

EQUITY RESEARCH REPORT

UNILEVER NIGERIA PLC

September 25, 2014

Recommendation	SELL
Target Price (N)	34.23
Current Price (N)	48.20
Upside/(Downside)	(28.98%)
Company Statistics	
Symbol	UNILEVER
Date of Incorporation	November 4th, 1923
Date of Listing	January 1st, 1973
Year End	December
Sub-Sector	Household Products
52 weeks High/Low	N62.00/N43.32
Market Cap (N'000)	182,354,867.20
Outstanding Shares	3,783,296,250
Nominal Value (N)	0.50k
Trailing EPS (kobo)	127
Trailing P/E	42.34
YTD Return (%)	(9.16)%
BVPS (N)	2.55
ROA (%)	10.99
ROE (%)	49.87
PB Value (x)	21.11
Dividend (Yield)	2.59%

HIGHLIGHTS

- **UNILEVER Nigeria Plc** is a subsidiary of Unilever Overseas Holding B.V., an Anglo-Dutch consumer group. The company changed its name to Unilever Nigeria Plc in 2001, following the increase of its parent Company's stake in the organization to 50.04%. The Nigerian Shareholders and general public hold the remaining 49.96%.
- The Company is involved in the manufacturing and marketing of high quality consumer products in the **foods, home and personal care categories**. It has a number of dominant products in the personal care categories which remains a strong brand and continues to enjoy increasing demand both locally and in other West African countries such as Ghana.
- About 60% of Unilever's global business growth is in the emerging market of which Unilever Nigeria represents a key player in African continent.
- Historical performance analysis shows that **UNILEVER** has consistently registered a modest Year-on-Year top line growth averaging **7.77%** on a 5-Year Compounded Annual Growth Rate (**CAGR**). However, the Company's **PBT** dropped by **15.57%** in **2013** from **N8.19bn** in 2012 to **N6.91bn** thereby affecting its 5-Year CAGR growth, which stands at **5.12%**. **PAT** also came down by **14.13%** to **N4.81bn** in 2013.
- The recently released **unaudited 2nd Quarter result** for the period ending **June 30, 2014** shows that **Turnover** went down by **1.31%** to **N29.28bn**. **PBT** came down by **47.58%** to **N2.08bn** while **PAT** also depreciated by **46.57%** to **N1.46bn**.
- The Company has continued to undertake the strategy of product specific marketing programs aimed at building awareness and product acceptance through general advertising and consumer-participatory activities.
- Based on our analysis and valuation of the shares of **UNILEVER**, we maintain a **SELL** recommendation as our **Fair Value** stands at **N34.23**.

Financial Highlights	2013	2012	2011	2010	2009
Turnover (N'000)	60,004,11	55,547,79	54,724,74	46,807,860	44,481,277
EBIT (N'000)	8,044,009	9,002,749	8,445,923	6,806,887	7,061,046
Net Income (N'000)	4,806,907	5,597,613	5,515,213	4,180,620	4,093,822
EPS (Kobo)	127	148	146	111	108
DPS (Kobo)	125	140	140	110	68
MPS (N)	53.80	46.50	29.00	26.90	18.50
BVPS (N)	2.55	2.65	2.55	2.20	2.17

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UNILEVER Nigeria Plc is a member of the Unilever Plc family, one of the world's leading consumer goods companies whose foods, home and personal care brands are used by half of the families on the planet each day

The Company is involved in the manufacturing and marketing of high quality consumer products in the foods, home and personal care categories. It has a number of dominant products in the personal care categories which remains a strong brand and continues to enjoy increasing demand both locally and in other West African countries such as Ghana.

BACKGROUND INFORMATION

Unilever Nigeria Plc was established in 1923 as a soap manufacturing Company – Lever Brothers West Africa – by Lord Leverhulme. Today, it is the oldest surviving manufacturing organization in Nigeria. UNILEVER Nigeria Plc is a member of the Unilever Plc family, one of the world's leading consumer goods companies whose foods, home and personal care brands are used by over half of the families on the planet each day.

After a series of mergers/acquisitions, the Company diversified into manufacturing and marketing of foods and personal care products. These mergers/acquisitions brought in Lipton Nigeria Limited in 1985, Cheesbrough Industries limited in 1988 and Unilever Nigeria Plc in 1996. The Company changed its name to Unilever Nigeria Plc in 2001 in line with the global strategic direction of the business.

