29 October 2018

Unilever Nigeria Plc.

Q3-18 EPS flattered by one-off gain; HOLD!

Update: Following the 9M-18 result published last week, we have cut our estimates for UNILEVER's 2019-2020E EPS by 3% and revise TP lower to NGN39.14/s (previously NGN40.94/s). Stripping out the one-off gain of NGN2.24 billion from the disposal of the Spreads business, we estimate that Q3-18 EPS, though higher relative to last year, is the lowest in one year. Revenue in the seasonally strong quarter was some way lower than both we and the market expected and OPEX was higher. We maintain HOLD recommendation at our new TP, with expected total return of -4.2%. Based on our estimates, the stock is trading on 2019E P/E and EV/EBITDA multiples of 21.1x and 10.2x respectively, at premium to Middle Eastern peer multiples of 16.1x and 11.2x respectively – although we note the significant discount to Asian peers (29.5x and 20.6x respectively.

Slight cut to revenue estimate: At NGN24.2 billion, revenue in Q3 was below our estimate by 5% and by 2% vs. Q2-18 (the first q/q decline since Q3-14). Management had said during the H1-18 earnings call that tight banking sector liquidity was impacting consumer purchasing power, and guided to a challenging short-term operating environment. The increase in credit to customers, which management said has become a common practice among competition, continued, with net trade receivables reaching NGN23 billion in 9M-18, from NGN17 billion in H1-18. We have consequently cut our revenue estimate for 2018E by 2% to NGN97.7 billion, equating to c.8% growth vs. 2017FY (previously 10%). Compared to Q2-18, volume was lower across all business segments, but a faster rate at the HPC segment compared to Food.

Higher-than-expected Q3-18 margin. Estimate unchanged: The Q3-18 gross margin of 31% was higher than the 29% we expected. YtD, gross margin is currently 31.6%, in line with our 32% estimate for the year, hence, we make no change on this line. We expect gross margin will be flat over 2019-2020E amidst rising inflation and weak demand. We were informed by distributors in Lagos that the company is soft on prices (e.g. for *Close-Up* toothpaste and *OMO* detergent) and big on promotions (e.g. for *Knoor* seasoning and *Sunlight* detergent), in response to low demand.

Another surprise OPEX increase: Opex increased 17% y/y during the third quarter, marking the second double digit increase on this line. Compared to our estimate, the amount reported was higher by 13%. Over 9M-18, overheads and service fees have increased at faster rates of 21% and 175% respectively vs. 9M-17. Brand & marketing spend has only increased by 6%. For 2018E, we now forecast opex to grow by 16% (previously c.14%), although the impact on EBIT is offset by the one-off gain of NGN2.2 billion accruing from the disposal of the Spreads business and all the assets attached to the business.

Robust EPS growth in 2018E to be followed by a decline in 2019E: Significantly lower finance charges (we estimate -89% vs. 2017FY) and off gain from discontinuing the Spreads business will largely underpin the 67% EPS growth we forecast for UNILEVER in 2018E. In 2019E, while we forecast EBIT will grow by 2%, we expect EPS will be lower by 6% vs. 2018E, adjusting for the aforementioned items.

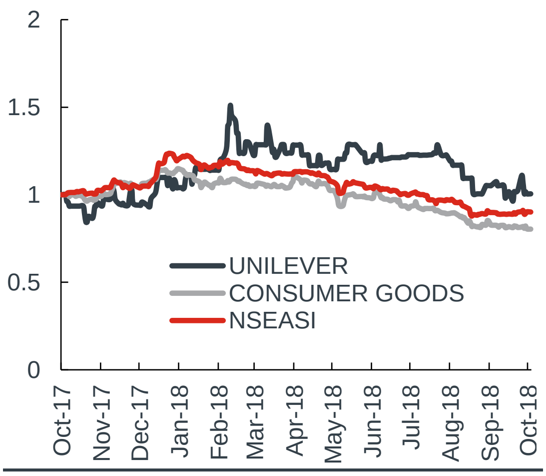
HOLD

Target Price (NGN)	39.14
Current Price (NGN)	43.00
Implied Return (%)	-8.99
Expected Dividend Yield (%)	4.80
Expected Total Return	-4.19

Company Data	
NSE Code	UNILEVER
Bloomberg Code	UNILEVER:NL
Reuters Code	UNILEVER.LG
Sector	CONSUMER GOODS
Market Cap. (NGN' bn)	247.04
Free Float (%)	32.11

Ratios	Q3-2018	Q3-2017	2017FY
Gross margin	31.61%	31.56%	31.89%
Opex margin	20.35%	18.17%	17.60%
EBITDA margin	17.38%	16.35%	19.04%
EBIT margin	14.36%	13.38%	14.27%
PAT margin	12.94%	7.05%	8.21%
RoAE**	20.48%	29.64%	17.01%
EPS (NGN)	0.67	0.33	1.78

Price movement (UNILEVER vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

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Financial Statement (NGN'million).

