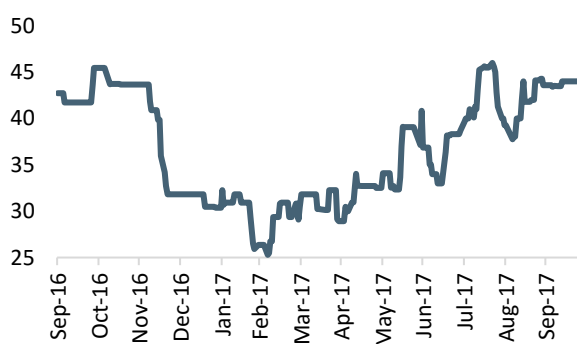




Rating	SELL
Price	₦44.00
FVE	₦28.48
52-week range	₦25.29 - ₦46.00
Market Cap. (N'tn)	0.167
1-month Avg. Vol	882,018
Curr. PE	27.10x

Quarterly EPS	Q1	Q2	Q3	Q4
2015 A	0.16	(0.13)	0.01	0.28
2016 A	0.28	0.01	0.12	0.37
2017A(E*)	0.42	0.55	0.33	0.42*

UNILEVER:NL - Share Price Trend



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Unilever Nigeria Plc. (UNILEVER:NL)

Stock Report

Earnings momentum to moderate beyond 2017

• Aided by higher prices across its product lines, Unilever reported a 39% YoY increase in revenue to ₦69.1 billion over 9M 17. The foregoing combined with subdued input cost pressure provided boost for Unilever's 9M 17 EPS of ₦1.3 (+4.5x YoY). Over the rest of the year, we expect higher YoY prices to uphold robust topline performance and as such we upwardly revise our estimates for FY 17 revenue. However, beyond 2017, we think price-induced revenue growth would be unsustainable as we expect the company to switch to a volume-led top-line growth strategy. In line with this expectation, we now look for revenue CAGR of 2% over our forecast horizon compared to 5% growth over 2010-2015.

• Price hikes undergird strong top-line performance in Q3.

Extending the pattern over the prior seven quarters, Unilever posted ₦24 billion in revenue (+37% YoY) with double-digit sales growth across its food (+24% YoY to ₦11.5 billion) and personal & home care (+50% YoY to ₦12.5 billion) segments. In our view, revenue growth was boosted by higher prices across its flagship products (*Royco* +33% YoY, *Close Up*: +32% YoY, *Knorr*: +22% YoY, *Blue Band*: +10% YoY, *Lipton*: +5% YoY). Similarly, COGS grew at a slower pace relative to revenue (+24.6% YoY) to largely re-enforce support from better pricing environment. Consequently, gross margin expanded 6.6pps YoY to 31.3%.

• Top-line gains offset elevated operating and financing expenses.

Further down, S&D and marketing/admin expenses expanded by 62% and 33.4% YoY to ₦1.2 billion and ₦3.6 billion respectively to offset steep declines in overheads (-33% YoY to ₦5.6 billion) and service fees (-33% YoY to ₦744 million). In our view,

elevated cost on the marketing and distribution leg reflects the company's intensified move to boost sales in the face of higher prices. Irrespective, the strong top-line performance mitigated the impact of elevated OPEX with EBIT jumping 195% YoY to ₦2.8 billion and related margin expanding 6.2pps YoY to 11.6%.