The Company was quoted on The Nigerian Stock Exchange in 1973 and with equity holdings of 50.04% by Unilever Overseas Holdings B.V., and 49.96% by the Nigerian investors. It is a truly Multi-local, Multi-national organization with very outstanding international and local brands in her portfolio. Through its variety of brands, Unilever has continued to add value to the consumer and remains a business with a global mindset.

Products Lines/Brands

International Brands:

Personal Care Unit	Foods Unit	Home Care Unit
<ul style="list-style-type: none"> - Close-Up ToothPaste - Pepsodent ToothPaste - LUX beauty soap - Lifebuoy soap - Vaseline Petroleum Jelly 	<ul style="list-style-type: none"> - Blue Band Margarine - Lipton Yellow label Tea - Royco cubes - Knorr bouillon cubes 	<ul style="list-style-type: none"> - OMO Multi-Active Detergent - Sunlight washing powder

The **Regional** and **Local jewels** include the Pears Baby Products range and Royco bouillon cubes.

SWOT ANALYSIS

Strengths

- Strong Brand portfolio
- Strong agility to weather the increasing fiercely competitive landscape and tough operating environment
- Focus on capacity expansion, cutting edge product innovation, distribution and logistics investment
- Strong leadership and employee motivation is delivering desired performance

Weaknesses

- Stagnating revenue growth
- Increasing finance costs

Opportunities

- Operating in one of the fastest growing economy (Nigeria) in the world offers a very wide market
- The daily need of the Company's products
- Leveraging on global brand
- Favourable government policies towards the industry and political stability
- Anticipated power supply stability.
- Penetration of major West African markets.

Threats

- The increasing fiercely competitive landscape and tough operating environment
- Rising prices exerts on margins
- High cost of generating power and disruptions in the natural gas supply.
- Bad state of infrastructure continues to impact negatively on distribution and logistics operations and costs
- The insecurity being experienced in certain parts of the country makes free enterprise increasingly difficult in the affected States.

The recently released unaudited 2nd Quarter result for the period ending June 30, 2014 shows that Turnover went down by 1.31% to N29.28bn. PBT came down by 47.58% to N2.08bn while PAT also depreciated by 46.57% to N1.46bn.

*A cursory look at the unaudited 2nd Quarter result shows that the Company **has not put in place cost restructuring strategies** as **Operating Cost surged up by 27.64% to N8.32bn** and **Finance Charge, inching up by 36.49% to N0.68bn.***

DIRECTORS' SHAREHOLDINGS AS AT DECEMBER 31ST, 2013

The Board of Directors' holdings in the Company goes thus:

Director	Position	Holdings
His Majesty Nnaemeka A. Achebe	Chairman	55,976
Mallam Abba Kyari	Non-Executive	67,654
Mr. Thabo Mabe	Non-Executive	Nil
Mr. Atedo N.A.Peterside	Non-Executive	4,700,000
Senator Udoma U. Udoma	Non-Executive	1,637,500
Mr. Yaw Nsarkoh	Managing Director	Nil
Mr. Kasturi Sudarshan	Finance Director	Nil
Mr. Ologbaraete K. Pinnick	Supply Chain Dir.	16,649

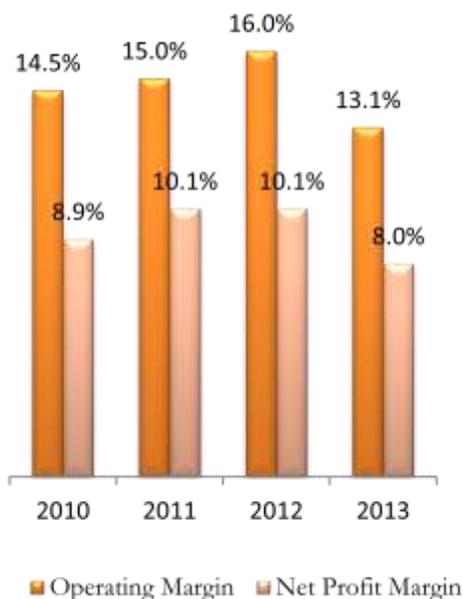
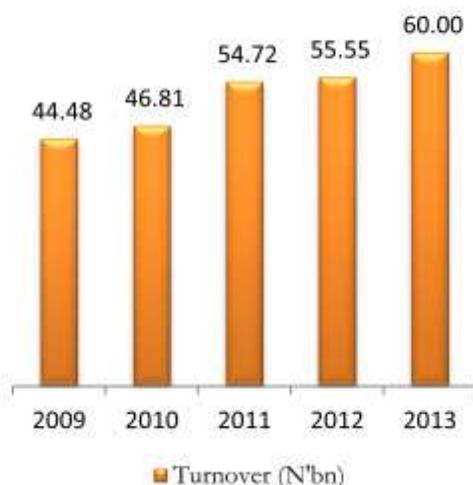
ANALYSIS OF FINANCIALS

