Unilever Nigeria Plc

Nigeria | Equities | Consumer Goods | July 24, 2015 **PAC RESEARCH**

Cost control remains a challenge

1H2015 revenue declines by 1.9% y/y… For the six months period to June 2015, Unilever Nigeria recorded a decline of 1.9% in revenue to ₦28.72billion compared with ₦29.28billion in the corresponding period of the previous year. In our view, the decline reflected the impact of insurgency in the northern part of Nigeria on the business of the company. On a quarterly basis, Unilever Nigeria's revenue of ₦13.81billion in 2Q2015 was down by 7.4% and 10.6% against ₦14.91billion and ₦15.45billion respectively in 1Q2015 and 2Q2014. Similarly, the latest quarter's revenue was lower than our estimate of ₦15.54billion by 11.1%; also, it is lower than 8-quarter average of ₦14.81billion by 6.8%.

…while input costs increases by 3.8% y/y. In the review period, the company reported cost of sales (COS) of ₦18.97billion, up by 3.8% compared with ₦18.28billion in 2014. The inverse movement in the revenue and the COS resulted in a higher COS/revenue ratio of 66.1% relative to 62.4% in the previous year. In our opinion, the unfavourable exchange rate regime in the period that led to higher cost of imported raw materials resulted in an increase in COS despite a decline in revenue. Furthermore, the company's COS of ₦9.12billion in 2Q2015 was down by 7.4% and 5.9%, compared with ₦9.85billion and ₦9.70billion accordingly in the first quarter to March 2015 and the second quarter to June 2014. It is also lower than 8-quarter average of ₦9.16billion by 0.4%. Consequently, COS/revenue ratio in the latest quarter remained flat at 66.1% compared with 1Q2015, but higher than both 62.8% in 2Q2014 and 8-quarter average of 64.0%. Therefore gross profit declined by 11.3% y/y to ₦18.97billion against ₦18.28billion and gross profit margin fell to 33.9% relative to 37.6% in the previous year.

Operating expenses declines marginally by 0.7% y/y. Unilever Nigeria's operating expenses of ₦8.25billion in the review period was down by 0.7% compared with ₦8.32billion in 2014.

Fig. 1: Quarterly results highlights

	2Q2015	1Q2015	2Q2014	Q/q Δ	Y/y Δ
Revenue (₦'mn)	13,811	14,911	15,446	-7.38%	-10.59%
Operating profit (₦'mn)	1,504	1,623	2,690	-7.33%	-44.09%
Net profit (₦'mn)	86	590	1,464	-86.10%	-89.08%

Source: NSE, PAC Research

Moses Ojo
moses.ojo@panafricancapitalplc.com

Price:	
- Current	**₦37.40***
- Target	**₦24.30**
Recommendation:	**SELL**

** As at Friday July 24, 2015*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+4.25%/-23.84%
52-week range	₦27.00 - ₦50.61
Average daily vol./val.	1,665,116 /₦67.337mn
Shares Outstanding (₦'mn)	3,783
Market Cap. (₦'mn)	141,193 ($588.3mn)
EPS, ₦- 12months trailing	0.27
DPS, ₦- FY2014	0.10
FCF, ₦- FY2014	-1.55

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

Fig. 3: Key ratios

	1H2015	1H2014
Gross profit margin	33.95%	37.56%
Net profit margin	0.30%	5.00%
Equity multiplier	6.96x	6.96x
Asset turnover	1.10x	1.34x

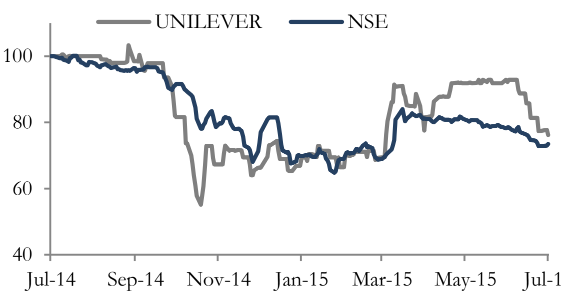
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2014	FY2015E	FY2016F	FY2017F
P/Sales	2.53x	2.45x	2.39x	2.34x
P/E	53.53x	72.50x	52.97x	43.47x
PEG	n/a	n/a	1.43	1.98
EV/EBITDA	19.95x	21.40x	18.43x	14.58x
P/B	18.88x	15.60x	13.11x	10.96x
ROE	32.25%	21.52%	24.75%	25.22%
ROA	5.27%	4.10%	5.55%	6.78%
Div. Yield	0.27%	0.27%	0.67%	0.80%

