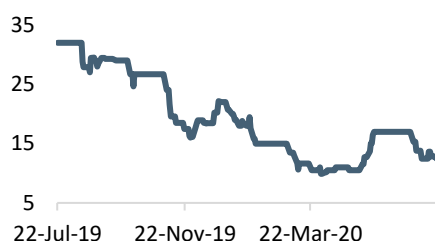




Rating	NEUTRAL
Price	₦12.85
FVE	₦13.05
52-week range	₦9.90- ₦32.00
Market Cap. (₦bn)	71,813
1-month Avg. Vol	288,009
Curr. PE	NA

Unilever.NL – Share Price Trend



Analyst(s)

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Unilever Nigeria Plc. (UNILEVER.NL)

Stock Report

Outlook remains bleak, despite positive surprise in sales

- Unilever Nigeria's H1 20 result revealed a 36% YoY decline in sales with an operating loss of ₦1.4 billion. Albeit, mild support from finance income reduced the H1 2020 after-tax loss to ₦519.1 million. While for Q2, the company reported a loss of ₦1.6 billion. Akin to Q1, the company's performance continues to reflect elevated cost amidst declining revenue. Nonetheless, the reported loss was lower than our expectation hinged on better outturn in sales.**
- Better than expected outturn in sales:** Over Q2 20, revenue declined by 40.1% to ₦14.0 billion hinged on a descent in both the food and personal care sales. Relative to the prior quarter, sales was up by 5.1% and exceeded our expectation by 10%. Though, we highlighted the QoQ sales improvement over Q1, we resisted to urge to revise our numbers hinged on 1.) expected impact of the lockdown on its non-essential product portfolio and 2.) the company never communicated any clear-cut strategy to drive sales since it began its credit tightening. While the competitive environment and suppressed income limits the prospect of a significant increase in price across the industry, we have made upward adjustment to FY 20 sales by 13% to ₦51.5 billion, reflecting the better than anticipated outturn over H1 and gradual improvement in economic activities over H2.
- Over Q2 20, cost declined at a slower pace relative to sales (- 29.2% YoY to ₦11.3 billion), translating to a gross profit of ₦2.73 billion and contraction in gross margin to 19.5% (Q2 19: 31.92%). We have left our cost estimates unchanged reflecting the technical devaluation which occurred in March as well as reduced FX supply to support importation of raw materials as highlighted by management. Therefore, we expect the input cost pressure to remain. This, coupled with elevated operating expense¹, is expected to push the company's FY 20 operating loss to ₦7.2 billion.
- Elsewhere, the company reported positive cash flow from operations, printing at ₦9.3 billion from a negative position reported as at FY19, due to a reduction in trade receivables and inventory. Unilever continues to sit on a very high cash balance of ₦44.6 billion (FY 19: ₦40.1 billion). While there hasn't been any communication to the use of cash, finance income generated in the interim will help in reducing the company's FY loss position.

¹ Q2 20 opex rose by 37% QoQ but was flat YoY

- Overall, while we expect improved sales relative to H1, input cost pressure coupled with elevated operating cost dims the company's outlook for this year. Our adjustment translates to an uptick in FVE to ₦13.05 (previously:12.71), however we maintain our **NEUTRAL** rating. Relative to the last closing price the stock trades closely to its fundamental value with just 1.5% upside.

Summary of Results and Forecasts - ₦'000

ANNUAL					
Income Statement (₦' m) *	2018A	2019A	2020F	2021F	2022F
Revenue	92,900	60,487	54,500	55,211	57,464
COGS	64,675	55,737	45,235	46,929	43,098
Gross Profit	28,225	4,750	9,265	8,282	14,366
Operating Cost	18,952	16,399	16,296	12,422	11,493
Operating Profit	9,198	-11,763	-7,207	-4,261	2,748
Interest Income	4,027	2,145	1,852	1,677	1,290
Interest Expense	-603	-136	-249	-217	-220
PBT	12,622	-9,754	-5,604	-2,800	3,819
Tax	3,490	-2,335	-1,737	-868	1,184
PAT	9,132	-7,420	-3,867	-1,932	2,635
Balance Sheet (₦ '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%	8%	17%	15%	25%
EBIT Margin	10%	-19%	-13%	-8%	5%
PBT Margin	14%	-16%	-10%	-5%	7%
Net Margin	10%	-12%	-7%	-3%	5%
EPS	1.59	-1.29	-0.67	-0.34	0.46
P/E	23.28	-24.78	-47.55	-95.14	69.77
EV/EBITDA	13.09	-19.89	-31.47	95.07	19.65
ROA	7.22%	-6.30%	-3.81%	-1.99%	2.79%

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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