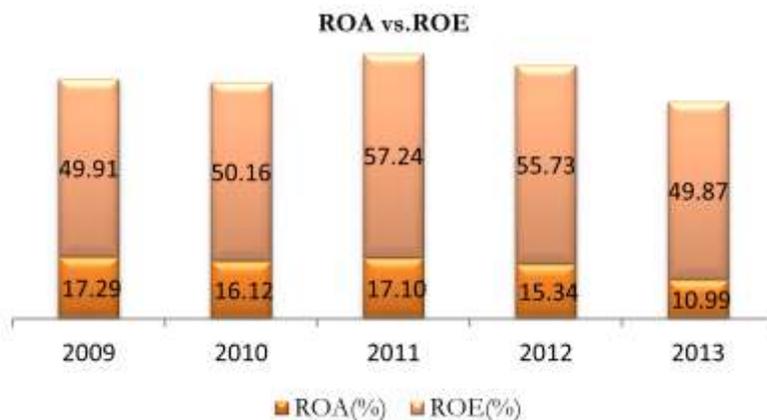
Trends in Turnover and Earnings Growths

UNILEVER has maintained a positive turnover growth momentum in the last five years. The Company grew its **top line** from **N44.48bn** in 2009 to **N60.00bn** in 2013, translating to a 5-Year CAGR of **7.77%**. The Company has also seen its bottom line grow in recent times though it experienced a decline in 2013. Between 2009 and 2012, the Company's **PAT** grew from **N4.09bn** to **N5.60bn**, representing a CAGR of **10.88%**. The Company was however, unable to maintain this trend in 2013 as PAT dropped by **14.13%** to **N4.81bn** and this decline could be attributable to increase in Cost of Sales (**CS**) and Operating Expenses (**OE**). CS went up by **10.77%** to **N37.55bn** in 2013 while **OE** shot up to **N14.60bn** 2013 from **N12.75bn** in 2012.

Year-on-Year, the Return on Equity (**ROE**) has not been impressive. **ROE** went down from 57.24% in 2011 to 49.87% in 2013. **UNILEVER's GP Margin** decreased to **36.55%** in 2011 from **39.09%** in 2009. In 2012, the margin shot up to 38.97% but came down again to 37.41% in 2013. This development was attributed to rising commodity prices and the Company's resolve not to pass on the growing cost to consumers who were already under huge income pressure. **PBT Margin** dropped from **14.74%** in 2012 to **11.52%** in 2013 while **PAT Margin** also came down to **8.01%** in 2013. Return on Assets (**ROA**) moved Southwards by 28.37% to 10.99 in 2013.

Trends in Turnover



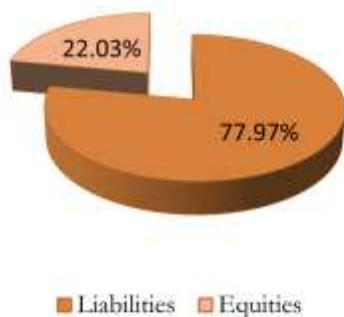


CAPITAL STRUCTURE

Total **shareholders' fund (SHF)** of UNILEVER grew from **N8.20bn** in 2009 to **N10.04bn** in 2012, representing a **4-Year CAGR** of **6.91%**. However, SHF dropped to **N9.64bn** in 2013, representing a decline of 4.02%. **Fixed Assets** grew by **23.53%** between 2009 and 2013. **Total Assets** also grew **16.59%** from **N23.68bn** in 2009 to **N43.75bn** in 2013. The Company has not been able to maintain an upward level of efficiency in its asset utilization. This is reflected in the **total assets turnover ratio** which came from **1.88x** in 2009 to **1.37x** in 2013.

However, **current asset turnover** has been on a rising path from 3.25x in 2009 to 3.76x in 2012 though it fell to 3.26x in 2013. This implies that the company has been more efficient in its use of current assets than in fixed assets.