Source: NSE, PAC Research

Fig. 5: UNILEVER vs. NSE, 52-wk movement (rebased)



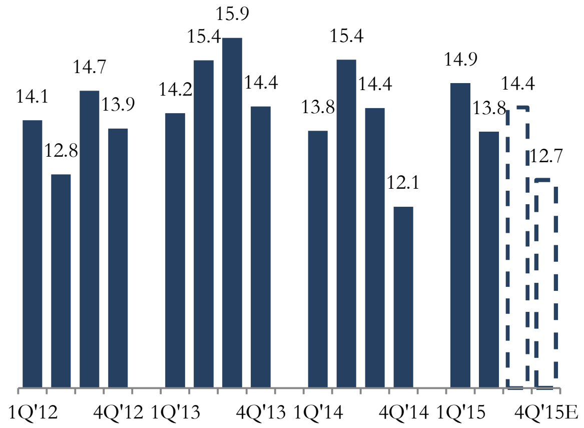
Source: Bloomberg, PAC Research

Therefore, operating expenses/revenue ratio moved up marginally to 28.7% relative to 28.4% in 2014. On a quarterly basis, the company's operating expenses of ₦4.76billion in 2Q2015 is higher by 36.5% and 6.1% compared with ₦3.49billion and ₦4.49billion respectively in 1Q2015 and 2Q2014. Moreover, our analysis revealed that the operating expenses/revenue ratio of 34.5% in the latest quarter is higher than 23.4% and 29.1% recorded in the first quarter of the year and the second quarter of 2014; also, it is higher than 8-quarter average of 27.6%. Overall, total costs increased by 2.4% to ₦27.23billion against ₦26.60billion in the previous year and total costs/revenue ratio moved up to 94.8% relative to 90.8% in the previous year. Therefore, operating profit declined by 41.7% y/y to ₦1.57billion compared with ₦2.69billion in the corresponding period of the previous year, and operating profit margin fell to 5.5% relative to 9.2% in 2014.

Significant increase in finance costs impacts net profit margin. We are keen to highlight the increase of 137.5% y/y in interest expenses to ₦1.61billion compared with ₦678million in the previous year. The increase was a result of a 37.3% rise in total borrowings to ₦16.32billion compared with ₦11.88billion in June 2014. In addition, bank overdraft moved up by 60.9% to ₦5.94billion against ₦3.69billion in the previous year and short-term loans and borrowings increased by 34.8% y/y to ₦9.47billion. Therefore, total short-term borrowings increased by 43.8% to ₦15.41billion compared with ₦10.72billion in the previous year. On the contrary, long term loans and borrowings declined by 22.3% to ₦905million compared with ₦1.16billion in the same period of the previous year. Consequently, net profit dipped by 94.2% to ₦85million against ₦1.46billion in the corresponding period of 2014, and net profit margin stood at 0.3% relative to 5.0% in the previous period.

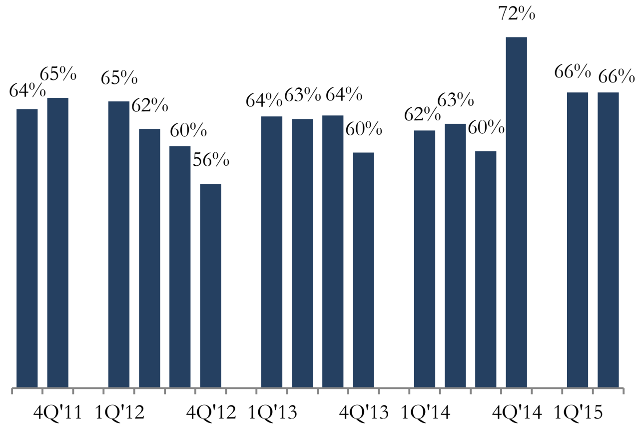
" Consequently, net profit dipped by 94.2% to ₦85million against ₦1.46billion in the corresponding period of 2014, and net profit margin stood at 0.3% relative to 5.0% in the previous period. "

Fig. 6: Quarterly revenue (₦'billion)



