Unilever Nigeria Plc-

Positioned for Higher Growth

June 21,

2011

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FSDH Equity Research Report

FSDH
FSDH SECURITIES LIMITED

Executive Summary

BUY

Current Price	N27.10
Fair Value	N31.29

Unilever Nigeria Plc (Unilever) was incorporated as Lever Brothers (West Africa) Limited on April 11, 1923 by Lord Leverhulme, but the company's antecedents can be traced back to its existing trading interests in Nigeria and West Africa generally, and to the fact that it has since the 19th Century, been greatly involved with the soap business in Britain. Unilever creates products that help its customers to feel good, look good and get more out of life and has maintained total commitment to exceptional standards of performance and productivity. Over the years, Unilever has been a socially responsible and responsive organization that takes strategic actions for the improvement of its host communities and environments. Unilever has embarked on a programme of restructuring in a bid to re-energize itself and deliver fully on its promises to its various stakeholders. In addition, the company has sharpened its focus by introducing the "Vitality Mission", which stands to ensure that in all it does it is adding vitality to life for everyone.

Unilever's principal activities involve the manufacturing and marketing of foods ingredients and home and personal care products. The company has a strong portfolio of brands that are popular across the country. Unilever's strong roots in local markets and first-hand knowledge of local culture have enabled it to consistently produce quality products desired by its customers. Its product lines are classified into two: Home & Personal Care - Lux Beauty Soap, Close-up, OMO, Sunlight Detergent, Pears Baby Range and Vaseline Petroleum Jelly; and Food Products - Knorr, Royco, Blue Band and Lipton Yellow Label Tea.

Beta	0.88
Alpha Coefficient	0.09
R^2	11.25%
Z-Score	6.46

Other focus areas of the company are driving revenue principally by volume instead of price increases, continuous investment in high production capacity, Internal cost cutting strategy in order to continue to offer competitive pricing, Investment in capacity expansion and repackaging of existing products, and leveraging on the technical know-how of its parent company.

The total assets of Unilever Nigeria in 2010 were financed by a mix of equity and liabilities in the proportion of 32.14% and 67.86%, respectively. As at December 2010, the total assets of Unilever stood at N25.93bn, while total liabilities stood at N17.60bn. The short term liabilities stood at N14.40bn, accounting for 81.79% of the total liabilities, while the long-term liabilities stood at N3.20bn, accounting for 18.21% of the total liabilities. The debt ratio, which is the proportion of the company's total assets that is financed by long term and short term liabilities, increased marginally to 67.86% from 65.36% in 2009.The current ratio decreased to 0.99x in 2010 from 1.10x in 2009, while the quick ratio recorded a marginal decline to 0.55x in 2010 from 0.71x in 2009. However, this position remains within acceptable limits.

In spite of the unfavourable global and domestic financial market between 2009 and 2010, the company managers were able to deliver good returns to the shareholders and all other stakeholders of the company. Turnover increased from N25.55bn in 2006 to N46.81bn in 2010, representing a Compound Annual Growth Rate (CAGR) of 16.34% and increased by 5.23% between 2009 and 2010. The growth in the turnover was principally on account of increase in the volume of sales as against price increase, as Unilever did not want to shift the increase in price of inputs to their customers in the form of increase in price. The return on equity stood at 50.16% in 2010, up from 49.91% in 2009. Also, the return on assets stood at 26.25%, a marginal decrease from 28.26% recorded in 2009. Return on capital employed decreased from 59.34% in 2009 to 58.98% in 2010.

*An investment in the shares of Unilever in January 2006 has grown by 70.86% as at the date of this report. Applying two valuation methods to value the shares of Unilever; we arrive at a fair value of N31.29 per share. We estimate a dividend per share of N1.65 for FY 2011 based on dividend payout of 90%. Buying the stock at the current market price of **N27.10**, holding it to our fair value of **N31.29** and adding the present value of the 5-year forecast dividend, investors will earn a total return of **42.75%**. Relating this return to the cost of equity estimated by CAPM at 17.88%, investment in Unilever shares will earn an excess return (alpha return) of 24.87%. We therefore place a **BUY** on the shares of Unilever Nigerian Plc at the current market price of N27.10 per share.*

1.0 Corporate Information

***Unilever Nigeria Plc* (Unilever)** was incorporated as Lever Brothers (West Africa) Limited on April 11, 1923 by Lord Leverhulme, but the company's antecedents can be traced back to its existing trading interests in Nigeria and West Africa generally, and to the fact that it has since the 19th Century, been greatly involved with the soap business in Britain. Unilever started as a soap manufacturing company, and is today one of the oldest surviving manufacturing organizations in Nigeria. After a series of mergers/acquisitions, the company diversified into manufacturing and marketing of foods, non-soapy detergents and personal care products. These mergers/acquisitions brought in Lipton Nigeria Limited in 1985, Cheeseborough Ponds Limited in 1988. The company changed its name to Unilever Nigeria Plc in 2001. Unilever Nigeria Plc is a public liability company quoted on the Nigerian Stock Exchange since 1973 with Nigerians currently having **49%** of equity holdings. Unilever Plc London has given Unilever Nigeria Plc exclusive right to the know-how, manufacture, distribution and marketing of its brands. In consideration for this, a royalty of **3%** of net sales value is payable by the company to Unilever Plc London. It also has a management service agreement with Unilever Plc London in consideration for which a fee of **2%** of **PBT** is payable by the company.