- Further down, Unilever recorded higher finance expense (+48% YoY to ₦1.3 billion), underpinned by interest payment on its intercompany loan. Thus, following a more than five-fold decline in finance income to ₦253 million, Unilever reported net finance expense of ₦1 billion (YoY: +29.2%). Elsewhere, a review of the company's balance sheet also revealed that a part payment ₦30.8 billion on its outstanding loans was paid in the period with the consequent impact trimming cash balance to ₦5.7 billion (-71% QoQ).
 - The foregoing combined with ₦539 million in taxes in the review quarter (relative to tax credit of ₦485 million in the corresponding period in 2016), moderated earnings momentum from the overall positive from prices and benign input cost. Consequently, EPS jumped to ₦0.33 (+166% YoY).
 - ***Price to remain crucial to 2017 earnings:*** Over the rest of the year, we expect higher prices relative to Q4 16 to uphold robust topline performance and as such we upwardly revise our estimates for FY 17 revenue to ₦93.5 billion (+33% YoY). However, we expect rising crude oil prices to underpin higher cost of petrochemical inputs which should leave COGS (+30.4% to ₦69.4 billion) at currently elevated levels. Overall, the foregoing translates to gross profit of ₦29 billion (+43% YoY) with related margin lower at 31% (previous estimate: 33%, 9M 17: 31%). Similarly, reflecting elevated S&D and marketing and admin expenditure over the nine-month period, we have revised Unilever's operating costs higher to ₦16.4 billion (+12% YoY).
 - In addition, we forecast finance expense at ₦4.2 billion (+56% YoY) to reflect the company's elevated level of borrowing relative to prior year. Similarly, we have revised Unilever's finance income lower to ₦888 million (-14% YoY) to reflect its lower cash balances. Net impact of our model revisions translates to PBT and PAT of ₦9.3 billion (+126% YoY) and ₦6.5 billion (+111% YoY) respectively – EPS of ₦1.71. (previously ₦2.37)
 - ***Earnings momentum subsides beyond FY 17.*** Beyond 2017, we hold the view that Unilever's current price-induced revenue growth is unsustainable given the backdrop of softer real income levels, rising cost of living as well as intense competition from imports following the improvement in FX availability. Given the foregoing, we project a volume-led increase in
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turnover over the remainder of our forecast horizon which should restrain topline growth from currently elevated levels. Overall, we project a 2% revenue CAGR over our forecast horizon (compared to 5.9% growth in the five years ending December 2015). Similarly, against the backdrop of improved FX liquidity we project a slowdown in the pace of COGS growth over our forecast horizon (2017-2021 CAGR: +2.4% vs. +5.4% between 2010 and 2015). Furthermore, we have revised our projections for net finance expense lower over our forecast horizon as Unilever reduces its outstanding debt following the conclusion of its rights issue (2017-2021 CAGR: -11% vs. 99% between 2010 and 2015). Similarly, OPEX growth has also been modestly revised downwards in line with current trends (2017-2021 CAGR: +5% vs. 7% between 2010 and 2015). Overall, the foregoing guides to a slower rise in earnings (2017-2021 CAGR: +15% vs 2017F: +116% YoY) going forward.

- Unilever trades at a forward P/E of 25.7x vs 16.8x for Bloomberg Middle East and Africa. We have a **SELL** rating on the stock with a FVE of **₦28.48**.

Summary of Results and Forecasts - Naira (₦)

ANNUAL					
Income Statement (₦'m) *	2014A	2015A	2016A	2017E	2018E
Revenue	55,754	59,222	69,777	93,500	97,647
COGS	35,584	38,174	49,481	64,515	66,888
Gross Profit	20,170	21,048	20,296	28,985	30,759
Operating Cost	15,561	16,485	14,615	16,362	18,260
Operating Profit	4,615	4,640	5,805	12,641	12,596
Net Finance expense	(1,742)	(2,869)	(1,699)	(3,374)	(422)
PBT	2,873	1,771	4,106	9,268	12,175
Tax	461	579	1,035	2,780	3,896
PAT	2,412	1,192	3,072	6,487	8,279
Balance Sheet (₦ '000) *					
Fixed Assets	23,225	24,831	27,369	29,272	32,394
Stocks	6,988	8,615	6,173	9,878	12,903
Trade debtors	8,143	8,544	10,143	18,946	23,375
Cash & other bank balances	3,184	1,335	4,435	12,474	20,913
Total Assets	43,754	45,736	50,172	72,491	91,506
Trade Creditors	15,111	22,543	32,477	38,709	40,133
Non-current Liabilities	6,887	7,472	7,288	8,809	10,500
Total liabilities	31,371	34,698	53,513	65,493	66,651
Shareholders' fund	7,479	8,003	11,690	17,204	24,241
Key Ratios	2014A	2015A	2016A	2017E	2018E
Gross Margin	36.2%	35.5%	29.1%	31.0%	31.5%
EBIT Margin	8.3%	7.8%	8.3%	13.5%	12.9%
Net Margin	4.3%	2.0%	4.4%	6.9%	8.5%
EPS	0.64	0.32	0.81	1.71	2.19
BVPS	1.98	2.12	3.09	4.55	6.41
P/E	51.44	137.23	54.19	25.66	20.11
EV/EBITDA	19.56	25.10	19.02	9.91	9.46
ROA	5.4%	2.5%	5.0%	7.9%	8.6%
ROE	32.3%	14.9%	26.3%	37.7%	34.2%

Source: ARM Research *unless otherwise stated

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