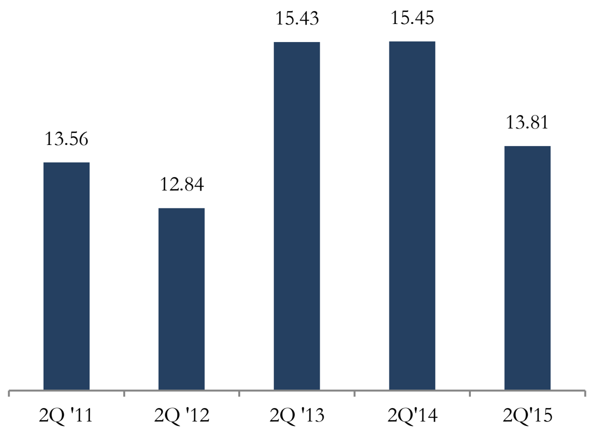
Source: NSE, PAC Research

Fig. 7: Quarterly COS/revenue ratio



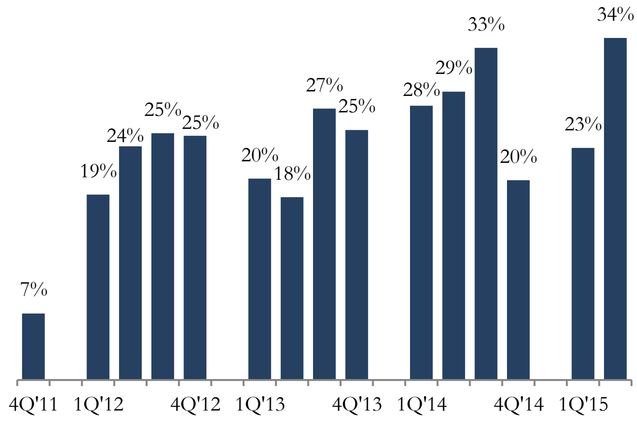
Source: NSE, PAC Research

Fig. 8: Second quarter revenue (₦'billion)



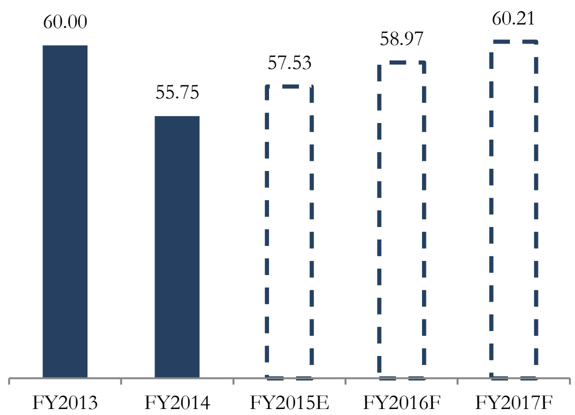
Source: NSE, PAC Research

Fig. 9: Quarterly operating expenses/revenue ratio



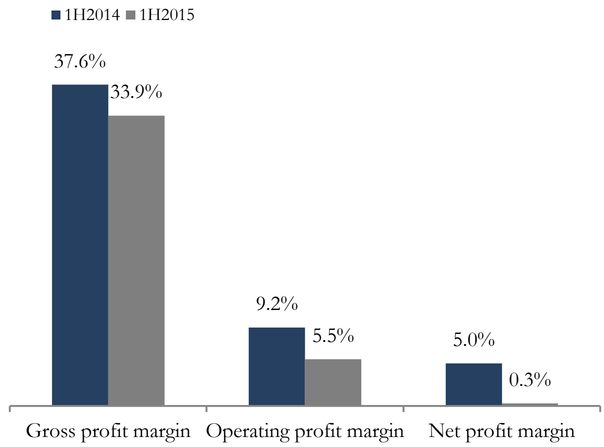
Source: NSE, PAC Research

Fig. 10: Annual sales revenue (₦'billion)



Source: NSE, PAC Research

Fig. 11: Profit margins



Source: NSE, PAC Research

Unilever Nigeria outperformed the broad market in the review period. The stock prices of Unilever Nigeria outperformed the broad market in the review period; the company recorded +27.1% returns relative to -3.5% recorded by the NSE-All share index. However, the company underperformed the equity market in the corresponding period of the previous year with a performance of +0.4% compared with +2.8% returns recorded by the market. Also, the company's stock prices declined by 20.0% in the last 52-week relative a decline of 26.8% by the broad market, also the company outperformed the index with year-to-date returns of +9.4% compared with -10.1% recorded by the equity market.