Unilever maintains total commitment to exceptional standards of performance and productivity.

The long term success of the business stems from the strong relationship with consumers based on knowledge of the local cultures and markets in which it operates. Unilever creates products that help its customers to feel good, look good and get more out of life and maintains total commitment to exceptional standards of performance and productivity. In order to sustain this success, Unilever thrives to maintain the highest standards of corporate behaviour towards its employees, consumers, customers, communities and operating environment. Its brands are household favourites and this is because they are so deeply committed to meeting the everyday needs of people everywhere in Nigeria.

Unilever has embarked on a programme of restructuring in a bid to re-energize itself and deliver fully on its promises to its various stakeholders. In addition, the company has sharpened its focus by introducing the "Vitality Mission", which stands to ensure that in all it does it is adding vitality to life for everyone.

The company has made provisions for assistance in fields of health, education/children welfare and portable water/hygiene as part of its social responsibility programme in Nigerian communities.

Over the years, Unilever has been a socially responsible and responsive organization that takes strategic actions for the improvement of its host communities and environments. The company has made provisions for assistance in fields of health, education/children welfare and portable water/hygiene as part of its social responsibility programme in Nigerian communities.

1.2 Business: Unilever's principal activities involve the manufacturing and marketing of foods ingredients and home and personal care products. The company has strong portfolio of brands that are popular across the country. Unilever's strong roots in local markets and first-hand knowledge of local culture have enabled it to consistently produce quality products desired by its customers. Its product lines are classified into two: Home & Personal Care - **Lux Beauty Soap and Lux Diva Mix**, **Lifebuoy Toilet Soap, Close-Up Toothpaste and its variants, OMO**, **Sunlight Detergent**, **Pears Baby Range** and **Vaseline Petroleum Jelly**; and Food Products – **Knorr Cubes**, **Royco Cubes and Royco Goat Meat Flavor**, **Blue Band and Blue Band Deli, Annapurna Salt** and **Lipton Yellow Label Tea**. These products command strong demand in the market and are less affected by adverse economic situation because they are all necessities.

Table 1: Shareholding Structure as at December 31, 2010		
Shareholders	No of Shares Held	% of Shareholding
Unilever Overseas Holdings B.V.	1,893,161,444	50.04
Others	1,890,134,806	49.96
Total	3,783,296,250	100.00

Unilever Overseas Holding BV is the only single shareholder with more than 10% shareholding in the company.

Table 2: Directors' Shareholding as at December 31 2010		
Director	Position	No of Shares
Apostle H.I. Alile	Chairman	6,250
Mr. Thabo Mabe	Mgr. Director/CEO	Nil
Mr. A. Mamvura	Ex-Director	Nil
Mrs. G. Oluoch	Ex-Director	Nil
Mr. J.K. Wandawanda	Ex-Director	Nil
Chief. S.I. Adegbite	Non Ex-Director	227,543
Igwe N.A. Achebe	Non Ex-Director	55,976
Mallam Abba Kyari	Non Ex-Director	68,084
Mr. Atedo Peterside	Non Ex-Director	5,000,000
Mr. P. Sykes	Non Ex-Director	Nil
Sen. Udoma Udo Udoma	Non Ex-Director	1,637,500
Mrs T. Agiri	Non Ex- Director	Nil
Mr. K. Boateng	Executive Director	Nil

Table 3: Company Summary	
Ticker	UNILEVER
Sector	Conglomerates
Date of Incorporation	April 11, 1923
Date of Listing	September 1973
Financial Year End	December
Number of Fully Paid Share	3,783,296,000
Current Capitalization(NGN)	102,527,321,600
NSE Capitalization (NGN)	8,031,591,983,662
% of NSE Capitalisation	1.28
52 Week high NGN	31.25
52 Week low NGN	22.56
YTD Return (%)	4.83
52 Weeks Average Volume Traded	1,523,772
Trailing EPS NGN	1.28
Trailing P/E ratio (X)	21.14

2.0 Review of Nigerian Economy

Available data from the National Bureau of Statistics (NBS) indicates that Nigeria's Gross Domestic Product (GDP) grew by 7.86% in Q3 2010, slightly higher than the revised 7.69% as at Q2, 2010.Overall the Nigerian economy was relatively stable with mixed outcomes. According to the Central Bank of Nigeria (CBN), at the end of the 2010 fourth quarter, the major monetary aggregates expanded relative to their levels at the end of the third quarter. Aggregate banking system credit to the domestic economy stood at ₦8,962.9bn at the end of Q4 2010, a decline of 3.7%, from the level at the end of the third quarter and in contrast to the 8.1% increase recorded at the end of Q4 2009. The banking system's credit to the private sector contracted by 6.1% to ₦9,703.7 bn, in contrast to the 2.3% rise at the end of the preceding quarter.

