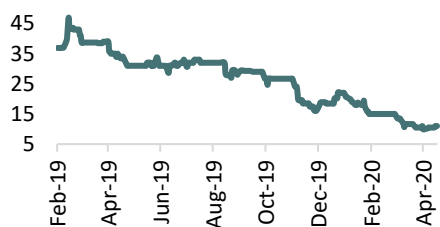


## Unilever Nigeria Plc. (UNILEVER.NL)

Rating	<b>NEUTRAL</b>
Price	₦11.00
FVE	<b>₦12.71</b>
52-week range	₦9.90- ₦33.70
Market Cap. (₦bn)	63,195
1-month Avg. Vol	770,002
Curr. PE	NA

### Unilever.NL – Share Price Trend



### Analyst(s)

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### Stock Report

#### *Revenue drops, technical devaluation to further pressure FY 20 earnings*

- Unilever released its Q1 2020 financial result on Friday, revealing a 30.7% YoY decline in revenue. PBT declined by 53.2% YoY, while PAT only declined by 26.7% to ₦1.14 billion with EPS at ₦0.19 which we believe reflects the tax loss carried forward worth ₦166 million. Specifically, average tax rate applied over the review period is 15% (vs. quarterly average of 24% in 2019).**
- Revenue declined YoY but improved QoQ:** As stated earlier, sales over the review period declined to ₦13.3 billion, stemming from both the food and HPC segment. Food declined by 19.9% YoY while the personal care segment declined by 40.7% YoY. However, QoQ sales improved by 50.5%, which we believe is positive for the company given the consistent decline since Q2 19 when the company decided to clamp down on its receivables. Interestingly, receivables was relatively flat at ₦24.6 billion, compared to the FY 19. Another positive thing about the result is the expansion in gross margin by 560bps YoY to 25.7% mirroring a faster decline in input cost. Notwithstanding, increased overheads and marketing expenses led to a 342 bps YoY decline in PBT margin to 7.1%.
- Elsewhere, the company reported positive cash flow from operations, printing at ₦4.68 billion from a negative position reported as at FY19, due to an increase in its trade payables.
- Amid declining sales, cost pressure will further put pressure on FY20 earnings:** Over 2020, we retain our expectation of a decline in sales given the disruption to production in Q2 coupled with continued competition within the industry being key drivers. Consequently, we expect revenue to drop by 30% to ₦42.3 billion. In addition, the technical devaluation implemented in March with applicable exchange rate now at the SMIS window now at ₦380.9/\$ (previously: ₦358.5/\$) is expected to increase the company's input cost. On that note, we expect the company to report an operating loss of ₦9.8 billion, while the finance income will help in reducing the loss before tax to ₦8.1 billion (FY 19: ₦9.8 billion). Upside to our estimate will be the company's ability to pass on the cost to final consumers which we are yet to include in our model.

- On our expectation of a further decline in sales and pressure on cost, we retain our FVE of ₦12.71. Relative to the last closing price, it presents a 15.5% upside and translates to **NEUTRAL** rating. Despite the upside, we see no room for a re-rating in the stock this year given that we still expect the company to report a loss in 2020.

## 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
<b>Balance Sheet (₦ '000) *</b>					
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
<b>Liabilities</b>					
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
<b>Key Ratios</b>					
	2018E	2019F	2020F	2021E	2022E
Gross Margin	30%	8%	7%	15%	25%
EBIT Margin	10%	-19%	-23%	-8%	5%
PBT Margin	14%	-16%	-19%	-4%	9%
Net Margin	10%	-12%	-13%	-2%	6%
EPS	1.59	-1.29	-0.97	-0.18	0.47
P/E	23.28	-24.78	-32.93	-174.26	67.46
EV/EBITDA	13.09	-19.89	-27.12	82.23	22.37

<b>ROA</b>	7.22%	-6.30%	-5.61%	-1.14%	3.06%
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### 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 reas portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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