



Initial View

FY 2013 ended 31st December 2013

Recommendation: SELL

- Unilever Nigeria Plc “Unilever” reported 8% YoY rise in revenues to ₦60billion for the 12 months ended December 2013. FY 13 PBT and PAT declined 15.6% and 14% YoY to ₦6.9billion and ₦4.8billion respectively.
- Unilever proposed a ₦1.25k (98% payout ratio) dividend, 11% lower than FY 12 and implies a dividend yield of 2.8% using its last closing price.

A tame close to FY 13

- At ₦14.4billion, Q4 2013 YoY sales growth slowed to 3.8% in line with Unilever’s recent guidance of soft volume growth which management linked to increased consumer attraction to cheaper substitutes. This fits into a broad trend of weak volume growth across the FMCG Q4 13 results released thus far, which possibly reflects depressed consumer discretionary incomes.

Gross margins appear weaker on strong base effects

- Although crude oil prices which have a relationship with Unilever's main HPC petrochemical inputs (~70% of COGS) were tamer in Q4 13 (-1.2% YoY), COGS tracked faster than revenues (+9.6% YoY) to ₦8.6billion driving a 4.2% YoY decline in gross profits to ₦5.7billion. This in part reflects the weak base of 2012 when Unilever commenced its “one Unilever”

Income Statement Data

	2013- 12 'm	2012 - 12 'm	%chg
Revenue	60,004	55,548	8%
PBT	6,911	8,186	-16%
Tax	2,105	2,588	-19%
PAT	4,807	5,598	-14%

Balance Sheet Data

	2013-Dec 'm	2012 -Dec 'm	%chg
Inventory	6,988	7,230	-3%
Receivables	8,143	7,230	13%
Cash	3,184	1,858	71%
Payables	21,092	14,782	43%
Net Assets	9,640	10,044	-4%

Stock Data

Price	₦45.15
52 week range	₦43.32 - ₦76.00
Market Cap. (N'm)	170,815.53
1-month Avg. Vol	650,529
Curr. PE	35.5x
Bloomberg Ticker	UNILEVER: NL
Reuters Ticker	UNILEVE.LG

Unilever Nigeria Plc - Share Price Trend



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procurement strategy—which consolidated purchasing across all its global operations—that drove Q4 12 COGS to sales ratio to a multi-year quarterly low of 56.4%. In addition, we believe domestic crude palm oil (CPO) prices during the period were possibly higher tracking global prices (+6% YoY). Consequently, Q4 13 gross margins were 3.3pps lower YoY at 40.6%.

- Although FY 13 gross profits were 3.7% higher YoY at ₦22.45billion, related margins were 1.6pps lower YoY at 37.4%—despite lower mean CPO and crude oil prices than 2012 levels—again largely reflecting the high base of 2012 when GM were at a 5-year high.

Opex pressure compound earnings weakness

- Q4 13 operating expenses rose 10% YoY to ₦3.7billion in line with a marked industry trend during the quarter possibly reflecting increased spending on route-to-market (RTM) which management guided to over H2 13. In addition, we believe the re-launch of its “Royco” seasoning brand—including introduction of a new variant—over Q4 13 pushed advertising expenses northwards. This drove EBIT 22.7% lower YoY to ₦2.1billion with associated margins 5pps lower YoY at 14.6%. The pick-up in distribution expenditure over H2 13 largely accounts for the contraction in FY 13 operating income (11.4% YoY to ₦7.9billion).
 - A 71% YoY increase in cash balances to ₦3.2 billion (+26 QoQ) amidst a 41% YoY contraction in bank overdrafts during the quarter to ₦2.6billion underpinned the 25.6% YoY decline in net finance expenses to ₦203million. Nonetheless, reflecting base effects alluded to earlier, alongside elevated opex in the period, Q4 13 PBT and PAT fell 22% and 18% YoY to ₦1.87billion and ₦1.31billion respectively. Correspondingly, PBT margins was 4.3pps lower YoY at 13% whilst a 4pps YoY contraction in effective tax rates during the quarter limited YoY net margin contraction to 2.4pps (9%).
 - Overall FY 13 performance suggest pressures on consumer discretionary incomes continue to weigh on topline, aggravating the impact of higher RTM expenditure
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on earnings. Whilst the onset of the electoral cycle could result in greater scope for some improvement in volumes, we see this as short-lived and expect earnings pressures to persist as increased industry wide marketing and distribution expenditure intensifies competition within the FMCG space.

- Unilever trades at a current P/E of 35.4x vs. regional peers of 37.36x. We have a **SELL** rating on the stock with a fair value estimate of ~~₹31.24~~ **₹31.24** as per our last published report. Our valuation model is under review.

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	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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