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The inflation rate (year-on-year) moderated, but it remained in double digits at the end of 2010 and stood at 12.40% as at May 2011. The pass-through effects, on the Nigerian economy, of the increase in the prices of food, as a result of flooding in many food producing countries, and the increase in the price of oil at the international market, have increased inflationary pressure on the local economy. The current import dependent nature of the Nigerian economy makes it difficult for Nigerians to avert the pass-through effect. Other factors that have contributed to the inflationary pressure are the weak infrastructure, high cost of borrowing in the local financial market, and the electioneering spending. Meanwhile, the CBN has reiterated its commitments to a single digit inflation rate.

The value of naira depreciated at the official market in 2010 by 0.72% to close at N149.17/US$1. However, the exchange rate has further worsened in 2011, and is close to the CBN band of 3%. As at June 20, 2011, the exchange rate closed at N153.39/US$1, representing a depreciation of 2.83% from the level on December 31, 2010. The International Monetary Fund (IMF) earlier recommended a devaluation of the naira, arguing that the naira was over-valued. FSDH Research does not share this view. With the oil price hovering around US$100/b, improved oil production, and decent external reserves, which cover about 16 months of imports, the economy has fairly good fundamentals to support the exchange rate around N150/US$1.

FSDH research believes that the excessive increase in rates may lead to cost-push inflation and may attract "hot money" to the financial system, while Nigerians bear the consequences.

The Monetary Policy Committee (MPC) of the CBN noted that the need to reduce speculative demand for foreign exchange and to bring the inflation rate to a single digit necessitated the series of restrictive monetary policies implemented during each of its meeting so far, in 2011. FSDH research believes that the excessive increase in rates may lead to cost-push inflation and may attract "hot money" to the financial system, while Nigerians bear the consequences.

In our opinion, the focus of the current administration is to come up with a workable framework to improve infrastructural facilities in the country and ensure fiscal discipline in the management of the country's scarce resources. This will set the tone for the growth of the non-oil sector of the economy in order to create employment and help broaden the productive base and revenue of the country in a sustainable manner.

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The outlook of the foreign exchange rate in the medium term appears stable as the CBN is determined to meet all genuine demand for foreign exchange. In addition, the current foreign reserves level of US$33.65bn as at June 15, 2011 is sufficient to cover about 16 months of imports against the internationally acceptable level of 3 months.

We believe that the current administration will implement a number of policies to diversify the productive base of the economy so that the economy is less vulnerable to international oil price volatility. Furthermore, the new administration is embarking on a number of reform agenda to improve the nation's infrastructure, thereby stimulating the economy, and to strengthen public expenditure management especially in job creation.

3.0 Review of Nigerian Manufacturing Sector

There are plans to privatize Power Holding Corporation of Nigeria (PHCN) in order to run the corporation more efficiently and profitably in the interest of the consumers.

The Nigerian manufacturing industry is relatively small in relation to the size of the domestic economy.

We note the possible negative impact of both the current job cuts in the financial sector and the insufficient level of job creation on aggregate purchasing power in the long run.

Our analysis of the operating environment shows that the manufacturing and distribution businesses in Nigeria are faced with infrastructural challenges (transportation and power). In order to meet their power needs, manufacturing companies invest heavily in alternative sources of power. The cost of acquiring and maintaining this equipment add in no small measure to the operating costs. Manufacturing firms sometimes shift some of these costs to their customers in form of increase in the price of goods, while the firms bear a portion of it. The extent of this shift also depends on the elasticity of demand for the product in question to price. Sometimes we notice a drop in demand, as a result of increases in price. In addition to the problem of infrastructure, the tight liquidity prevailing in the economy and the unwillingness of banks to lend has reduced credit to the real sector, while the available credit commands high interest rates, thus increasing financing costs for the manufacturers. The combination of these factors has limited the growth of the manufacturing sector in the country, despite the huge market potentials within Nigeria and in neighboring countries. In the last one year, the manufacturing sector has witnessed some improvement, as the capacity utilization of manufacturing production is estimated to be 55.8%, which reflects a rise of 2.8 percent over the corresponding period in 2009. Its growth rate was 8.14% in Q3 2010, marginally higher than 8.13% in Q3, 2009. This is considered too low for a country that has huge consumption power like Nigeria, with its estimated market size of 150million people. The growing middle class of Nigerians, whose tastes and life style are changing for high quality consumer goods and products, presents an important opportunity for operators in the Fast Moving Consumer Goods (FMCG) industry to grow their consumer base.

