



## NIGERIA | EQUITIES | CONSUMER GOODS | UNILEVER NIGERIA PLC

### Recent Rally Eliminates Upside

We upgrade our recommendation on Unilever Nigeria Plc to a HOLD with a target price of N50 following the release of its Q1 2018 result. Unlike the share price of Nestle Nigeria Plc, which has shed 3.52% year-to-date (YTD), Unilever Nigeria Plc recorded a 26.46% improvement in its year-to-date performance. We opine that, despite the increasing competition in the consumer space especially in this post-FX period and expected uptick in inflation in H2 2018, the stock may continue to see support from the on-going recovery in the domestic economy and election spending, which may be positive for consumer spending.

We opine that topline performance may continue to be more volume driven in FY 2018. Furthermore, we expect continued operating efficiency, low interest rate environment as well as the benefit of the right issue to bode well for FY 2018 bottom line performance.

Relative to FY 2017 results, where Unilever recorded a P/E ratio of 31.6x, we project a lower FY 2018 P/E multiple at 22.8x. This may be based on the improving momentum in the domestic economy, which may enhance the earning potential of the firm in the 2018 period. However, compared to our FY 2018 forecast of 31.8x for Nestle Nigeria Plc, Unilever Nigeria Plc is estimated to trade at a discount in FY 2018, which may be due to investor pricing in Nestle's Nigeria Plc dominance in the consumer goods space.

In its Q1 2018 results, Unilever chalked 15% y/y improvement in topline largely on account of volume. This combined with the 199bps y/y decline in opex/sales ratio to 14% as well as a net finance income of N396million against a net finance cost of N575million in Q1 2017, supported by the N60billion right issue undertaken by the firm in 2017, also enhanced performance.

Share data	
Bloomberg	UNILEVER NL
Reuters	UNILEVER NG
Industry	CONSUMER GOODS
Rating -New	HOLD
Rating - Old	SELL
Price (17 July 2018)	N51.25
Price Target - New	N50.00
Price Target - Old	N30.43
Upside/Downside	-2.44%
Market Cap. (N'million)	399,593.2
Avg. Daily Value Traded (N'million)	64.4
Shares Outstanding (Million)	5,745.0
Free Float	60.4

### Price Movement Relative to NSE-ASI



### Historic Performance against NSE-ASI

Performance Over	1M	3M	6M	12M	YTD
Absolute	-5.73%	-5.73%	15.22%	35.77%	26.46%
Relative to NSE-ASI	-0.25%	4.02%	33.17%	25.72%	30.24%

Source: Bloomberg, Reuters, Investment One Research

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Financials and valuation metrics (YE 31 Dec)	2016A	2017A	2018E	2019E
Sales	69,777	90,771	106,574	133,797
PBT	4,106	11,207	15,527	19,978
PBT margin	5.9%	12.3%	14.6%	14.9%
Basic EPS	0.81	1.30	1.80	2.26
EPS growth (y/y)	158%	143%	39%	26%
P/E	43.1x	31.6x	22.8x	18.2x
EV/EBIT (x)	24.7x	14.6x	13.1x	9.8x
Dividend yield (%)	0.3%	0.6%	0.9%	1.1%



### Revenue Accretion Hings On Volume Growth

In the 2018 through to 2019 financial year, we forecast revenue growth to average 21.5%. We project 17.4% y/y growth in topline in FY 2018 mostly on volume growth similar to other FMCG players under our coverage. Given the price increases taken in 2016, which supported FY 2017 performance, fragile consumer spending and the intense competition in, we do not expect to see significant price increases in FY 2018.

However, we may see volume improve on the back of government's expansionary fiscal policy, election spending and the potential review of the minimum wage in H2 2018, however at a moderated level, owing to competition and expected rise in inflation in the second half of the year. Furthermore, the stability of Brent oil prices and relative peace in Niger Delta may be positive for government revenue. This may enhance the payment of salary arrears owed to civil servants, which is positive for demand.

Looking at the business segments, we expect the HPC segment to continue to be the major contributor to topline growth similar to the previous year. Hence, we forecast the HPC segment to contribute 54% to FY 2018 topline growth. However, we remain cautiously optimistic on our estimate on gross profit margin in FY 2018 at 31.0%. We point out that the decline in Q1 2018 gross profit margin to 27.7% relative to the last three quarters remains a source of concern.