Valuation

Our revised valuation puts the target price of the stock of Unilever Nigeria Plc at ₦24.30. In arriving at the target price, we employed multiples of price/earnings, price/sales, price/book, and EV/sales. We also employed the discounted cashflow valuation methodology. Consequently, we recommend a SELL on the stock of the company.

"Our revised valuation puts the target price of the stock of Unilever Nigeria Plc at ₦24.30."

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the challenging operating environment in Nigeria, insecurity challenges in the northern part of the country, demographic factor of Nigeria, the strength of consumer spending and the intensity of competition in the market.

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

	FY2014	FY2015E	FY2016F	FY2017F
Revenue	55,754	57,532	58,970	60,209
Change		*3.19%*	*2.50%*	*2.10%*
Cost of sales	35,584	36,533	36,738	36,908
Change		*2.67%*	*0.56%*	*0.46%*
Gross profit	20,170	20,999	22,232	23,301
Change		*-25.00%*	*8.00%*	*12.00%*
Operating expenses	15,561	16,109	16,217	16,678
Change		*3.52%*	*0.67%*	*2.84%*
Other operating income	5	4	4	5
Change		*-25.00%*	*8.00%*	*12.00%*
Operating profit	4,614	4,894	6,019	6,627
Change		*6.07%*	*22.99%*	*10.11%*
Interest income	168	195	193	183
Change		*16.00%*	*-1.00%*	*-5.00%*
Interest expenses	1,909	2,291	2,382	2,144
Change		*20.00%*	*4.00%*	*-10.00%*
Profit before tax	2,873	2,798	3,830	4,667
Change		*-2.61%*	*36.86%*	*21.86%*
Income tax	461	851	1,164	1,419
Change		*84.51%*	*36.86%*	*21.86%*
Profit for the year	2,412	1,947	2,665	3,248
Change		*-19.26*	*36.86%*	*21.86%*

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

	FY2014	FY2015E	FY2016F	FY2017F
Non-Current Assets				
Property, plant & equipment	24,831	25,824	27,684	28,514
Intangible assets	1,398	1,707	1,605	1,556
Other non-current assets	936	908	808	824
Total non-current assets	27,165	28,439	30,097	30,894
Current Assets				
Inventories	8,615	8,184	8,593	7,143
Trade & other receivables	8,621	7,931	7,535	7,685
Cash & cash equivalents	1,335	2,998	1,758	2,171
Total Current assets	18,571	19,114	17,886	16,999
Total assets	45,736	47,553	47,983	47,894
Equity	7,479	9,048	10,768	12,881
Non-Current Liabilities				
Deferred taxation	2,981	3,160	4,100	4,264
Employee benefits	3,142	3,142	3,142	3,142
Loans and borrowings	763	786	802	754
Total non-current fin. liab.	6,886	7,088	8,044	8,160
Current Liabilities				
Trade & other payables	15,144	14,993	15,592	16,372
Current tax liabilities	213	851	1,164	1,419
Other current fin. liabilities	16,014	15,573	12,415	9,063
Total current liabilities	31,371	31,932	29,171	26,853
Total equity and liabilities	45,736	48,068	47,983	47,893

Fig. 14: Profitability & return

	FY2014	FY2015E	FY2016F	FY2017F
Gross profit margin	36.18%	36.50%	37.70%	38.70%
Operating profit margin	8.28%	8.51%	10.21%	11.01%
Net profit margin	4.33%	3.38%	4.52%	5.39%
ROCE	55.98%	49.77%	52.03%	48.61%
ROE	32.25%	21.52%	24.75%	25.22%
ROA	5.27%	4.10%	5.55%	6.78%

Source: Company's annual reports, PAC Research

Fig. 15: DuPont Analysis

	FY2014	FY2015E	FY2016F	FY2017F
Total assets turnover	2.05x	2.02x	1.96x	1.95x
Operating profit margin	8.28%	8.51%	10.21%	11.01%
Equity multiplier	6.12x	5.26x	4.46x	3.72x
ROCE	55.98%	49.77%	52.03%	48.61%