The Nigerian manufacturing industry is relatively small in relation to the size of the domestic economy. The sector has not grown remarkably over the years due to a series of factors: the neglect of the sector in favour of oil, an epileptic power supply, and the country's deficient infrastructure, among others. Although the Nigerian government maintains that the industry is the main instrument of rapid growth, structural change and self-sufficiency, it has not yet pursued the necessary policies to improve the performance of the manufacturing industry. We, however, commend the ongoing efforts of the CBN to make soft loans available to Small and Medium Scale Enterprises (SMEs) and the government's proposed privatization of the Power Holding Corporation of Nigeria (PHCN). Some quoted manufacturing companies, especially those with highly capitalized stocks, managed to show impressive performance as the economy continues on the path of recovery, after the global economic and financial meltdown. The fact that some FMCGs have low-income elasticity of demand to economic factors helped to insulate the revenue of operators. However, we note the possible negative impact of both the current job cuts in the financial sector and the insufficient level of job creation on aggregate purchasing power in the long run.

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4.0 Unilever's Corporate Governance

Unilever Nigeria has continued to embrace high standards of corporate governance in its pursuit of sustained value creation and long term viability of the business for the benefits of all stakeholders.

Unilever Nigeria has continued to embrace high standards of corporate governance in its pursuit of sustained value creation and long term viability of the business for the benefits of all stakeholders. At the core of Unilever's corporate governance initiatives are the Code of Corporate Governance in Nigeria, International Best Practices on Corporate Governance and the Unilever Code of Business Principles.

The governance structure of the company consists of:

- The Statutory Board of Directors
- The Leadership Team
- The Audit Committee

4.1 Strategic Focus

Unilever has a clear goal to drive the growth of its world-leading brands through fast, large scale, exciting innovation. The company's Research and Development (R&D) Unit is at the heart of this, combining world-class science and technology with deep consumer insight to produce new products that delight consumers around the world. As a multi-national company, its R&D capability consists of six principal R&D laboratories around the world: two in the United Kingdom (UK), one in the Netherlands, one in the United States, one in China and one in India. The R&D centres work seamlessly with a network of global and regional technology centres that provide the next generation of products for the Unilever companies globally.

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The company has strengthened its connection with its customers, landed innovations, invested in higher production capacity, consolidated benefits from its manufacturing site rationalization, which was implemented in the middle of 2008, and delivered cost savings. Unilever intends to continue to leverage on its improved capability via looking for cost saving opportunities to make the company leaner and agile, fit to compete and to adapt to a changing operating environment. This is critical to the company in order to deliver sustainable growth and profitability. In order to gain market acceptance and delight its various customers, the company has embarked on the following:

- Invested more in advertising and promotion of its brands
- Invested in capacity expansion and modernization
- Supported its customers to secure financing during credit squeeze
- Invested in capacity expansion and repackaging of existing products
- Launched additional products.

4.2 Strengths & Opportunities

- Good credit history in local financial market
- Strong roots in local markets and first-hand knowledge of local culture
- Strong Research & Development capabilities
- Global brand name
- Diversified product range
- Diversified management expertise
- Large market size
- Producing basic needs of people

4.3 Weaknesses & Threats

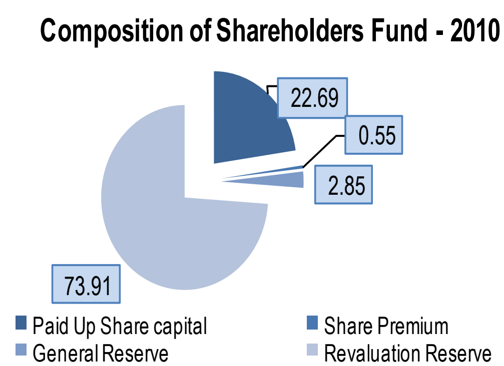
- Reduction in purchasing power of the citizenry due to rising unemployment
- Inadequate physical infrastructure in the country
- Credit crunch in the system due to unwillingness of banks to lend money to the real sector
- Gradual decline in the value of the naira
- High global commodities prices

5.0 Analysis & Recommendation

Our analysis was based on Unilever's Account for the period ended 12 months December 31, 2010, compared with 12 months December 2009. For the computation of CAGR, the base period is 2006.

5.1 Capital Structure

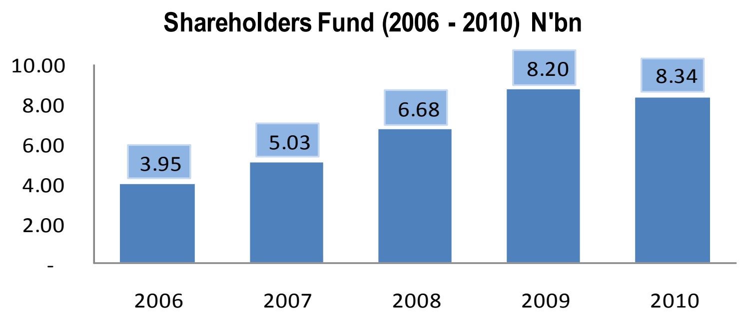
Total shareholders' funds of Unilever grew marginally from N8.20bn in 2009 to N8.34bn in 2010, translating to an increase of 1.62% during the period. The increase in total shareholders' funds was primarily driven by 2.20% growth in retained earnings from N6.03bn in 2009 to N6.16bn in 2010. The growth in the retained earnings was as a result of the marginal improvement in the bottom line recorded in this period.



