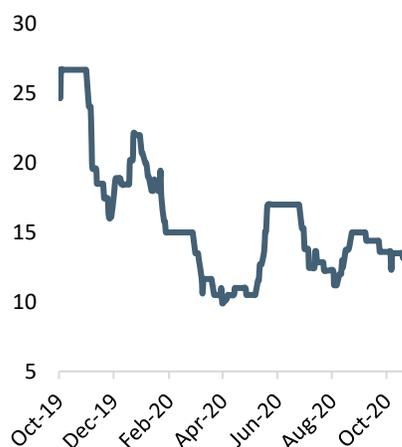




Unilever Nigeria Plc. (UNILEVER.NL)

Rating	NEUTRAL
Price	₦13.15
FVE	₦16.03
52-week range	₦9.90- ₦26.70
Market Cap. (₦bn)	75.547
1-month Avg. Vol	233,238
Curr. PE	NA

Unilever.NL – Share Price Trend



Analyst(s)

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Stock Report

FX losses trumps positive sales outturn

Unilever Nigeria recorded a 93.9% YoY increase in revenue to ₦17.39 billion, its first YoY revenue increase in 2 years (since a 6.6% YoY growth in Q318). Despite cost of sales also increasing, the increase in revenue was enough to lead gross profit higher to ₦3.73 billion (from ₦1.71 billion in Q319). However, higher operating expenses and net finance costs meant that Unilever still reported an after-tax loss for the period of ₦2.52 billion albeit an improvement from the ₦3 billion recorded in Q319. For the 9M period, revenue was down 13.4% YoY to ₦44.73 billion but a faster fall in costs (-17% YoY) meant that gross profit rose 2.6% YoY to ₦9.8 billion, with related margin at 22.1% (+344bps). Total loss over the 9M was ₦2.06 billion compared to a profit of ₦540.6 million in same period in 2019.

- Sales surge higher:** Over Q320, revenue rose a remarkable 93.9% YoY to ₦17.39 billion on the back of strong showings from both of the segments in their revenue portfolio. Food was up 84% YoY to ₦9.83 billion while Home & Personal Care rose even faster by 107% YoY to ₦7.57 billion. For us, the improvement in sales mirrors a blend of the low base from last year as well as recovery in volumes over the quarter, given the relatively flat prices over the period. Notably, revenue increased by 24% QoQ which is positive for the company, given the challenging environment. To recast, Unilever began its credit tightening policy in Q319 which ate into its sales in the following two quarters in a bid to cut down on its receivables.
- Cost of sales was up 27.9% YoY to ₦13.67 billion and although the low base of Q319 could explain some of that rise, the 21% QoQ rise shows that the low base cannot account for all of it. In our last report we highlighted an expectation for cost pressures to remain following the technical devaluation in March and the reduced FX supply. We therefore believe this played a factor in the higher cost over Q320. However, we saw gross profits rose by 118% YoY to ₦3.73 billion, given the faster increase in revenue with gross margin printing at 21.4%.
- Unilever recorded an operating loss of ₦1.45 billion (Q319: ₦4.64 billion) as operating expenses jumped by 68% YoY to ₦4.7 billion. The increase in opex came from increases in both admin costs (+80%) and distribution costs (+28%). Though the cash position dropped

by 25% QoQ to N35.3 billion, we believe the sharp drop in finance income (-95% YoY) stemmed more from the steep decline in the interest rates, with interest on deposits lower by 77%YoY. Finance expense rose 624% on the back of higher losses from re-measurement of their FX balances. This led to a net finance cost of ~~N~~0.58 billion from a net finance income of ~~N~~0.56 billion in Q319. On the whole, Unilever record an after-tax loss of ~~N~~2.52 billion, an improvement from the ~~N~~3 billion loss they recorded in Q319.

- After implementing their credit tightening last year, we struggled to see how Unilever would drive sales going forward. With two quarters of consecutive QoQ increase this year, we believe this result is a step on the right path towards a recovery in sales. That said, with the 9M sales tracking ahead of our projections, we now expect FY 20 sales to tick up mildly by 2% YoY (previously: -25%). Beyond this year, we expect sales to grow by an average of 3% over our forecast horizon. Also, we do not expect a re-occurrence of the FX losses reported this year and therefore expect the company to return to profitability from next year. On the back of this adjustment, our FVE estimate has increased to ~~N~~16.03 which translates to a **BUY** based on current price.
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ANNUAL					
Income Statement (N'000) *	2018A	2019A	2020F	2021F	2022F
Revenue	92,899,969	60,486,835	61,594,058	62,416,885	64,365,427
COGS	(64,674,847)	(55,737,010)	(47,427,425)	(48,685,170)	(48,274,071)
Gross Profit	28,225,122	4,749,825	14,166,633	13,731,715	16,091,357
Operating Cost	(18,952,063)	(16,399,301)	(17,246,336)	(14,043,799)	(12,873,085)
Operating Profit	9,197,776	(11,763,219)	(3,278,116)	(447,693)	3,078,429
Interest Income	4,026,932	2,144,815	601,918	1,595,669	1,111,169
Interest Expense	(602,800)	(135,869)	(348,396)	(216,503)	(219,751)
PBT	12,621,908	(9,754,273)	(3,024,595)	931,473	3,969,848
Tax	(3,489,756)	2,334,599	937,624	(288,756)	(1,230,653)
PAT	9,132,152	(7,419,674)	(2,086,970)	642,716	2,739,195
Balance Sheet (N'000) *					
Fixed Assets	29,678	31,957	54,831	52,112	49,828
Stocks	13,929	11,869	9,836	10,204	8,856
Trade debtors	30,188	24,131	21,800	16,238	16,901
Liabilities					
Trade Creditors	38,611	34,720	27,141	23,465	21,549
Non-current Liabilities	5,887	2,341	3,381	3,308	3,433
Total liabilities	43,167	34,808	27,229	23,553	21,637
Shareholders' fund	82,790	66,528	80,135	79,748	80,276
Key Ratios					
	2018E	2019F	2020F	2021E	2022E
Gross Margin	30.4%	7.9%	23%	22%	25%
EBIT Margin	9.9%	-19.4%	-5.3%	-0.7%	4.8%
PBT Margin	13.6%	-16.1%	-5%	1%	6%
Net Margin	9.8%	-12.3%	-3%	1%	4%
EPS	1.590	(1.291)	(0.36)	0.11	0.48
P/E	23.28	(24.78)	(88.09)	286.04	67.11
EV/EBITDA	13.09	(19.89)	319.14	30.00	18.75
ROA	7.2%	-6.3%	-2.0%	0.6%	2.8%

Summary of Results and Forecasts - N'000

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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 reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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