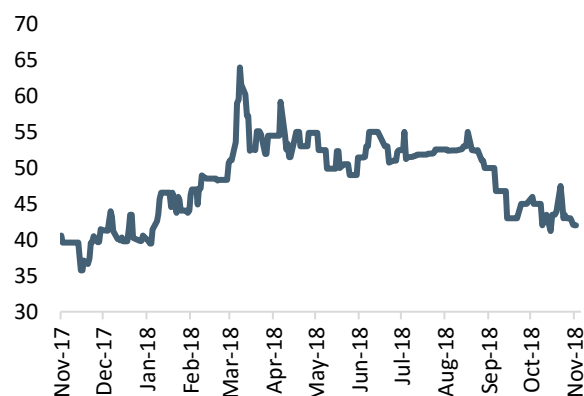


Rating	STRONG BUY
Price	₦39.25
FVE	₦47.58
52-week range	₦36.10-₦65.00
Market Cap. (₦bn)	302
1-month Avg. Vol	1,724,729
Curr. PE	18.3x

Quarterly EPS	Q1	Q2	Q3	Q4
2016 A	0.28	0.01	0.12	0.37
2017 A	0.42	0.55	0.31	0.54
2018 A (E*)	0.50	0.49	0.67	0.44*

UNILEVER:NL - Share Price Trend



Analyst(s)

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Click link below for recent report on Unilever

9M 2018 Initial View: One-off disposal gain mask operating weakness

Unilever Nigeria Plc. (UNILEVER.NL)

Stock Report

Upgrade to **BUY** on compelling valuations

- Unilever Nigeria (Unilever) 9M 18 results came in ahead of our expectation, although largely as a result of the ₦2.2 billion gain on disposal of the spread business which was effective 01 July 2018. Excluding the gain, EPS for the nine-month period underperformed our estimate due to slower than expected sales and higher than forecasted operating expenses. Having rolled forward our model and raised our operating expenses forecast in FY 19-23F, we arrive at FVE of ₦47.58 (previous: ₦50.98). Our FVE implies a 21% upside from current market price hence, we upgrade our recommendation on the stock to a **STRONG BUY**. On our numbers, Unilever trades at a 2019 P/E of 19.2x, a discount to 5-year historical average of 29.8x and Bloomberg MENA peer average of 21.6x.
- Revenue in 9M 18 underperformed our estimate (-1.9% deviation) due to a further slowdown in Home & Personal Care (HPC) sales in Q3 18. After rising double-digit in Q1 18, HPC sales contracted in Q2 and Q3 which we link to increased importation of HPC alternatives helped by the improved availability of FX. We had earlier thought that the latest approval from its parent company to distribute its deodorant product – ‘Rexona’ under the popular name “Sure” will support HPC sales over the rest of the year, but it appears the phase out process would take a while and thus see this benefitting revenue beyond 2018. Given this, we have revised our FY 18 sales expectation lower by 3% to ₦99.6 billion, but left our FY 19-23F sales forecast unchanged with a CAGR growth of 7%. Over our forecast horizon, we expect the food segment to drive

topline growth majorly from its popular seasoning product – “Knorr”. We highlight the resilience of Unilever’s food division which since Q1 18 has remained in double digit growth (+20% YoY in 9M 18) despite the sale of its spread business.