The Compound Annual Growth Rate (CAGR) in the total shareholders' funds between 2006 and 2010 stood at 20.50%. The long term assets of Unilever stood at N11.74bn in 2010 up from N9.98bn in 2009 and represented a growth of 17.69%. The CAGR between 2006 and 2010 stood at 10.86%.

The current assets increased marginally by 3.57% to N14.20bn in 2010 from N13.71bn in 2009 on account of an increase in cash & bank balances, which increased by 35.19% to N2.68bn in 2010 from N1.98bn in 2009 and Stocks, which increased by 27.59% to N6.28bn. However, other components of the current assets, like the trade debtors, dues from related companies and other debtors recorded a decline, which reveals that the company has made laudable efforts to reduce the amount of its cash being held by others. Trade debtors decreased by 19.50% to N2.81bn from N3.49bn in 2009; Other Debtors & payments decreased by 27.43% to N1.27bn from N1.75bn in 2009 and dues from related companies dropped by 26.12% to N1.15bn from N1.55bn in 2009. Adding the long term assets and the current assets of the company together, the total assets grew marginally by 9.50% to N25.94bn in 2010 from N23.68bn in 2009. This represents a CAGR of 8.63% between 2006 and 2010.

The company has made laudable efforts to reduce the amount of its cash being held by others.



The total assets of Unilever were financed by a mix of equity and liabilities in the proportion of 32.14% and 67.86%, respectively. As at December 2010, the total assets of Unilever stood at N25.94bn, while total liabilities stood at N17.60bn. The short term liabilities stood at N14.40bn, accounting for 81.79% of the total liabilities, while the long-term liabilities stood at N3.20bn accounting for 18.21% of the total liabilities. Its long term liabilities are deferred taxation, which represented 35.49% of the long term liabilities and staff gratuity & long service awards, representing 64.51% of the long term liabilities.

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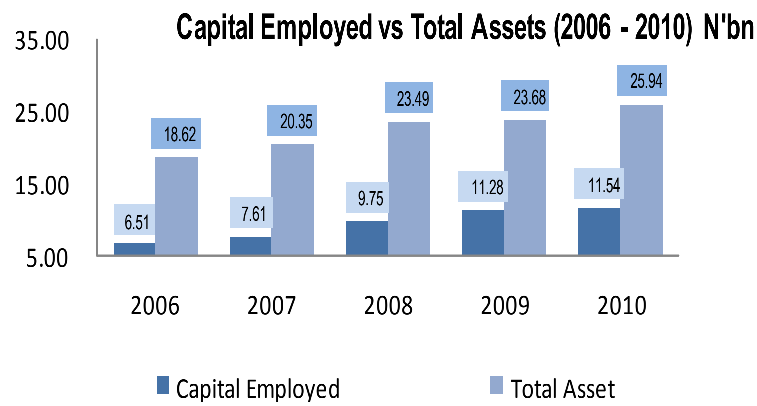

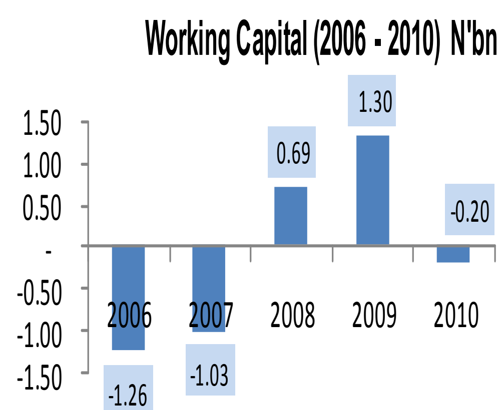

The debt ratio, which is the proportion of the company's total assets that is financed by long term and short term liabilities, increased to 67.86% from 65.36% in 2009.

The current ratio decreased to 0.99x in 2010 from 1.10x in 2009. The quick ratio stood at 0.55x in 2010 from 0.71x in 2009. These positions remained within acceptable levels.

The company recorded a drop in its working capital. The working capital stood at a negative of N199.41mn at the end of December 2010, a decline from N1.30bn as at the end of the previous year. The current liabilities exceeded the current assets, hence a negative working capital. In addition, the current ratio and the quick ratio as at December 2010 stood at 0.99x and 0.55x respectively.

The capital employed (i.e. total assets less current liabilities) increased marginally from N11.28bn in 2009 to N11.54bn in 2010 and representing a CAGR of 15.38% between 2006 and 2010, and achieved a growth of 2.33% between 2009 and 2010.