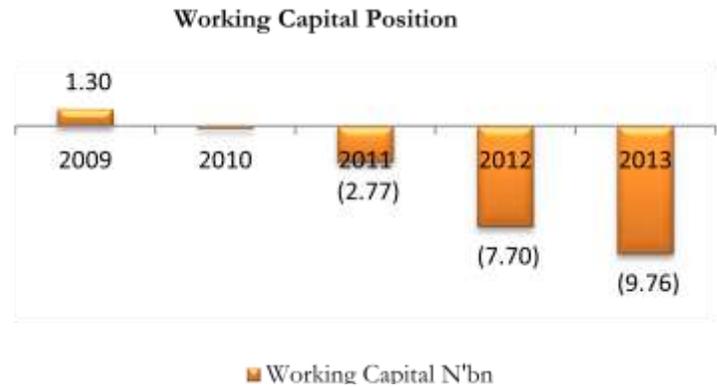
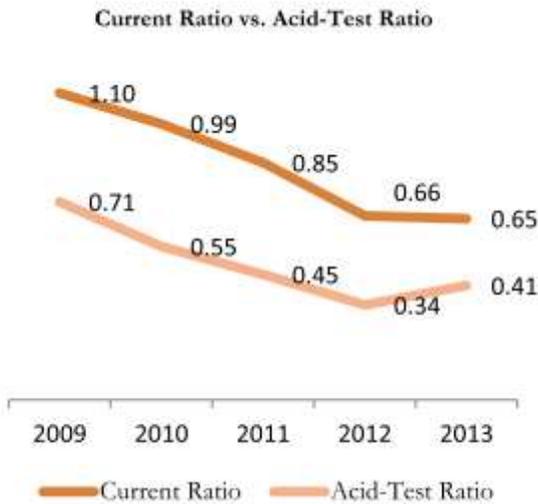
Finance Mix - 2013



The **total assets** of the Company were financed by a mix of **Liabilities** and **Equity** in the proportion of **77.97%** and **22.03%** respectively. The **total debt ratio**, which is a proportion of the Company's total assets that is financed by long and short term liabilities went up to **77.97%** in 2013 from **72.48%** in 2012.

UNILEVER has not experienced a good working capital over the years. Except in 2009 when the Company recorded a **positive Net Current Asset position**, the working capital position has always been in negative and on the rising path. The Company has seen its working capital position rose from a negative **N0.199bn** in 2010 to a negative **N9.76bn** in 2013, representing a **4-Year CAGR** of **261%**. In addition, the current ratio and the quick ratio as at December 2013 stood at 0.65x and 0.41x respectively. The **short-term liabilities** stood at **N28.16bn**, accounting for **82.54%** of the **total liabilities**,

while the **long-term liabilities** stood at **N5.96bn** accounting for **17.46%** of the total liabilities.



LIQUIDITY

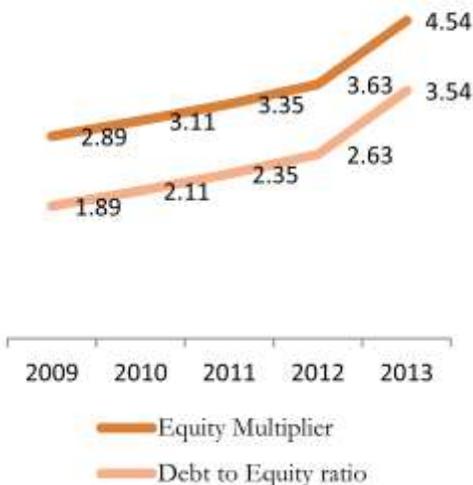
UNILEVER's **liquidity trend** has not experienced a stable performance in the last five years. The level of **Current Assets** maintained in 2009 could cover **110.49%** of its **current obligations**. However, this depreciated to **65.35%** in 2013. Without taking the level of inventory into consideration, UNILEVER's **current assets** were **40.53%** of its **current liabilities** in 2013, a decrease of **29.37%** over the **181.01%** figure of 2012. The Company has continued to maintain high cash and bank balances though this dropped in 2012 to N1.86bn but rose again in 2013 to N3.18bn. As a corollary, the Company could pay off only **11.31%** of its current liabilities with its most liquid asset.

An analysis of the cash flow statement shows that the **net cash flow from operating activities** increased by **59.36%** from **N7.3bn** in 2012 to **N11.65bn** in 2013. The **net cash outflow from investing activities** came down to **N5.86bn** from **N6.77bn** in 2012. The **cash and cash equivalent** as at December 31, 2013 stood at **N0.613bn**, an improvement of over **75%** over the deficit figure of **N2.5bn** recorded in 2012.

