Unilever Nigeria Plc

PAC Holdings
RC254413
| A PROPRIETARY INVESTMENT COMPANY |

Nigeria | Equities | Consumer Goods | August 6, 2018 PAC RESEARCH

Moderate Operating Performance Supported by Higher Interest Income

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Price:	
- Current	**₦52.40**
- Target	**₦42.66**
Recommendation:	**SELL**

** As at Friday August 3, 2018*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+27.80%/+31.00%
52-week range	₦36.10 - ₦65.00
30-day Average vol.	862,154
Shares Outstanding ('mn)	5,745.01
Market Cap. (₦'mn)	301,038.28
EPS, ₦- 12months trailing	1.66
DPS, ₦- FY2017	0.50

Source: NSE, Bloomberg, Company's Annual Reports, PAC Research

INVESTMENT SUMMARY

Unilever Nigeria Plc reported another impressive performance in its H1'18 unaudited report published recently, as the revenue rose by 12.89% to ₦48.13 billion (vs. ₦42.63 billion in H1'17). The upsurge in the revenue came majorly from improvement in food products segment and home and personal care segment. During the period, food products segment of the company contributed ₦22.04 billion (H1'17: ₦18.25 billion) while home and personal care segment contributed ₦26.09 billion (H1'17: ₦24.38 billion) to the revenue respectively. The company continues to struggle with high cost of raw materials and consumables as cost of sales increased by 11.75% to ₦32.80 billion in H1'18 from ₦29.35 billion in H1'17. Consequently, gross profit rose by 15.41% to ₦15.32 billion in H1'18 (vs. ₦13.28 billion reported in H1'17). During the first half of 2018, selling and distribution expenses increased by 12.92% to ₦2.08 billion (vs. ₦1.84 billion in first half of 2017) while marketing and administrative expenses increased by 31.65% to ₦7.03 billion (vs. ₦5.34 billion reported in first half of 2017). Due to improvement in interest on call deposits and bank accounts, finance income increase by 324.89% to ₦1.51 billion in H1'18 (vs. ₦0.35 billion recorded in H1'17) while finance cost decreased by 89.61% to ₦0.17 billion in H1'18 (vs. ₦1.63 billion in H1'17). With moderate performance in the core operation and massive increase in finance income, PBT increased by 56.70% to ₦7.55 billion in H1'18 (vs. ₦4.82 billion in H1'17) while PAT rose by 59.53% to ₦5.60 billion (vs. ₦3.51 billion in H1'17).

12-month trailing EPS increased significantly by 228.40% to ₦1.66 from ₦0.51 recorded in the previous period.

Based on the recent figures released by the company, we downgrade our target price per share to ₦42.66 and as a result, we maintain our SELL rating on the stock.

Fig. 3: Key ratios

	H1'18	**H1'17**
Gross profit margin	31.84%	31.14%
Net profit margin	11.64%	8.23%
Equity multiplier	1.60x	6.20x
Asset turnover	1.66x	6.05x

Source: NSE, PAC Research

Fig. 4: Valuations

	FY2016	**FY2017**	**FY2018E**	**FY2019E**
P/E	98.00x	40.41x	27.06x	21.15x
P/B	25.75x	3.97x	3.75x	3.69x
Sales Per Share	12.15	15.80	17.70	20.79
EV/EBITDA	38.07x	14.72x	11.83x	9.10x
P/Sales	4.31x	3.32x	2.96x	2.52x
ROE	26.28%	9.81%	13.84%	17.45%
ROA	4.24%	6.15%	8.40%	10.42%
Div. Yield	0.19%	0.95%	1.91%	2.86%

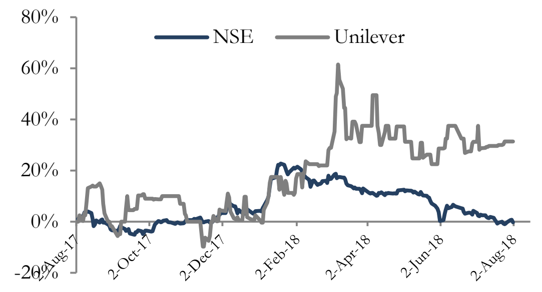
Source: NSE. PAC Research

Fig. 1: Quarterly results highlights

	2Q2018	**1Q2018**	**2Q2017**	**Q/q Δ**	**Y/y Δ**
Revenue (₦'mn)	24,652	25,818	22,933	-4.52%	+7.50%
Operating profit (₦'mn)	2,778	3,528	3,640	-21.24%	-23.66%
Net profit (₦'mn)	2,820	2,899	2,074	-2.74%	+35.97%

