x	1.0x	1.0x	1.0x
Total assets turnover	1.2x	1.0x	0.7x	0.7x	0.7x
Inventory turnover	5.2x	6.2x	5.8x	5.4x	5.3x
Receivables turnover	6.3x	4.8x	3.9x	3.1x	2.8x
Payables turnover	2.0x	1.8x	1.9x	1.8x	1.7x
Days inventory outstanding	71	59	63	67	69
Days collection/sales outstanding	58	76	94	118	130
Days payable outstanding	216	240	197	217	230
Cash conversion cycle	-87	-104	-41	-32	-31

Solvency Ratios	2015a	2016a	2017a	2018e	2019e
Debt-to-capital	0.6x	0.6x	0.0x	0.0x	0.0x
Debt-to-equity	162.2%	212.4%	1.5%	0.0%	0.0%
Net debt/EBITDA	1.2x	1.0x	-2.9x	-2.8x	-2.8x
Net debt-to-equity	1.0x	0.7x	-0.7x	-0.6x	-0.7x
Interest coverage	1.5x	2.1x	3.8x	45.2x	35574.3x

Investment Ratios	2015a	2016a	2017a	2018e	2019e
Earnings per share (NGN)	0.32	0.81	1.78	1.94	2.09
Dividend per share (NGN)	0.05	0.10	0.71	1.84	1.98
Payout	15.9%	12.3%	40.1%	95.0%	95.0%
Dividend yield	0.1%	0.3%	1.7%	3.5%	3.8%
P/E	120.0x	43.1x	23.0x	27.1x	25.2x
EV/EBITDA	22.3x	16.9x	6.7x	14.3x	12.5x

Source: Company Accounts, Cordros Research estimates

Disclosures.

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