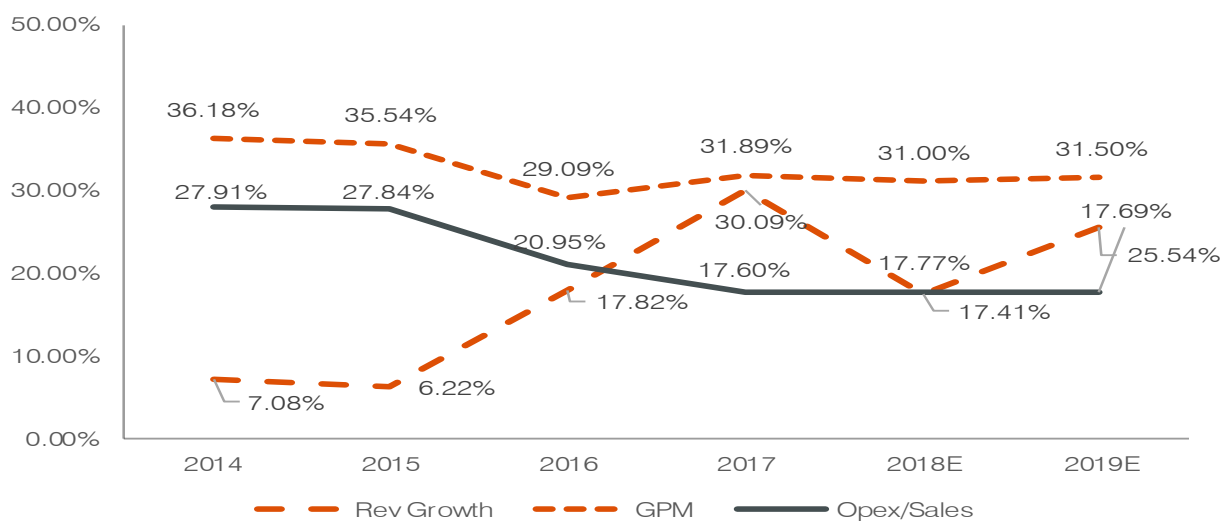
Given the slowdown in the growth of the agricultural sector in Q1 2018 and the unrest in the North East, this may negatively impact on the backward integration efforts embarked upon over the years. Consequently, we highlight the potential adverse impact of this on the gross profit margin of the company. Notwithstanding, we expect the relative stability in FX to bode well for gross profit margin in FY 2018.

### Operating Efficiency To Support Performance

From the beginning of FY 2014, we notice a continuous decline in the company's opex/sales ratio from 27.9% in FY 2014 to 17.6% in FY 2017, which further declined to 14.0% in Q1 2018. We believe this has been supportive of their bottom line performance and expect the firm's stringent management of operating expense to continue through 2018. Hence, we forecast FY 2018 opex/sales ratio at 17.8%.



Key Ratio Performance



Source: Company Financials, Investment One Research

Growth in FY 2018 PBT Margin on Positive Net Finance Income

Overall, we forecast FY 2018 PBT margin to grow by 230bps y/y to 14.6% as it continues to see support from lower interest expense following the repayment of part of its outstanding loans in 2017, higher finance income on the back of massive cash balance stemming from the right issue undertaken in 2017 and moderated FX loss.

