

Unilever Nigeria Plc

Nigeria | Equities | Consumer Goods | May 13, 2015

PAC RESEARCH

Increase in finance cost: A fresh challenge

1Q '15 revenue increases by 7.8% y/y. In its three months results to March 2015, Unilever Nigeria recorded an improvement of 7.8% in revenue to ₦14.91billion against ₦13.83billion in the first quarter of 2014. The revenue in the review quarter is higher by 23.0% compared with ₦12.12billion in 4Q2014; also, it is higher than the 8-quarter average of ₦14.55billion by 2.5%.

14.7% y/y increase in input costs depressed gross profit margins.

For the review period, Unilever's cost of sales (COS) of ₦9.85billion was up by 14.7% compared with ₦8.59billion in the corresponding period of the previous year. The disproportionate increase in COS relative to revenue resulted in a higher COS/revenue ratio of 66.1% relative to 62.1% in 1Q2014 but lower than 71.9% in the fourth quarter of 2014. Moreover, the review quarter's COS is higher than the ₦8.71billion and the ₦8.59billion reported in 4Q2014 and 1Q2014 respectively by 13.1% and 14.7%; it is also higher than the 8-quarter average of ₦9.24billion by 6.6%. Therefore, gross profit declined by 3.5% to ₦5.06billion compared with ₦5.25billion in the previous year and gross profit margin fell to 33.9% relative to 37.9% in 1Q2014.

Operating profit improves on the back of savings in running costs.

In 1Q2015, the company's operating expenses of ₦3.49billion was down by 8.8% against ₦3.83billion in 2014, hence operating expenses/revenue ratio declined to 23.4% relative to 27.6% in the same period of the previous year but higher than 20.1% in 4Q2014. On a quarterly basis, the operating expenses in the review period is higher by 43.0% compared with ₦2.44billion in 4Q2014 but lower by 8.8% and 6.6% against ₦3.82billion and ₦3.73billion accordingly in the first quarter of 2014 and 8-quarter average of ₦3.74billion. Overall, total cost increased by 7.5% y/y to ₦13.34billion compared with ₦12.41billion and total cost/revenue ratio dropped marginally to 89.5% relative to 89.7% in 2014.

Fig. 1: Quarterly results highlights

| | 1Q2015 | 4Q2014 | 1Q2014 | Q/q Δ | Y/y Δ |
|-------------------------|--------|--------|--------|---------|---------|
| Revenue (₦'mn) | 14,911 | 12,122 | 13,834 | +23.01% | +7.79% |
| Operating profit (₦'mn) | 1,623 | 974 | 1,428 | +66.63% | +13.66% |
| Net profit (₦'mn) | 590 | 590 | 751 | 0.00% | -21.44% |

Source: NSE, PAC Research

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Price:

| | |
|------------------------|-------------|
| - Current | ₦45.00* |
| - Target | ₦28.63 |
| Recommendation: | SELL |

* As at Wednesday May 13, 2015

Fig. 2: Stock data

| FYE | December |
|---------------------------|-----------------------|
| Price Mov't: YtD / 52wk | +22.91%/-10.20% |
| 52-week range | ₦27.55 - ₦55.00 |
| Average daily vol./val. | 1,178,860 / ₦49.304mn |
| Shares Outstanding (₦'mn) | 3,783 |
| Market Cap. (₦'mn) | 166,465 (\$876.1mn) |
| EPS, ₦- 12months trailing | 0.59 |
| DPS, ₦- FY2014 | 0.10 |
| FCF, ₦- FY2014 | -1.55 |

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

Fig. 3: Key ratios

| | 1Q2015 | 1Q2014 |
|---------------------|--------|--------|
| Gross profit margin | 33.95% | 37.94% |
| Net profit margin | 3.97% | 5.42% |
| Equity multiplier | 5.97x | 3.42x |
| Asset turnover | 1.18x | 1.51x |