Source: Bloomberg, PAC Research

Fig. 5: Unilever vs. NSE, 52-wk Movement (Rebased)



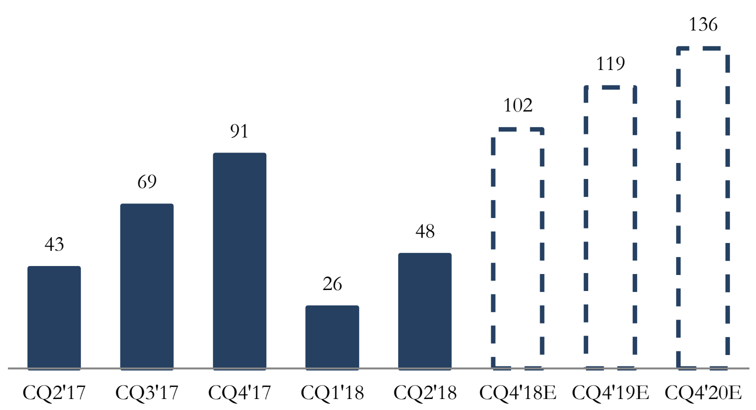
Source: Bloomberg, PAC Research

Top-line improved by 12.89% YoY, boosted by improvement in all segments

Unilever reported a stellar performance in its H1'18 unaudited reports **as** revenue increased by 12.89% to ₦48.13 billion (vs ₦42.63 billion in H1'17), driven by improvement in food products segment and home and personal care segment. Food Products segment increased by 20.74% to ₦22.04 billion in H1'18 (vs. ₦18.25 billion reported in H1'17) while home and personal care segment increased by 7.01% to ₦26.09 billion in H1'18 (vs. ₦24.38 billion in H1'17). However, home and personal care segment contributed 54.21% to revenue in H1'18 (H1'17: 57.19%) while food products contributed 45.79% to revenue in H1'18 (H1'17: 42.81%).

Food Products segment increased by 20.74% to ₦22.04 billion in H1'18 (vs. ₦18.25 billion reported in H1'17) while home and personal care segment increased by 7.01% to ₦26.09 billion…

Fig. 6: Revenue – Cum. Quarters - CQ2'17-CQ4'20E (Billion NGN)



Source: NSE, PAC Research

Cost-to-sales ratio decreased as gross profit improved

High cost of raw materials and consumables remains a major challenge as cost of sales increased by 11.75% to ₦32.80 billion in H1'18 (vs. ₦29.35 billion in H1'17). Meanwhile, the company continue to monitor its cost of sales and this is mirrored on cost-to-sales ratio as it reduced by 1.01% to 68.16% in H1'18 (vs. 68.86% in H1'17). As a result, gross profit improved by 15.41% to ₦15.32 in H1'18 from ₦13.28 billion reported in H1'17.

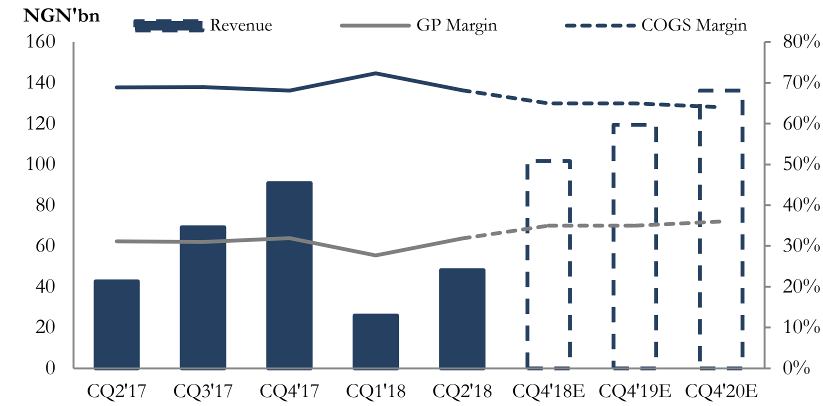
During the period, selling and distribution expenses increased by 12.92% to ₦2.08 billion (H1'17: ₦1.84 billion) while marketing and distribution expenses increased by 31.65% to ₦7.03 billion (H1'17: ₦5.34 billion). Consequently, total operating expenses rose by 14.72% to ₦41.92 billion in H1'18 from ₦36.54 billion reported in H1'17.