- We forecast EBIT margin of 13.9% (previous: 14.1%) over FY 18 and an average of 14.7% (previous: 16%) over our forecast horizon, following upward review to our operating expense forecast. Unilever’s operating expenses surged over 9M 18 with OPEX to sales ratio at 20.2% (+205bps higher than 18.2% as at 9M 17). The increase mainly stemmed from higher overheads and service fees in Q2 and Q3 respectively. While we expect service fees to normalize in Q4 given that bulk of the fee was reported in Q3, we foresee higher overheads into 2019.
 - We recall that overheads were particularly high in Q2 18 (overheads to sales ratio of 12% vs. 6.3% in Q1 18) which we linked to the sale of its spread business in our last update on Unilever. In Q3 18, overheads to sales moderated to 8% although, still higher than Q1 18 indicating pressures and thus prompting the upward revision of our OPEX to sales to average 19.5% (previous: 18.8%) over our forecast horizon. On balance, with the increase in OPEX, we expect EBIT margin of 13.9% in FY 18 and 14.7% on average over FY 19-23F, which still remain higher than 5-year historical EBIT average of 10.4%.
 - With Unilever’s strong cash position of ₦46.8 billion, we expect the company’s earnings to enjoy support from higher interest income which we forecast to print at ₦3.3 billion in FY 18. We continue to maintain our view that its rich cash will most likely be deployed into expanding its product offerings particularly in the food business which is currently underweight following the sale of the spread business. Irrespective, with our expectation of tamer finance costs going forward following deleveraging of its balance sheet (debt/equity at 0% as at 9M 18), we forecast net finance income of ₦2.6 billion in FY 19.
 - Net impact of the above translates to an EPS at ₦2.11 in 2018, but ₦2.04 in FY 19. Our lower EPS forecast in 2019 is due to the high base of FY 19 which has in it the one-off disposal of the spread business. Excluding the spread business, our revisions translate to a PBT of ₦14.6 billion and ₦17.2 billion in FY 18 and FY 19 respectively. Over our forecast horizon, we forecast EPS to rise by a 5-year CAGR of 6.7%. On this numbers, we forecast dividend of ₦0.60 in FY 18 and FY 19 which translates to an expected dividend yield of 1.5% based on the stock current market price.
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- Following revision to our forecasts, we cut our FVE to ₦47.58 (previous: ₦50.98) which implies a 20.4% premium to current pricing thus, we upgrade our recommendation to a **STRONG BUY**. On our numbers, Unilever trades at a 2019 P/E of 19.2x, a discount to 5-year historical average of 29.8x and Bloomberg MENA peer average of 21.6x.

Summary of Results and Forecasts - Naira (₦)

ANNUAL					
Income Statement (₦'m) *	2016A	2017A	2018E	2019F	2020F
Revenue	69,777	90,771	99,584	112,217	121,711
COGS	49,481	61,828	68,215	75,747	80,329
Gross Profit	20,296	28,943	31,369	36,471	41,382
Operating Cost	14,615	15,976	19,817	21,882	23,734
Operating Profit	5,805	12,950	13,842	14,644	17,709
Interest Income	(1,699)	(1,743)	2,967	2,610	2,449
Interest Expense	4,106	11,207	16,809	17,255	20,158
PBT	1,035	3,757	4,707	5,521	6,451
Tax	3,072	7,450	12,103	11,733	13,708
PAT	69,777	90,771	99,584	112,217	121,711
Balance Sheet (₦ '000) *					
Fixed Assets	29,272	29,881	29,482	29,843	30,235
Stocks	9,878	11,479	12,961	14,392	15,263
Trade debtors	18,946	27,621	44,813	39,276	36,513
Cash & other bank balances	12,474	50,494	45,419	61,920	77,513
Total Assets	72,491	121,084	134,284	147,041	161,133
Liabilities					
Trade Creditors	32,477	33,409	37,518	41,661	44,181
Non-current Liabilities	7,288	8,481	8,988	9,509	10,117
Total liabilities	53,513	36,695	40,794	44,935	47,453
Shareholders' fund	11,690	75,908	84,501	92,597	103,563
Key Ratios	2016A	2017A	2018E	2019F	2020F
Gross Margin	29.1%	31.9%	31.5%	32.5%	34.0%
EBIT Margin	8.3%	14.3%	13.9%	13.1%	14.6%
PBT Margin	5.9%	12.3%	16.9%	15.4%	16.6%
Net Margin	4.4%	8.2%	12.2%	10.5%	11.3%
EPS	0.81	1.78	2.11	2.04	2.39
P/E	43.11	23.00	18.63	19.22	16.45
EV/EBITDA	17.35	7.13	10.20	8.75	6.70
ROA	5.0%	7.7%	9.5%	8.3%	8.9%
ROE	26.3%	9.8%	14.3%	12.7%	13.2%

Source: ARM Research *unless otherwise stated

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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