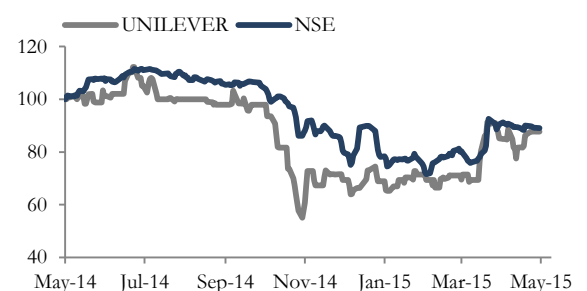
Source: NSE, PAC Research

Fig. 4: Valuations

| | FY2014 | FY2015E | FY2016F | FY2017F |
|------------|--------|---------|---------|---------|
| P/Sales | 2.92x | 2.83x | 2.76x | 2.70x |
| P/E | 67.44x | 83.53x | 61.03 | 50.08x |
| PEG | n/a | n/a | 1.65 | 2.28 |
| EV/EBITDA | 22.92x | 24.61x | 21.07x | 16.78x |
| P/B | 21.75x | 17.98x | 15.11x | 12.63x |
| ROE | 32.25% | 21.52% | 24.75% | 25.22% |
| ROA | 5.27% | 4.10% | 5.55% | 6.78% |
| Div. Yield | 0.23% | 0.23% | 0.58% | 0.70% |

Source: NSE, PAC Research

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



Source: Bloomberg, PAC Research

Therefore, operating profit moved up by 13.7% y/y to ₦1.62billion against ₦1.43billion in the corresponding period of the previous year and operating profit margin improves to 10.9% relative to 10.3% in 1Q2014.

Interest expenses impacts net profit margin. Worthy of note is the increase of 114.1% in interest expenses to ₦818million in the review quarter compared with ₦339million in 2013. In our view, the reason for the significant movement in the finance cost is the increase in loans and borrowings in the period under review; bank overdraft moved up to ₦6.01billion, i.e. an increase of 51.9% compared with ₦3.95billion in 1Q2014. In addition, long term loans and borrowings increased by 23.9% to ₦945million against ₦763million in the previous year. On the contrary, short term loans and borrowings declined by 11.6% to ₦10.67billion against ₦12.06billion in 2014. Overall, total debt moved up by 5.0% y/y to ₦17.62billion compared with ₦16.78billion. However, we observed that the additional loans and borrowings were used to finance non-current assets and working capital. Therefore, pre-tax profit declined by 20.5% y/y to ₦866million compared with ₦1.08billion in 2014.

Consequently, net profit dropped by 21.1% to ₦592million in the review period compared with ₦750million in 1Q2014 and net profit margin fell to 4.0% relative to 5.4% in the corresponding period of prior year.

Valuation

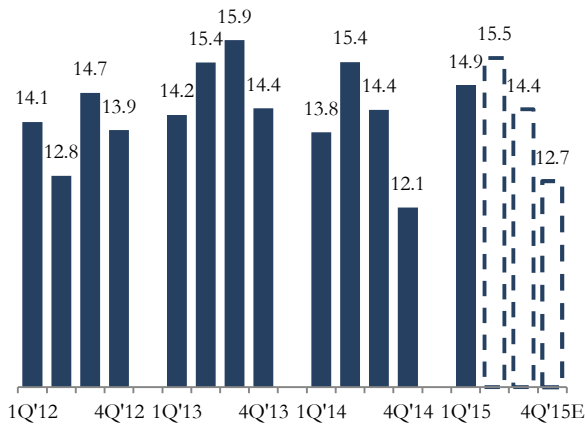
Our Valuation puts the target price of the stock of Unilever Nigeria Plc at ₦28.63. In arriving at the target price, we employed multiples of price/earnings, price/sales, price/book, and EV/sales. We also employed the discounted cashflow valuation methodology. Consequently, we recommend a SELL on the stock of the company.

Our 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 Nigeria, demographic factor of the country, the strength of consumer spending and the intensity of competition in the market.

“ Therefore, operating profit moved up by 13.7% y/y to ₦1.62billion against ₦1.43billion in the corresponding period of the previous year... ”

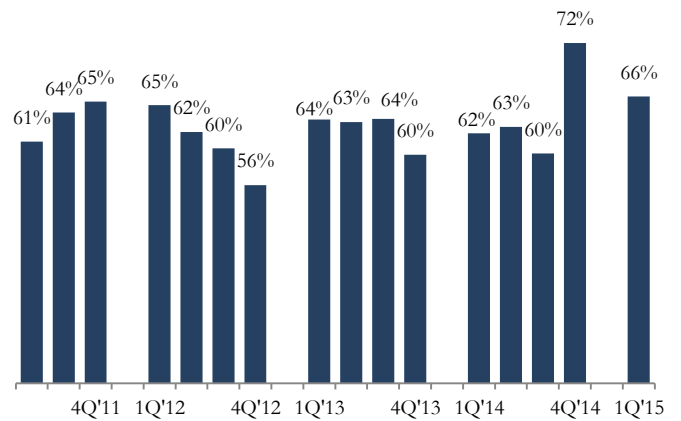
“ Our Valuation puts the target price of the stock of Unilever Nigeria Plc at ₦28.63. ”

