



Rating	<b>OVERWEIGHT</b>
Price	₦43.50
52-week range	₦36.00–₦65.00
Market Cap. (₦'bn)	335.2
1-month Avg. Vol	1,258,934
Current PE	20.24x

#### UNILEVER: NL - Share Price Trend



#### Analyst(s)

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## Unilever Nigeria Plc (UNILEVER.NL)

### Initial View

#### One-off disposal gains mask operating weakness in Q3

- Unilever Nigeria in its just released Q3 18 results reported EPS from continuing operations of ₦0.67 (ARM's estimate of ₦0.57) which more than doubled Q3 17 performance of ₦0.33. The impressive earnings performance was driven by other income of ₦2.2 billion largely resulting from gains of ₦2.0 billion on the sale of its spread business (Blue Band Margarine). We note that the completion of the sale of its spread business to Sigma Bidco B.V (an entity incorporated by KKR & Co LP) was effective 01 July 2018. Cumulative for the nine-month period (9M 18), the company reported EPS of ₦1.66, representing a 37% increase from ₦1.22 in 9M 17.
- Spreads business sold at a gain:** Based on details in Unilever's Cash flow statement, we deduce that the assets of the spread business was sold at ~₦5 billion, higher than the asset book value of ₦2.7 billion which net of fees, resulted in the gain of ₦2.0 billion reported in Q3 18. The company disclosed that Sigma Bidco B.V (an entity incorporated by KKR & Co LP) is incorporated in Nigeria as Sigma Silver Foods (Upfield Foods) Nigeria Limited. Also, a Transitional Service Arrangement is in place during which Unilever Nigeria would support Upfield Foods and earn an income.
- Weaker core operating performance:** Excluding the gains on asset disposal, Unilever's operating performance wasn't spectacular relative to earlier quarters. Pre-other income EBIT declined 23.7% to ₦2.0 billion, due to a faster increase in cost of sales (+8.5% YoY) and operating expenses (+17.7% YoY) relative to revenue (+6.6% YoY). On input costs, given the sustained moderation in domestic

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crude palm oil price (-6%) and stable foreign exchange, we suspect the pressure resulted from higher petrochemical prices in line with the rise in crude oil price (+45% YoY). Elsewhere, the rise in operating expenses stemmed from a 25% YoY increase in admin expenses arising from higher service fees (+9.5x YoY). Majority of Unilever's service fees typically come in third or fourth quarter. With the bulk of its service fees arising in Q3 18, we expect a moderation in admin and overall operating expenses in Q4 18. On the other hand, we like the revenue growth of 6.6%. From our price checks, Unilever's average product pricing was up by a modest ~1.5%, suggesting that the company sustained single digit volume growth in Q3 18.

- **Still a healthy balance sheet:** Unilever's balance sheet remained strong in 9M 18. Loans and borrowings declined modestly by 1.2% QoQ to ~~₹~~4.3 billion (FY 17: ~~₹~~674 million) with debt to equity ratio remaining flat at ~0%. Cash also remained robust at ~~₹~~46.8 billion (-2.4% QoQ) which ensured the finance income of ~~₹~~950 million (+3.98x YoY) reported in the review quarter.
  - Overall, while we acknowledge the impressive bottomline performance, we reiterate that it was reflective of a one-off gain from the disposal of the spread business. Into Q4 18 and FY 2019, we maintain our optimism on earnings, as we expect operating expenses to normalize to previous levels. We also remain positive on topline with support expected to come from volumes.
  - Our last communicated FVE on Unilever is ~~₹~~50.98 which translates to an **OVERWEIGHT** rating on the stock. Unilever trades at a current P/E of 20.24x relative to Bloomberg Mena peer average of 19.2x.
  - **More analysis to follow.**
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## Summary of Results and Forecast

Income statement – (¥ million)	Q3 18	YoY growth	QoQ growth	Deviation from forecast	9M 18	YoY growth
<b>Revenue</b>	<b>24,180</b>	6.6%	-1.9%	-5.5%	<b>72,305</b>	10.7%
<b>Cost of sales</b>	<b>16,647</b>	8.5%	4.4%	-2.9%	<b>49,450</b>	10.6%
<b>Gross profit</b>	<b>7,533</b>	2.7%	-13.5%	-10.8%	<b>14,625</b>	-29.0%
<b>OPEX</b>	<b>5,512</b>	24.9%	-7.1%	23.0%	<b>14,625</b>	23.2%
<b>Operating profit</b>	<b>4,260</b>	60.8%	53.3%	7.3%	<b>10,470</b>	19.8%
<b>Finance expense</b>	<b>846</b>	-189.4%	-15.9%	52.6%	<b>2,182</b>	-198.2%
<b>PBT</b>	<b>5,106</b>	199.8%	34.9%	12.9%	<b>12,652</b>	94.1%
<b>PAT</b>	<b>3,846</b>	224.8%	36.4%	16.6%	<b>9,446</b>	105.2%

Key Ratios	Q3 18	Q3 17	Change(pps)	9M 18	9M 17	Change(pps)
Gross margin	31.2%	32.3%	-1.2%	20.2%	31.6%	-11.3%
EBIT margin	17.6%	11.7%	5.9%	14.5%	13.4%	1.1%
PBT margin	21.1%	7.5%	13.6%	17.5%	10.0%	7.5%
PAT margin	15.9%	5.2%	10.7%	13.1%	7.1%	6.0%
Effective tax rate	24.7%	30.5%	-5.8%	25.3%	29.4%	-4.0%

Source: ARM Research

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	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 engagement in an investment banking transaction and in certain other circumstances.

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