

Unilever Nigeria Plc. (UNILEVER.NL)

Rating	NEUTRAL
Price	₦11.00
FVE	₦12.71
52-week range	₦10.00- ₦39.00
Market Cap. (₦bn)	63,195
1-month Avg. Vol	427,295
Curr. PE	NA

Stock Report

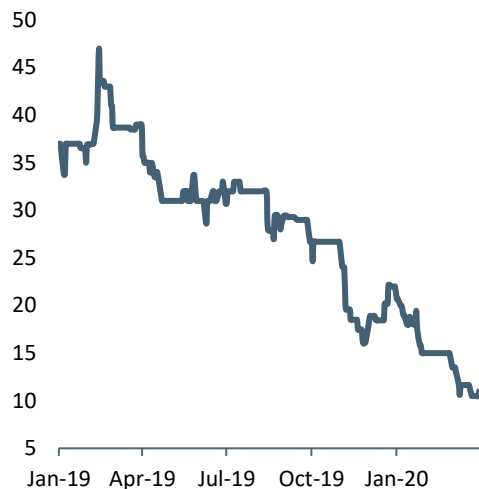
No respite to the poor performance in 2020

- Unilever reported a poor performance in 2019, following intense industry competition as well as company's renewed focus on alleviating its receivables. Consequently, revenue dipped by 34.9% YoY – coupled with lesser decline in input and operating cost, the company reported an operating loss of N11.8 billion. However, the tax credit of N2.7 billion and net finance income of N2 billion helped in soothing the loss position with loss after tax printing at N7.4 billion.**

- No respite for the revenue downturn over 2020:** Amidst intense competition in 2019, Unilever accumulated its receivables to the tune of ₦51 billion as at Q1 2019 (Q4 18: N30.2 billion) in a bid to boost sales. Regardless, the decline in revenue persisted stemming from both the HPC (-40.7% YoY) and food (-31.8% YoY) segments. On the former, the loss in market share of detergent (sunlight) sales to **Eko supreme**, led to the decline in segment sales. For the food segment, new entrants (both locally produced and imported goods) into the seasoning market further muddled the company's revenue picture. Consequently, group receipts declined by 34.9% YoY to ₦60.5 billion. This year, we foresee a bit of breather in the competitive landscape, given the restriction on flow of imported substitutes since the corona virus outbreak. Nonetheless, we still expect the company's revenue to decline by 29.5% YoY to N42.3 billion as we expect pressure from the locally produced goods to persist. Also, Unilever's strategy to alleviate its receivables further gives more credence to reduced level of sales relative to the prior year.

- Expect further pressure on cost in 2020:** Despite the significant reduction in sales, cost only declined by 14% YoY to ₦38.1 billion in 2019, while operating cost declined by 13% YoY to ₦16.4 billion. Accordingly, the company reported an operating loss of ₦11.8 billion. Over 2020, we expect the company to still report an operating loss of N7.8 billion – albeit lower than the previous year. For clarity, we expect the recently announced technical devaluation to put further pressure on its input cost and the quest to support sales will keep selling and distribution expense at 2019 levels.

Unilever.NL – Share Price Trend



Analyst(s)

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- **Looking at the positive side:** From the high levels of ₦51.5 billion receivables as at Q1 19, the company was able to reduce its receivables to ₦24.5 billion by FY 19 – the lowest level since Q1 17. Also, over the period the company paid down all its debt, with no loan on its books at YE 19.
 - On our expectation of a further decline in sales and pressure on cost, we cut our FVE to N12.71 (previously: ₦31.95). Relative to the last closing price, it presents a 15.5% upside and translates to **NEUTRAL** rating. Albeit, we see no room for a re-rating in the stock this year given we still expect the company to report a loss in 2020. However, beyond this year, we expect food producers to pass on some of its cost to end users which will be a breather on the industry's financial performance as a whole.
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Summary of Results and Forecasts - ₦'000

ANNUAL

Income Statement (₦'m) *	2018A	2019A	2020F	2021F	2022F
Revenue	92,900	60,487	42,341	42,886	44,627
COGS	64,675	55,737	39,377	36,453	33,470
Gross Profit	28,225	4,750	2,964	6,433	11,157
Operating Cost	18,952	16,399	12,661	9,649	8,925
Operating Profit	9,198	-11,763	-9,833	-3,310	2,134
Interest Income	4,027	2,145	1,991	1,997	2,035
Interest Expense	-603	-136	-249	-217	-220
PBT	12,622	-9,754	-8,091	-1,529	3,949
Tax	3,490	-2,335	-2,508	-474	1,224
PAT	9,132	-7,420	-5,583	-1,055	2,725
Balance Sheet (₦ '000) *					
Fixed Assets	29,678	31,957	47,881	45,188	42,895
Stocks	13,929	11,869	8,562	7,927	6,877
Trade debtors	30,188	24,131	16,936	12,614	13,125
Liabilities					
Trade Creditors	38,611	34,720	23,626	18,227	16,735
Non-current Liabilities	5,887	2,341	3,306	3,271	3,401
Total liabilities	43,167	34,808	23,715	18,315	16,823
Shareholders' fund	82,790	66,528	79,792	79,581	80,126
Key Ratios					
Gross Margin	30%	8%	7%	15%	25%
EBIT Margin	10%	NA	NA	NA	5%
PBT Margin	14%	NA	NA	NA	9%
Net Margin	10%	NA	NA	NA	6%
EPS	1.59	-1.29	-0.97	-0.18	0.47
P/E	23.28	NA	NA	NA	67.46
EV/EBITDA	13.09	NA	NA	82.23	22.37
ROA	7.22%	-6.30%	-5.61%	-1.14%	3.06%
ROE	9.31%	11.03%	-11.15%	-7.00%	1.33%

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 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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