Fig. 16: Efficiency ratios

	FY2014	FY2015E	FY2016F	FY2017F
Fixed assets turnover	2.05x	2.02x	1.96x	1.95x
Current assets turnover	3.00x	3.01x	3.30x	3.54x
Total assets turnover	2.05x	2.02x	1.96x	1.95x
Inventory turnover	4.56x	4.35x	4.38x	4.69x
Receivables turnover	14.24x	13.06x	13.40x	12.72x
Payables turnover	6.31x	7.31x	7.59x	6.93x
Days inventory outstanding	80	84	83	78
Days collection outstanding	26	28	27	29
Days payable outstanding	58	50	648	53
Operating cycle (days)	48	62	62	54

Fig. 17: Liquidity ratios

	FY2014	FY2015E	FY2016F	FY2017F
Working capital (₦'millions)	-12,800	-12,303	-11,285	-9,854
Current ratio	0.59	0.61	0.61	0.63
Quick ratio	0.32	0.35	0.32	0.37
Cash ratio	0.04	0.10	0.06	0.08

Fig. 18: Long-term solvency & stability ratios

	FY2014	FY2015E	FY2016F	FY2017F
Gearing	9.26%	7.99%	6.93%	5.53%
Equity multiplier	6.12x	5.26x	4.46x	3.72x
Total debt-to-equity	5.12x	4.26x	3.46x	2.72x
Total debt-to-assets	83.65%	80.97%	77.56%	5.85%
Proprietary	16.35%	19.03%	22.44%	26.89%
Interest coverage	2.42x	2.14x	2.53x	3.09x
Cash coverage	-0.96x	3.57x	3.23x	3.15x

Fig. 19: Shareholders' investment ratios

	FY2014	FY2015E	FY2016F	FY2017F
EPS, ₦	0.64	0.51	0.70	0.86
DPS, ₦	0.10	0.10	0.25	0.30
Payout	15.68%	19.43%	35.48%	34.94%
FCFPS, ₦	-1.55	1.53	1.43	1.46

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

IMPORTANT DISCLOSURES

This research report has been prepared by the analyst(s), whose name(s) appear on the front page of this document, to provide background information about the issues which are the subject matter of this report. It is given for information purposes only.

Each analyst hereby certifies that with respect to the issues discussed herein, all the views expressed in this document are his or her own and reflect his or her personal views about any and all of such matters. These views are not necessarily held or shared by PanAfrican Capital or any of its affiliate companies. The analyst(s) views herein are expressed in good faith and every effort has been made to base our opinion on reliable comprehensive information but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither the analysts nor PanAfrican Capital is under any obligation to notify you or make public any announcement with respect to such change.

This report is produced independently of PanAfrican Capital and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of the analysts. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the recommendations, forecasts, opinions, estimates, expectations and views contained herein are fair and reasonable, none of the analysts, PanAfrican Capital nor any of its directors, officers or employees has verified the contents hereof and accordingly, none of the analysts, PanAfrican Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof.

With the exception of information regarding PanAfrican Capital, reports prepared by PanAfrican Capital analysts are based on public information. Facts and views presented in this report have not been reviewed and may not reflect information known to professionals on other PanAfrican Capital business areas including investment banking. This report does not provide individually tailored investment advice. Reports are prepared without regard to individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. It is recommended that investors independently evaluate particular investments and strategies. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances or objectives. Neither the analyst(s), PanAfrican Capital, any of its respective directors, officers nor employees accepts any liability whatsoever for any loss so ever arising from any use of this report or its contents or otherwise arising in connection therewith. Each analyst and/or any person connected with any analyst may have acted upon or used the information herein contained, or the research or analysis on which it is based prior to its publication date. This document may not be relied upon by any of its recipients or any other person in making investment decisions.

Each research analyst certifies that no part of his or her compensation was, or will be directly or indirectly related to the specific recommendations (if any), opinions, forecasts, estimates or views in this report. Analysts" compensation is based upon activities and services intended to benefit clients of PanAfrican Capital. As with other employees of PanAfrican Capital, analysts' compensation is impacted by the overall profitability of PanAfrican Capital, which includes revenues from all business areas of PanAfrican Capital.

PanAfrican Capital Plc
8A, Elsie Femi Pearse Street
Victoria Island
Lagos, Nigeria
Tel: +234 (1) 2716899, 2718630
www.panafricancapitalplc.com