We believe that more dependence on imported raw materials is the reason for an upsurge in the cost of sales and we expect the company to improve in the area of local raw materials patronisation.

…the company continue to monitor its cost of sales and this is mirrored on cost-to-sales ratio as it reduced by 1.01% to 68.16% in H1'18 (vs. 68.86% in H1'17

With fairly management of cost of sales and improvement in the turnover of the company, gross profit increased by 15.41% to ₦15.32 billion in H1'18 (vs. ₦13.28 billion reported in H1'17)

Fig. 7: Revenue, COS Margin and Gross Profit Margin - CQ2'17-CQ4'20E (Billion NGN)



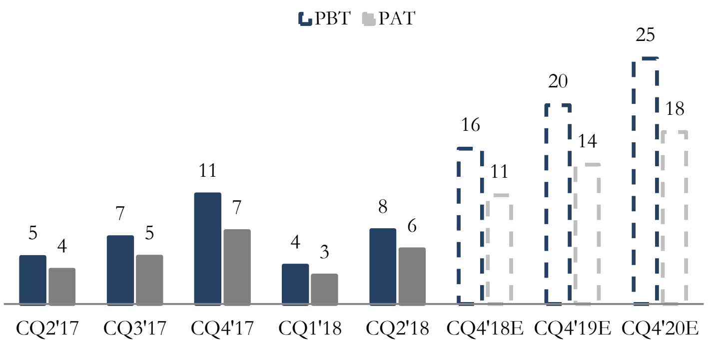
Source: NSE, PAC Research

Finance Income supported sluggish performance of operating profit as bottom-line increased by 59.53% YoY

In the first half of 2018, there was a sluggish growth in operating profit of the company as it increased marginally by 1.94% to ₦6.21 billion (vs. ₦6.10 billion in H1'17). However, finance income reported an impressive figure as it rose by 342.89% to ₦1.51 billion in H1'18 from ₦0.35 billion reported in H1'17. The significant increase in finance income was majorly boosted by improvement in interest on call deposits and bank accounts as it increased by 323.53% to ₦1.45 billion in H1'18 (vs. ₦0.34 billion recorded in H1'17). In addition, finance cost declined by 89.61% to ₦0.17 billion in H1'18 (vs. ₦1.63 billion in H1'17) due to decrease in interest on third party bank loans, zero interest on intercompany loans and zero exchange loss difference on bank accounts. Consequently, net finance income increased to ₦1.34 billion in H1'18 (vs. net finance loss of ₦1.28 billion in H1'17). Meanwhile, impressive performance from non-operating activities of the company supported the sluggish performance from the operating activities of the company and as a result, profit before tax rose by 56.70% to ₦7.55 billion in H1'18 (vs. ₦4.81 billion in H1'17). Provision for tax increased by 49.11% to ₦1.95 billion in H1'18 (vs. ₦1.30 billion reported in H1'17), hence profit after tax increased to ₦5.60 billion in the first half of 2018, from ₦3.51 billion reported in the first half of 2017 and this represents an increase of 59.53%.