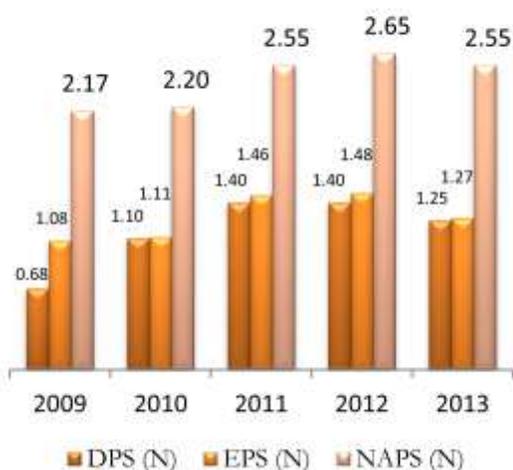
SHAREHOLDERS' RETURNS

Records of shareholder returns have been rather impressive. Earnings Per Share (**EPS**) consistently increased from 2009 to 2012. The only exception being in 2013 when there was a drop in the reported **PAT**. The EPS stood at **N1.48** in 2012 but fell to **N1.27** in 2013. The Net Asset per Share (**NASP**) also moved southwards from **N2.65** in 2012 to **N2.55** in 2013. UNILEVER also have a good **dividend history**. In 2009, the Company paid **68k** as dividend and this

Trends in Solvency



DPS, EPS & NAPS



*...we arrive at a value of N34.23, which is our fair value. We therefore place a **SELL** on UNILEVER Shares.*

increased to **N1.40k** in 2012 but fell to **N1.25** in 2013, representing a **5-Year CAGR** of **16.44%** and **average dividend payout ratio** of **97.35%** over a **4-Year period**.

Valuation Methodologies, Assumptions and Ratings

To arrive at the intrinsic value for **UNILEVER**, we employed the **discounted dividend model (DDM)** and the **relative valuation models**. Our risk-free rate is 12.17% (premised on 30-year FGN Bond), a risk premium of 6.65% and a **volatility index (beta)** of **0.98**. The CAPM-derived **cost of equity** is **18.69%**. We adopted a **terminal growth rate of 5%** consistent with our perceived growth potential of the Company as well as forecast long run economic growth rate. Using 3,783.30mn shares in issue, the **DDM** generates **N40.75**. The **PE, P/S** and **P/BV Models** generate **N35.60, N38.12** and **N38.77** respectively. The **EV/EBITDA Multiple** generates **N30.79**

Premised on the above analysis, coupled with appropriate consideration of comparable pricings and attached weights, our fair value for **UNILEVER** gives **N34.23**. This implies that the current price is at a **40.81%** premium to valuation.

We therefore place a SELL recommendation on UNILEVER.

Ratings Specification

BUY: Fair value of the stock is above the current market price by at least 15 percent

HOLD: Fair value of the stock ranges between -15 percent and 15 percent from the current market price.

SELL: Fair value of the stock is more than 15 percent below the current market price.

UNILEVER NIG. PLC'S KEY RATIOS

	2010	2011	2012	2013
RATIO ANALYSIS				
Growth Performance				
Turnover Growth	5.23%	16.91%	1.50%	8.02%
Operating Profit Growth	(3.67%)	20.52%	8.50%	(11.40%)
Pre-tax Growth	8.67%	30.34%	2.09%	(15.57%)
Post-tax Growth	2.12%	31.92%	1.49%	(14.13%)
Total Assets Growth	9.52%	24.35%	13.17%	19.88%
Shareholders' Funds Growth	1.62%	15.59%	4.24%	(4.02%)
Profitability				
Gross Margin	37.27%	36.55%	38.97%	37.41%
Operating Margin	14.53%	14.98%	16.01%	13.13%
Net Profit Margin	8.93%	10.08%	10.08%	8.01%
Return on Equity (RoE)	50.16%	57.24%	55.73%	49.87%
Return on Asset (RoA)	17.08%	18.43%	17.57%	13.57%
Operating Efficiency				
Cost-Income Ratio	22.74%	21.57%	22.95%	24.28%
Asset Utilization Rate	1.80	1.70	1.52	1.37
Cost of sales/Turnover	62.73%	63.45%	61.03%	62.59%
Liquidity				
Current Ratio	0.99	0.85	0.66	0.65
Acid Test Ratio	0.55	0.45	0.34	0.41
Operating Cashflow/EBIT	1.29	1.30	0.81	1.48
Long-term Stability				
Debt-Equity Ratio	8.77%	0.40%	45.08%	66.19%
Interest Cover (Times)	27.23	19.74	11.02	7.10

Disclaimer & Disclosure

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