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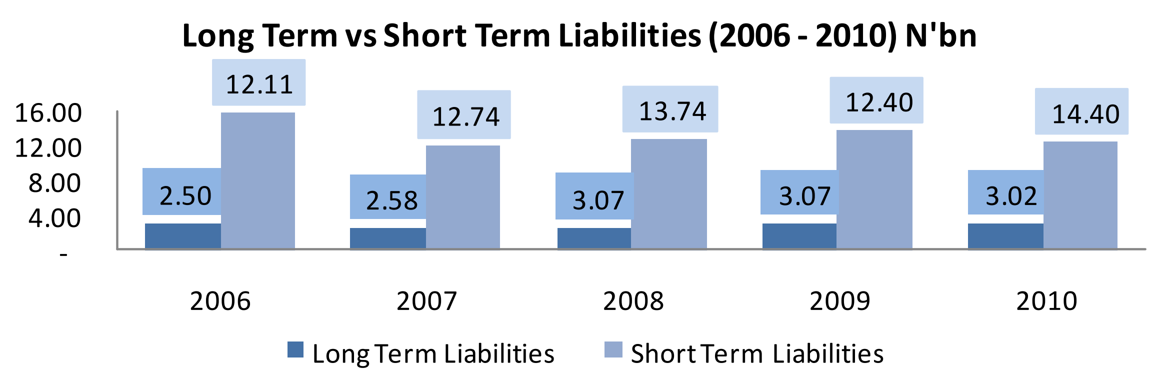
5.2 Liquidity

The liquidity position of Unilever Nigeria in 2010 remained strong and improved over 2009. Although the working capital declined, the current assets of Unilever increased from N10.85bn in 2006 to N14.19bn in 2010, representing a CAGR of 6.95% and a marginal appreciation of 3.57% between 2009 and 2010. The major contributors to the increase between the immediate two years are cash & bank balances (up by 35.19% to N2.67bn) and stock (up by 27.59% to N6.28bn). Similarly, the current liabilities increased from N12.11bn in 2006 to N14.40bn in 2010, representing a CAGR of 4.41% between the period and an increase of 16.05% between 2009 and 2010. Both current assets and current liabilities increased between 2009 and 2010, though the current liabilities increased faster, leading to a drop in the liquidity position. A careful look at the accounts of **Unilever** shows that it accepted more credits from its suppliers than it gave during the year, in order to improve cash generation. Consequently, the current ratio decreased to **0.99x** in 2010 from 1.10x in 2009. Also, the quick ratio recorded a marginal decline to **0.55x** in 2010 from 0.71x in 2009. These positions remain within acceptable levels.

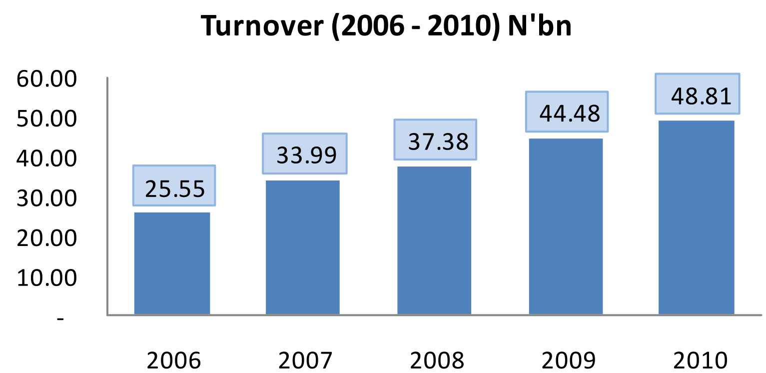


The net cash generated from operating activities increased by 70.22% from N5.17bn in 2009 to N8.80bn in 2010. Net cash used for investing activities increased from N1.58bn in 2009 to N2.95bn in 2010, while the net cash used in financing activities increased by 36.93% from N3.20bn in 2009 to N4.39bn in 2010.The payment of dividend of N4.06bn contributed significantly to the increase in net cash used in financing activities. The net increase in cash & cash equivalents in 2010 stood at N1.47bn, an increase from a negative position of N389.33mn in 2009. The cash and cash equivalent as at December 30, 2010 stood at N1.95bn, representing a significant increase of 304.98% from N480.74mn in 2009.

5.3 Profitability

In spite of the unfavourable global and domestic financial system between 2009 and 2010, the company's managers were able to deliver good returns to the shareholders and all other stakeholders.

In spite of the unfavourable global and domestic financial market between 2009 and 2010, the company managers were able to deliver good returns to the shareholders and all other stakeholders of the company. Turnover increased from N25.50bn in 2006 to N46.81bn in 2010, representing a CAGR of 16.34% and increased by 5.23% between 2009 and 2010. Segmental analysis of the company shows that N46.08bn, representing 98.44% was derived within Nigeria, while N728.69mn, representing 1.56% was derived from outside Nigeria. Analysis of business sector shows that Food Products accounted for 42.15%, while Home & Personal Care accounted for 57.85%.