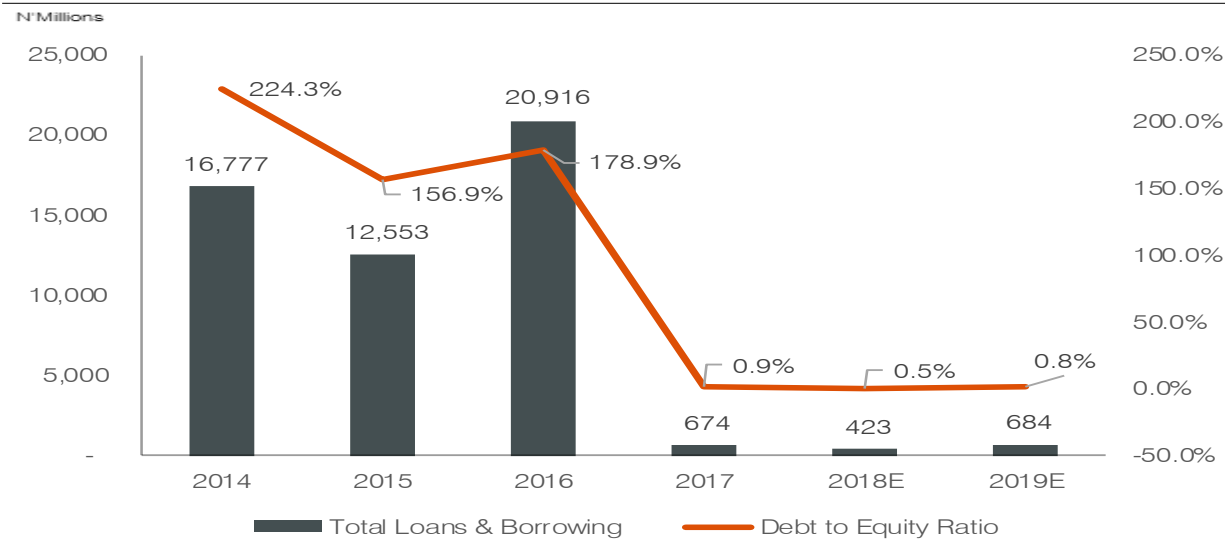
This said, we estimate the company's debt-to-equity ratio to fall to 0.5x in FY 2018 from 0.9x in FY 2017 due to our anticipation of a lower outstanding debt in 2018, relative to 2017 as we expect their impressive cash balance to be very supportive of their business operations and provision for the payment of maturing debt. Consequently, we expect a rise in interest coverage ratio in FY 2018 to 127.5x, from 3.8x in FY 2017. Furthermore we expect the company's positive net debt to improve in FY 2018. In addition, we expect the growth in sales volume, which may be driven by the improving momentum in the domestic economy to be supportive of the 39% y/y increase in EPS in FY 2018 to N1.80.



**Higher Cash Flow From Operations Due To Greater PAT**

Although we expect the company’s working capital to increase by N4billion in FY 2018, overall, we anticipate a higher cash flow from operation in FY 2018 largely driven by increased profitability, which is projected to be propelled by the expected growth in sales volume and increased operational efficiency. Also, we are of the view that an improvement in profitability in FY 2018 may support an increase in the company’s cash conversion ratio to 76% from 42% in FY 2017. On the working capital side of things, we may see an increase in trade receivables as the company may increase its credit scheme to motivate consumer demand. Furthermore, as a result of the anticipated rise in demand, our FY 2018 inventory turnover increased to 6.1x from 5.8x in FY 2017. Likewise, we forecast an increase in our number of trade payables in 2018 to 245 days, from 243 days in FY 2017 on the back of an expected increase in purchases in FY 2018 compared to FY 2017.

**Total Loans & Borrowings and Debt to Equity Ratio Performance**



Source: Company Financials, Investment One Research



### Risk to our outlook

Having mentioned the above, we highlight that our outlook for Unilever Nigeria Plc may be impaired by some limiting factors. These downside risks include political risks, which may be negative for topline performance, higher than expected opex/sales ratio, tougher than anticipated competition in the consumer goods space and uninspiring implementation of the 2018 budget.



### Summary of Financials (N millions). Year End 31 Dec

Income Statement	2016A	2017A	2018E	2019E
Turnover	69,777	90,771	106,574	133,797
Gross profit	20,296	28,943	33,038	42,146
Total opex	-14,615	-15,976	-18,941	-23,664
EBIT	5,805	12,950	14,097	18,482
EBITDA	8,118	17,049	18,270	24,123
Net finance cost	-1,699	-1,743	1,430	1,496
PBT	4,106	11,207	15,527	19,978
Taxation	-1,035	-3,757	-5,205	-6,698
PAT	3,072	7,450	10,322	13,281

Balance Sheet	2016A	2017A	2018E	2019E
Fixed assets	29,272	29,881	29,915	30,429
Stocks	9,878	11,479	12,686	15,820
Trade and other receivables	18,946	27,621	31,179	36,668
Cash and bank balances	12,474	50,494	52,221	61,919
Current assets	41,543	89,959	96,452	114,772
Total assets	72,491	121,084	127,612	146,446
Borrowings	414	220	203	347
Trade and other trade payables	32,477	33,409	33,841	44,246
Current liabilities	53,513	36,695	36,892	47,415
Shareholders funds	11,690	75,908	82,256	90,424