The significant increase in finance income was majorly boosted by improvement in interest on call deposits and bank accounts as it increased by 323.53% to ₦1.45 billion in H1'18 (vs. ₦0.34 billion recorded in H1'17)

Fig. 8: Profit Befor Tax and Profit After Tax - CQ2'17-CQ4'20E (Billion NGN)



Source: NSE, PAC Research

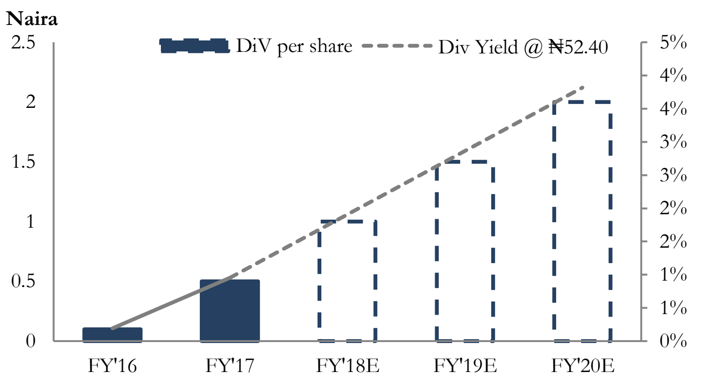
Even with strong balance sheet, lower dividend payment is expected in FY'18 as EPS remains unimpressive

In recent years, the performance of the company in the area of dividend payment has been very poor and we expect this trend to continue as the company's 12-month trailing EPS remains at ₦1.66, though with a notable increase when compared with corresponding previous 12-month trailing EPS of ₦0.51. Based on our projection, we do not expect the company to pay more than ₦1.00 per share in FY'18 (vs. ₦0.50 paid in FY'17)

During the period, the company increased its net assets by 425.43% to ₦78.75 billion in H1'18 from ₦14.99 billion in H1'17 as the NAPS increased by 425.43% to ₦13.71 in H1'18 (vs ₦2.61 in H1'17). The massive increase in net assets is attributed to a huge increase in cash and bank balances and massive decline in loans and borrowing. Cash and bank balances increased by 228.40% to ₦47.92 billion in H1'18 (vs. ₦15.12 billion in H1'17) while loans and borrowings reduced to ₦394.00 thousand in H1'18 (vs. ₦18.55 billion reported in H1'17).

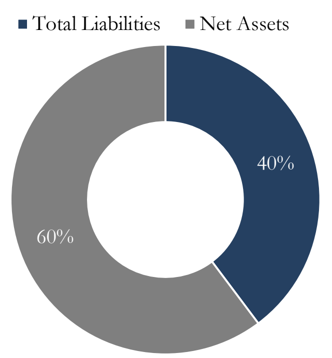
In recent years, the performance of the company in the area of dividend payment has been very poor and we expect this trend to continue as the company's 12-month trailing EPS remains at ₦1.66…

Fig. 9: Dividend Per Share and Dividend Yield (FY'16-FY'20F)



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in H1'18



Source: NSE, PAC Research

Valuation

Our valuation puts the target price of the stock at ₦42.66 and this shows that the stock is overvalued by 18.59% at current price of ₦52.40. In arriving at the target price, we employed retained earnings model. Consequently, we maintained **SELL** recommendation on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company, the challenging operating environment in Nigeria, increase competition within the industry and cautious outlook from the management.

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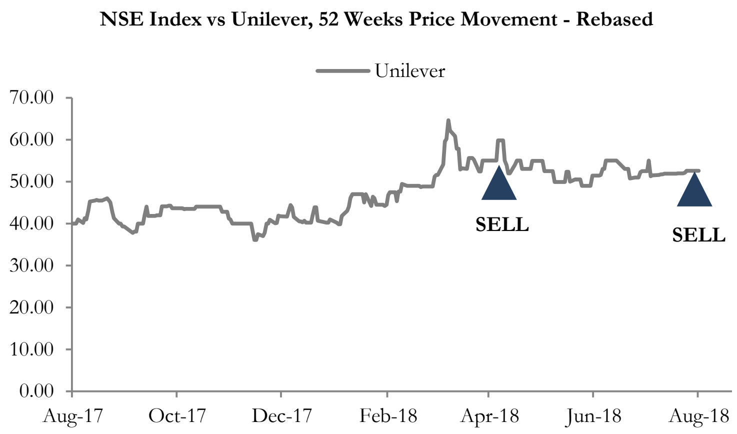
Fig. 11: Share Price History