Analysis of business sector shows that Food Products accounted for 42.15%, while Home & Personal Care accounted for 57.85%.

The cost of sales increased by 8.38% from N27.09bn in 2009 to N29.36bn in 2010, higher than the growth in the turnover, thereby leading to a marginal growth of 0.33% in Gross Profit (GP) from N17.39bn in 2009 to N17.45bn in 2010. Selling & Distribution expenses increased by 13.52% to N2.08bn in 2010 from N2.08bn in 2009, while Administrative expenses less depreciation decreased by 7.70% to N7.33bn from N7.94bn in 2009. Depreciation charge increased by 38.44% between 2009 and 2010. Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA), increased by 5.14% from N7.38bn in 2009 to N7.76bn in 2010 while Earnings Before Interest and Tax (EBIT) increased marginally by 1.71% from N6.69bn in 2009 to N6.81bn in 2010. The decrease in the net financing cost, as a result of lower short term loans and the low interest rates that dominated the market up to Q4, led to an improvement in PBT as it increased by 8.67% from N5.66bn in 2009 to N6.15bn in 2010.

PBT Margin by business sector shows that food products had a margin of 13.64%, while Home & Personal care recorded a margin of 12.78%.

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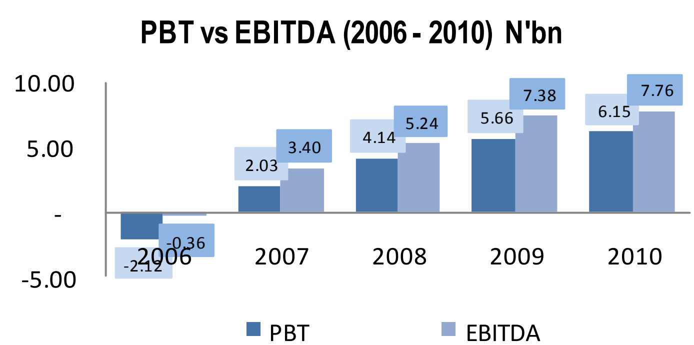
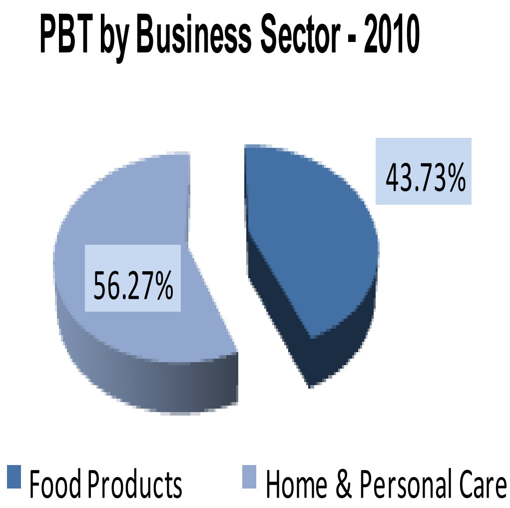


12.78%. In 2010, the operating profit increased to N6.81bn from N6.69bn the previous year. The company recorded an exceptional item of N405.97mn, due to an asset impairment charge after an asset verification exercise conducted in 2010. PAT stood at N4.18bn in 2010 from N4.09bn in 2009, representing a growth of 2.12%.



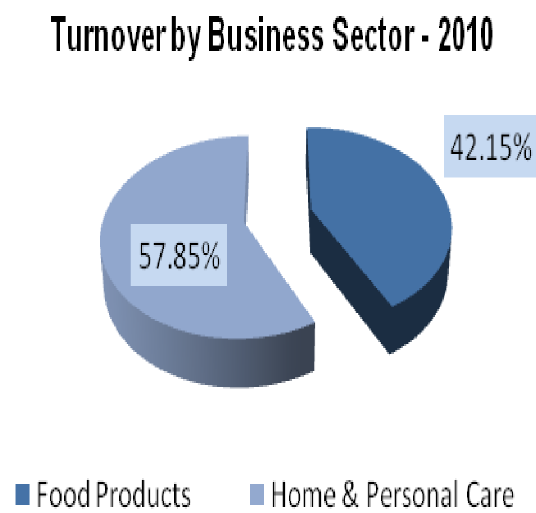


Table 4: Profit & Loss Account (N'mn)

	2010	2009	Change (%)	2008	2007	2006	CAGR(%)
Turnover	46,808	44,481	5.23	37,377	33,991	25,554	16.34
Cost of Sales	29,362	27,092	8.38	24,361	22,578	18,422	12.36
Gross Profit	17,446	17,389	0.33	13,017	11,413	7,132	25.06
Operating Profit	6,807	6,692	1.71	4,472	2,553	(1,153)	-
EBITDA	7,761	7,382	5.14	5,243	3,377	(364)	-
PBT	6,152	5,661	8.67	4,145	2,013	(2,120)	-
Tax	1,971	1,567	25.78	1,548	717	(746)	-
PAT	4,181	4,094	2.12	2,597	1,078	(1,617)	-