Source: Company financials, Investment One Research



### Summary of Financials (N millions). Year End 31 Dec

Cash Flow Statement	2016A	2017A	2018E	2019E
Working capital changes	-1,724	-8,939	-4,334	1,783
Tax paid	-159	-598	-5,205	-6,698
Operating cash flow	5,991	5,935	8,731	19,208
Capex	-4,228	-4,559	-4,208	-6,155
Interest received	333	1,304	1,540	1,616
Cash flow from investing activities	-3,883	-3,251	-2,667	-4,539
Cash flow from financing activities	12,468	40,335	-4,336	-4,971
Free cash flow	14,575	43,019	1,728	9,698
Cash balance b/d	-7,100	7,474	50,494	52,221
Cash balance c/d	7,474	50,494	52,221	61,919

Profitability Ratios	2016A	2017A	2018E	2019E
Gross margin	29.1%	31.9%	31.0%	31.5%
EBITDA margin	11.6%	18.8%	17.1%	18.0%
EBIT margin	8.3%	14.3%	13.2%	13.8%
PBT margin	5.9%	12.3%	14.6%	14.9%
Net profit margin	4.4%	8.2%	9.7%	9.9%
ROCE av.	43.7%	39.8%	29.5%	36.3%
ROCE/WACC	2.4x	2.1x	1.6x	2.0x
Opex/sales	20.9%	17.6%	17.8%	17.7%

Activity Ratios	2016A	2017A	2018E	2019E
Inventory turnover	6.2x	5.8x	6.1x	6.4x
Days of inventory on hand	59.2	63.0	60.0	56.8
Receivables turnover	4.8x	3.3x	3.2x	3.9x
Days of sales outstanding	75.5	112.1	112.9	92.5
Payables turnover	1.6x	1.5x	1.5x	2.3x
No. of payable days	234.4	242.5	245.1	161.0
Cash conversion cycle	-99.7	-67.4	-72.3	-11.7
Working capital turnover	-3.3x	-8.4x	21.1x	20.9x
Fixed asset turnover	3.1x	3.7x	3.6x	4.4x
Capital employed turnover	9.9x	4.8x	3.0x	3.7x
Total asset turnover	1.1x	0.9x	0.9x	1.0x

Liquidity & Solvency Ratios	2016A	2017A	2018E	2019E
Current ratio	0.8x	2.5x	2.6x	2.4x
Quick ratio	0.6x	2.1x	2.3x	2.1x
Cash ratio	0.2x	1.4x	1.4x	1.3x
Debt-to-capital ratio	64.1%	0.9%	0.5%	0.8%
Debt-to-equity ratio	178.9%	0.9%	0.5%	0.8%
Financial leverage	6.2x	1.6x	1.6x	1.6x

Source: Company financials, Investment One Research



### Valuation

Our N50 price target is derived using a discounted cash flow (DCF) model over the 2018-2027 period. We assume that sales growth reaches a terminal value of 10.0% in 2027 while EBIT improves to 14% by 2027 from our 2018 estimates. Our WACC is 16.6%, assuming 13.0% risk free rate, 0.73 beta, 13.4% after tax cost of debt and 5.0% equity risk premium.

In summary, we expect accretion in FY 2018 performance to be volume driven on the back of the improving macroeconomic environment and the implementation of the recently passed 2018 budget which may bode well for consumer demand. Furthermore, we expect the current low interest rate environment, higher interest income stemming from the benefits of the right issue undertaken by the firm in 2017, moderated FX and continued operating efficiency to bode well for bottom line performance

### Research Analyst Certification

Date	Price (N)	Old Price Target (N)	New Price Target (N)	Old Recommendation	New Recommendation
31-Aug-15	23.1	31.69	21.45	SELL	SELL
21-Feb-16	33.48	21.45	25.7	SELL	SELL
16-Jun-16	32.70	28.04	28.04	SELL	SELL
1-Feb-17	33.50	23.70	19.86	SELL	SELL
9-Jun-17	36.00	19.98	30.43	SELL	SELL
18-Jul-18	51.85	30.43	50.00	SELL	HOLD

### Investment One Equity Research Recommendation Definitions

#### BUY

The stock is considered to be fundamentally strong with the potential to deliver returns in excess of 15% above the current price based on the analyst's target price.

#### HOLD

The stock is considered to be fairly priced, with potential to deliver returns between 5% and 15% above the current price based on the analyst's target price.

#### SELL

The stock is considered to be overvalued with weakening fundamentals, with returns expected to be below 5% based on the current price and the analyst's target price.



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