

July 28, 2008

BUY

Fair Value: ~~NGN~~ 25.05

Current Price: ~~NGN~~ 19.01

### Valuation/Analyst Recommendation

We maintain our forecast and valuation for Unilever as we are of the opinion that the company is in line with the forecast. In arriving at our fair value, we estimated TO, Earning Before Interest Tax Depreciation and Amortization (EBITDA) and PAT for December, 2008. We project a TO of **N40.05bn**, based on a growth rate of 19.16% over the previous year. We project EBITDA of **N6.07bn** based on EBITDA margin of 14.99% and a PAT of **N3.69bn** based on a PAT Margin of 9.11%. We used **3.78bn** Ordinary Shares which we expect to be in issue as at December, 2008. The Forward Earnings Per Share (FEPS) generates **N0.98k**. We estimated the Dividend Per Share (DPS) of **N0.83k**, based on a dividend payout of 85%. Applying Enterprise Value EV/EBITDA multiple of **17.72x**, a P/E multiple of **23x** (which is our estimated Forward PE for the industry), we arrived at **N27.66k** per share using EV/EBITDA multiple and **N22.43k** per share price earnings multiple. A simple average of the two values generates **N25.05k** which is our fair value. The current price of **N19.01k** is at a discount of 31.7% to our fair value. The forward earnings yield and dividend yield based on our fair value generate **3.89%** and **3.31%** respectively. We therefore place a **BUY** on Unilever Stock at the current market price.

### Business Description

*The principal activities of Unilever include production, marketing and selling of Food, Home and Personal care products.*

Ticker	UNILEVER
Sector	Conglomerates
Date of Incorporation	April 11, 1923
Date of Listing	September 1973
Year End	December
No of Ordinary Shares	3,783,296,000
Capitalisation	₦ 68,515,495,069.39
% of Market Capitalisation	0.68%
52-Week High	₦27.99
52-Week Low	₦16.33
YTD Return	(13%)
52-Week Avg. Trade	1,915,395
Beta Value	0.79
Current EPS	0.64
Current PE	29.60

### Meeting Consumers' Needs:

The unaudited Q2 '08 result of **Unilever Nigeria Plc (Unilever)** for the period ended 31 June, 2008 showed that its Turnover (TO) grew by 20.70% to **N19.15bn**, compared with N15.86bn in the corresponding period of 2007. Profit Before Tax (PBT) grew by 193.84% between 2007 and 2008 to **N2.53bn** from N861mn in the corresponding period of 2007. The tax provision which increased by 258.9% between 2007 and 2008 to N810mn from N275mn in 2007 brought about a Profit After Tax (PAT) of **N1.72bn** as against N586mn in 2007, representing a growth of 193.52%.

A cursory look at the company's profit margins reveals a significant improvement in the PBT margin in Q2 '08 over Q2 '07 and over the FY '07 figure. The PBT margin increased significantly to 13.21% in Q2 '08 from 5.43% as at Q2 '07, and up from 5.98% as at the end of the financial year in December, 2007. This showed that the company's total costs as a percentage of TO stood at 86.79% in Q2 '08, down from 94.57% in the corresponding period of 2007. PAT Margin currently stands at 8.98%, up significantly from 3.69% in the corresponding period of 2007 and up from 3.23% as at FY '07. The result also indicates that the percentage of the TO, PBT, and PAT in the Q1 '08 result to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: 56.33%, 124.44% and 156.72%, respectively. This suggests that the company has improved its topline over its performance in 2007 and is equally out-performing its last years' bottom-line.

Looking at the audited accounts in 2007 the company's cost of goods sold increased in 2007 over 2006 by 22.45% to N22.56bn. The increase was lower than the increase in TO which was up by 33.01% to N33.99bn, thereby leading to a more proportionate increase of 60.30% in gross profit to N11.43bn. This resulted in a significant increase in the gross profit margin to 33.64% in 2007 from 27.91% in 2006. The operating profit increased by 323.17% in 2007 to N2.57bn. PAT increased significantly by 167.86% to N1.10bn from a Loss After Tax of N1.62bn in the previous year. Both the capital employed and the shareholders' funds increased by 16.89% (N7.61bn) and 27.26% (N5.03bn) respectively over the previous year. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 33.80% and 21.82% respectively in 2007. The company paid a total dividend of N0.25k as benefit to its shareholders in 2007 financial year.

The working capital position shows that Unilever may still have difficulties in meeting its current obligations as they fall due. This is reflected in both the current ratio and quick ratio which stood at 0.92x and 0.52x respectively as at FY 07. As at 2007, the working capital was (**N1.03bn**), an improvement over (N1.26bn) in the previous year.

As at the end of December 31, 2007, the total outstanding shares of 3.78bn were held as follows: **49.96%** was held by Nigerians while **50.04%** by Unilever Overseas Holding B.V.