Income Statement	2016a	2017a	2018e	2019e	2020e
Revenue	69,777	90,771	97,694	105,510	114,478
Cost of sales	-49,481	-61,828	-66,251	-71,540	-77,610
Gross profit	20,296	28,943	31,444	33,970	36,869
Operating expenses	-14,615	-15,976	-18,562	-18,591	-20,182
Other icome/expense	124	-18	2,239	59	59
Finance income	1,028	1,668	3,317	1,506	1,613
Finance costs	-2,726	-3,410	-365	0	0
Profit before tax	4,106	11,207	18,073	16,944	18,358
Tax expense	-1,035	-3,757	-5,603	-5,253	-5,691
Profit after tax	**3,072**	**7,450**	**12,470**	**11,691**	**12,667**

Financial Position	2016a	2017a	2018e	2019e	2020e
PPE	29,272	29,881	31,343	33,392	35,746
Intangible assets	940	329	537	572	613
Other non- current assets	140.2	79.5	35	38	40
Employee loan receivable	111.7	705.9	66	70	75
Retirement benefit surplus	485	130	378	403	431
Non-current assets	**30,949**	**31,126**	**32,360**	**34,475**	**36,906**
Inventories	9,878	11,479	12,237	13,037	13,956
Trade and other receivables	18,946	27,621	42,201	44,959	48,128
Employee loan receivable	73	79	40	43	46
Assets held for sale	171	-	-	-	-
Derivative assets	-	286	286	286	286
Cash and cash equivalents	12,474	50,494	47,386	50,198	53,756
Current assets	**41,543**	**89,959**	**102,150**	**108,522**	**116,172**
Total Assets	**72,491**	**121,084**	**134,225**	**142,998**	**153,078**
Trade and other payables	32,477	33,409	39,281	46,482	53,352
Current tax liabilities	503	2,799	1,821	2,155	2,473
Bank overdraft	-	-	-	-	-
Loans and borrowings	20,501	455	4	4	4
Deferred income	33	33	0	0	0
Current liabilities	**53,513**	**36,695**	**41,106**	**48,640**	**55,829**
Deferred tax liabilities	3,942	4,485	5,539	6,554	7,523
Retirement benefit obligation	2,613	3,454	1,790	2,118	2,431
Long service awards	181	206	229	271	311
Other employee benefits	74	86	53	63	73
Deferred income	63	30	0	0	0
Loans and borrowings	414	220	0	0	0
Total non-current liabilities	**7,288**	**8,481**	**7,612**	**9,007**	**10,338**
Total Liabilities	**60,801**	**45,176**	**48,718**	**57,647**	**66,167**
SHF	**11,690**	**75,908**	**85,506**	**85,351**	**86,911**

Profitability Ratios	2016a	2017a	2018e	2019e	2020e
Gross profit margin	29.1%	31.9%	32.2%	32.2%	32.2%
EBITDA margin	12.0%	19.0%	19.2%	18.3%	18.3%
Operating profit margin	8.3%	14.3%	15.5%	14.6%	14.6%
PBT margin	5.9%	12.3%	18.5%	16.1%	16.0%
Net profit margin	4.4%	8.2%	12.8%	11.1%	11.1%
RoAE	31.2%	17.0%	15.5%	13.7%	14.7%
RoAA	5.0%	7.7%	9.8%	8.4%	8.6%
RoACE	11.6%	13.6%	15.4%	13.7%	14.7%

Liquidity Ratios	2016a	2017a	2018e	2019e	2020e
Working capital (NGN'm)	-11,971	53,263	61,044	59,882	60,344
Current ratio	0.8x	2.5x	2.5x	2.2x	2.1x
Quick ratio	0.6x	2.1x	2.2x	2.0x	1.8x
Cash ratio	0.2x	1.4x	1.2x	1.0x	1.0x

Efficiency Ratios	2016a	2017a	2018e	2019e	2020e
Fixed assets turnover	2.4x	3.0x	3.1x	3.2x	3.2x
Current assets turnover	1.7x	1.0x	1.0x	1.0x	1.0x
Total assets turnover	1.0x	0.7x	0.7x	0.7x	0.7x
Inventory turnover	6.2x	5.8x	5.6x	5.7x	5.8x
Receivables turnover	4.8x	3.9x	2.8x	2.4x	2.5x
Payables turnover	1.8x	1.9x	1.8x	1.7x	1.6x
Days inventory outstanding	59	63	65	64	63
Days collection/sales outstanding	76	94	130	151	148
Days payable outstanding	240	197	216	237	251
Cash conversion cycle	-104	-41	-21	-22	-39

Solvency Ratios	2016a	2017a	2018e	2019e	2020e
Debt-to-capital	0.6x	0.0x	0.0x	0.0x	0.0x
Debt-to-equity	212.4%	1.5%	0.0%	0.0%	0.0%
Net debt/EBITDA	1.0x	-2.9x	-2.5x	-2.6x	-2.6x
Net debt-to-equity	0.7x	-0.7x	-0.6x	-0.6x	-0.6x
Interest coverage	2.1x	3.8x	41.4x	35346.7x	38339.8x

Investment Ratios	2016a	2017a	2018e	2019e	2020e
Earnings per share (NGN)	0.81	1.78	2.17	2.04	2.20
Dividend per share (NGN)	0.10	0.71	2.06	1.93	2.09
Payout	12.3%	40.1%	95.0%	95.0%	95.0%
Dividend yield	0.3%	1.7%	4.8%	4.5%	4.9%
P/E	43.1x	23.0x	19.8x	21.1x	19.5x
EV/EBITDA	16.9x	6.7x	10.6x	10.2x	9.2x

Source: Company Accounts, Cordros Research estimates

29 October 2018

Disclosures.

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Rating Summary & Definitions

Cordros Capital uses the following rating system:

BUY (OVERWEIGHT) - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

HOLD (NEUTRAL) - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

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

Important Disclosure