Fig. 6: Quarterly sales revenue (₦billion)



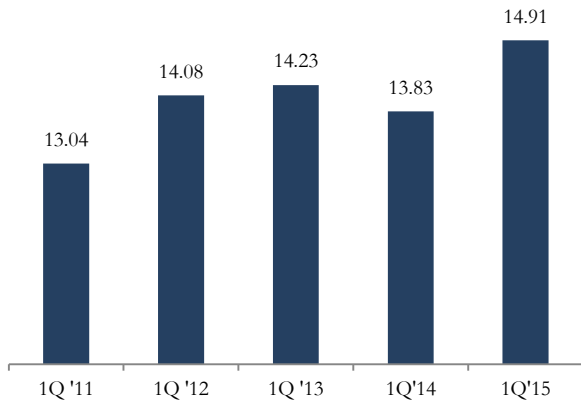
Source: NSE, PAC Research

Fig. 7: Quarterly COS/revenue ratio



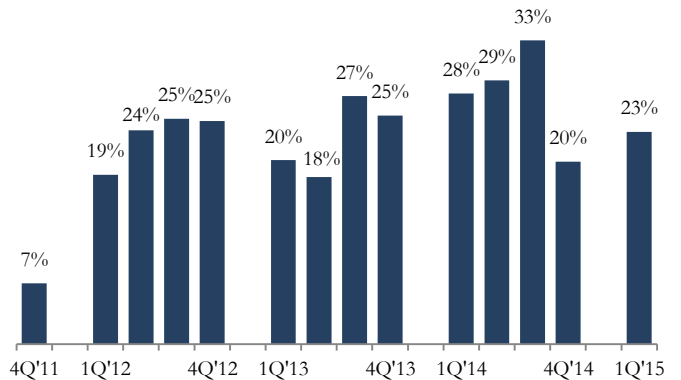
Source: NSE, PAC Research

Fig. 8: First quarter sales revenue (₦billion)



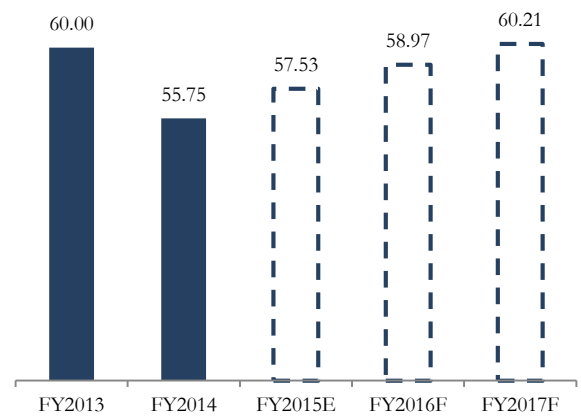
Source: NSE, PAC Research

Fig. 9: Quarterly operating expenses/revenue ratio



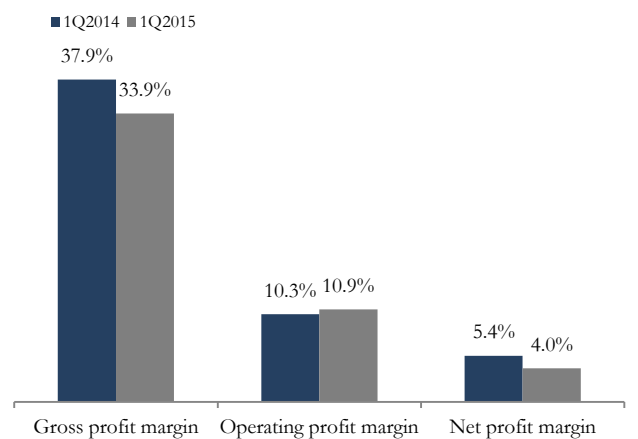
Source: NSE, PAC Research

Fig. 10: Annual sales revenue (₦billion)



Source: NSE, PAC Research

Fig. 11: Profit margins



Source: NSE, PAC Research

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 | | | | |
| 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 |

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