An analysis of the TO of Unilever in 2007 showed that its income of N33.99bn was derived from two major areas which are: **Sales in Domestic Market (DM)** and **Sales in Foreign Market (FM)**. While DM accounted for a substantial 96.07% of the total income, FM accounted for 3.93% of the income. Analysing TO in terms of business sector showed that its income of N33.99bn was derived from Food Products **42%** and Home and Personal Care products **58%**. The growth in TO was largely due to excellent sales promotion activities, strong brands, inclusion of new product range and increased demand recorded during the year. Similarly, analysis of PBT of **N2,013.15mn** indicates that the Food Products contributed **91.04%** (**N1,832.70mn**) while the Home and Personal Care contributed 8.96% (**N180.45mn**). This revealed that the food products arm of the company is more profitable than the Home and Personal Care arm. The company's product line include: **Close Up, OMO, LUX, KNORR, Royco, Lipton, Blue Band and PEARS**.

## Industry Analysis (Nmn)

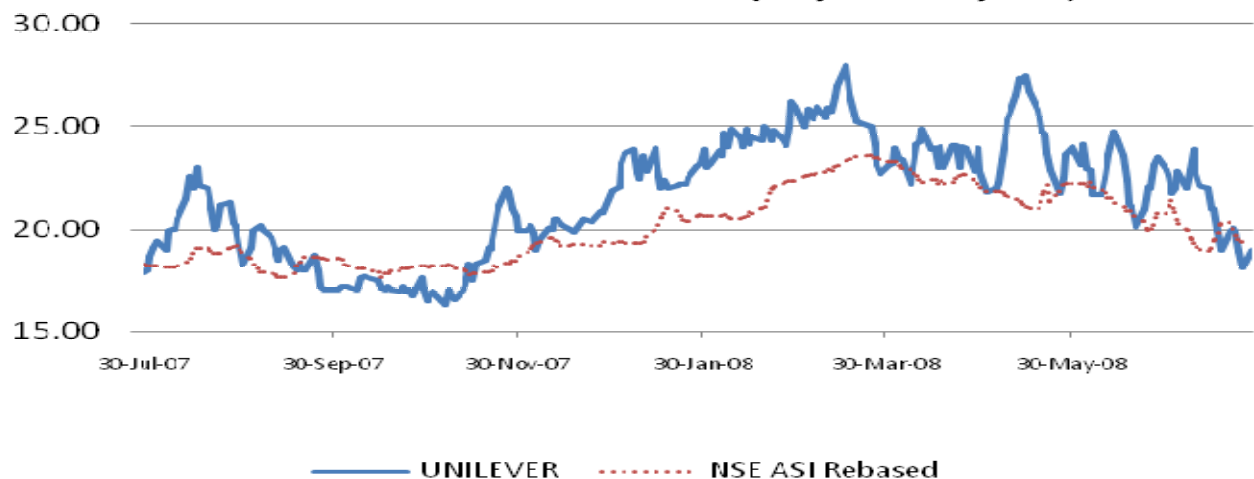
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
UNILEVER	33,990	2,033	1,097	3.23	21.82	0.64	29.60
UACN	31,478	5,087	3,058	9.72	17.7	2.65	15.73
PZ	54,217	5,356	3,824	7.05	12.5	1.36	16.43

While Financial Year End of Unilever and UACN is December, PZ's Financial Year End is May. \*Current Sources: Annual Reports & Financial Statements. NSE FACT BOOK

## Financial Performance (Nmn)

	Q2 '08	Q2 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover	19,146	15,863	20.70	33,990.85	25,554.42	33.01	40,504.20
PBT	2,530	861	193.84	2,033.15	(2,120.23)	195.89	4,870.71
PAT	1,720	586	193.52	1,097.50	(1,617.26)	167.86	3,689.93
PBT Margin (%)	13.21	5.43	7.78	5.98	(8.30)	14.28	12.03
PAT Margin (%)	8.98	3.69	5.29	3.23	(6.33)	9.56	9.11

Unilever Vs NSE ASI Rebased (July '07- July '08)



## Contact us at Our Offices:

**Lagos Office:** UAC House (6<sup>th</sup>-8<sup>th</sup> Floors) 1/5 Odunlami Street, P.M.B 12913 Lagos. (Tel.) 234-1-2640160-9 (Fax) 234-1-2702890

## Port Harcourt:

AfriBank Bank Building (2nd floor, 5 Trans Amadi Road, Port Harcourt. (Tel) 234-084-463308 (Fax) 234-084-463174

## Abuja Office:

NAL Abuja Complex, Plot 990, Cadastral Zone A O, Central Business District, (behind Leventis Stores), Abuja FCT (Tel) 234-09-6700535  
 (Website) [www.fsdhgroup.com](http://www.fsdhgroup.com), [www.fsdhsecurities.com](http://www.fsdhsecurities.com)  
 (Email) [fsdhsecurities@fsdhgroup.com](mailto:fsdhsecurities@fsdhgroup.com)

This publication is produced by FSDH Securities (FSDH Sec) a subsidiary of First Securities Discount House Limited (FSDH) solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Sec may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of FSDH or FSDH Sec. for actions taken as a result of information provided in this publication.