Source: NSE, PAC Research

Fig. 12: Statement of Profit or Loss, N'mn

	2016	2017	2018E	2019E
Revenue	69,777	90,771	101,664	119,455
Change		*30.09%*	*12.00%*	*17.50%*
Cost of Sales	(49,481)	(61,828)	(66,082)	(77,646)
Change		*24.95%*	*6.88%*	*17.50%*
Gross Profit	20,296	28,943	35,582	41,809
Change		*42.61%*	*22.94%*	*17.50%*
Selling and distribution exp.	(3,151)	(3,993)	(4,636)	(5,316)
Change		*26.72%*	*16.10%*	*14.67%*
Marketing and admin. exp.	(11,464)	(11,983)	(13,216)	(14,096)
Change		*4.52%*	*10.30%*	*6.65%*
Core Operating Profit	5,805	12,950	17,730	22,398
Change		*123.08%*	*36.92%*	*26.33%*
Finance Income	1,023	1,668	494	1,506
Change		*63.10%*	*-70.37%*	*204.74%*
Finance Cost	(2,721)	(3,410)	(3,680)	(4,241)
Change		*25.32%*	*7.92%*	*15.23%*
Profit Before Taxation	4,106	11,207	15,890	20,331
Change		*172.92%*	*41.78%*	*27.95%*
Taxation	(1,035)	(3,757)	(4,767)	(6,099)
Change		*263.17%*	*26.88%*	*27.95%*
Profit After Taxation	3,072	7,450	11,123	14,232
Change		*142.52%*	*49.30%*	*27.95%*

Fig. 13: Statement of Financial Position, N'mn

	2016	2017	2018F	2019F
Property, plant and equip.	29,272	29,881	28,466	31,058
Intangible assets	940	706	732	812
Other non- current assets	140	79	91	108
Inventories	9,878	11,479	13,216	14,335
Trade and other receivable	18,946	27,621	38,632	38,226
Cash and bank balances	12,474	50,494	48,290	48,977
Employee loan receivable	73	79	102	119
Total Assets	72,491	121,084	132,397	136,633
Trade and other payables	32,477	33,409	40,666	41,809
Income Tax	503	2,799	3,131	3,679
Deferred income	33	33	51	60
Deferred tax liabilities	3,942	4,485	4,982	5,734
Pension Obligations	2,794	3,660	2,033	2,389
Total Liabilities	60,801	45,176	52,042	55,057
Net Assets	11,690	75,908	80,355	81,576

Fig. 14: Profitability Ratio

	2016	2017	2018E	2019E
Return on Equity	26.28%	9.81%	13.84%	17.45%
Return on Assets	4.24%	6.15%	8.40%	10.42%
Gross margin	29.09%	31.89%	35.00%	35.00%
EBITDA margin	11.63%	18.78%	21.94%	23.30%
PBT margin	5.89%	12.35%	15.63%	17.02%
Net Profit Margin	4.40%	8.21%	10.94%	11.91%

Fig. 15: Asset Utilisation

	2016	2017	2018F	2019F
cash/.sales	0.18	0.56	0.48	0.41
Sales to inventory (x)	7.06	7.91	7.69	8.33
Sales to total assets (x)	0.96	0.75	0.77	0.87
Sales to total fixed assets	2.38	3.04	3.57	3.85
Equity multiplier	6.20	1.60	1.65	1.67
fixed asset turnover	2.38	3.04	3.57	3.85

Fig. 16: Liquidity Ratios

	2016	2017	2018F	2019F
Quick ratio	0.59	2.14	1.99	1.92
Current ratio	0.78	2.45	2.29	2.23
Cash ratio	0.23	1.38	1.08	1.05
Interest Coverage	2.13	3.80	4.86	5.32
Debt/net income	7.96	0.66	0.54	0.49
Debt to asset	0.84	0.37	0.39	0.40
Debt to equity	2.09	0.07	0.07	0.08
Total liabilities/equities	5.20	0.60	0.65	0.67
Inventory turnover	7.06	7.91	7.69	8.33
Inventory turnover days	51.67	46.16	47.45	43.80

Fig. 17: Shareholders' Investment Ratios

	2016	2017	2018E	2019E
EPS (₦)	0.53	1.30	1.94	2.48
DPS (₦)	0.10	0.50	1.00	1.50
NAVPS (₦)	2.03	13.21	13.99	14.20
Earnings yield (%)	1.02%	2.47%	3.69%	4.73%

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

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