Balance Sheet (2006 - 2010), N'mn

	2010	2009	Change (%)	2008	2007	2006	CAGR (%)
Fixed Assets	11,740	9,975	17.69	9,056	8,641	7,772	10.86
Current Assets	14,196	13,706	3.57	14,436	11,712	10,850	6.95
Total Assets	25,935	23,682	9.52	23,493	20,353	18,622	8.63
Current Liabilities	14,395	12,405	16.05	13,743	12,741	12,111	4.41
Long Term Liabilities	3,205	3,074	4.25	3,068	2,581	2,558	5.80
Total Liabilities	17,600	15,479	13.70	16,811	15,322	14,669	4.66
Working Capital	(199)	1,302	(115.32)	694	(1,029)	(1,261)	(36.94)
Total Equity	8,335	8,203	1.62	6,682	5,031	3,953	20.50

Looking at the historical performance of Unilever, we note that it has consistently deployed its assets to generate adequate revenue to reward the equity holders and is generating adequate income to cover its interest obligations.

While creditors will be comfortable dealing with the company; there is little risk on equity shareholders on account of short term loans

Looking at the historical performance of Unilever, we note that it has consistently deployed its assets to generate adequate revenue to reward the equity holders and is generating adequate income to cover its interest obligations. There was an increase in its interest cover to 20.18x in 2010, compared to 10.60x in 2009. As a result of this, while creditors will be comfortable dealing with the company, there is little risk on equity shareholders on account of short term loans.

The return on equity stood at 50.16% in 2010, up from 49.91% in 2009. The return on assets stood at 26.25%, a marginal decrease from 28.26% recorded in 2010. Return on capital employed dropped marginally from 59.34% in 2009 to 58.98% in 2010. Unilever's GP margin dropped marginally to 37.27% in 2010 from 39.09% in 2009. EBITDA margin dropped by 0.01%, to 16.58% in 2010, while, PBT margin increased to 13.14% from 12.73% in 2009. The contribution of employees to the company's profitability increased between 2010 and 2009, as PBT per employee increased to N6.19mn in 2010 from N5.19mn 2009, while cost per employee increased marginally from N3.21mn in 2009 to N3.42mn in 2010.

5.4 Management Efficiency

The number of times capital employed could generate revenue increased to 4.06x in 2010 from 3.94x in 2009. This was achieved despite the tough operating environment in which the company operated during the review period. We expect the ratio to improve further following the current efforts of the FGN to improve infrastructure in the country, in addition to the initiatives of the company to address some of these challenges.

Table 5: Key Financial Ratio(2006 - 2010)

	2010	2009	2008	2007	2006
Gross Profit Margin (%)	37.27	39.09	34.83	33.58	27.91
EBITDA Margin(%)	16.58	16.59	14.03	9.93	(1.42)
PBT Margin (%)	13.14	12.73	11.09	5.92	(8.30)
ROE (%)	50.16	49.91	38.86	21.42	(40.91)
ROCE (%)	58.98	59.34	45.87	33.54	(17.70)
Collection Days	21.94	28.68	42.67	37.18	39.26
Payment Days	45.45	30.39	55.60	38.23	37.06
Current Ratio (x)	0.99	1.10	1.05	0.92	0.90
Debt Ratio (%)	67.86	65.36	71.56	75.28	78.77
Long Term Debt to Equity (%)	-	-	-	-	-
Interest Cover(x)	20.81	10.60	18.64	3.95	(1.14)
EPS(N)	1.11	1.08	0.69	0.28	(0.43)
DPS(N)	1.10	1.08	0.68	0.25	-
Net Asset Per Share(N)	2.20	2.17	1.77	1.33	1.04

The Board members of Unilever are made up of seasoned professionals and people with proven track records in their business endeavours.

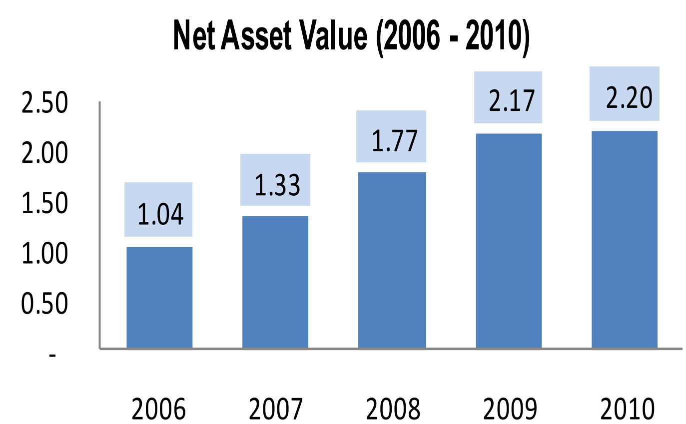
Unilever's average collection period improved to 21.94days in 2010 from 28.68 days in 2009, while the payment period increased to 45.45 days in 2010 from 30.39 days in 2009, thus improving its cash flow position.

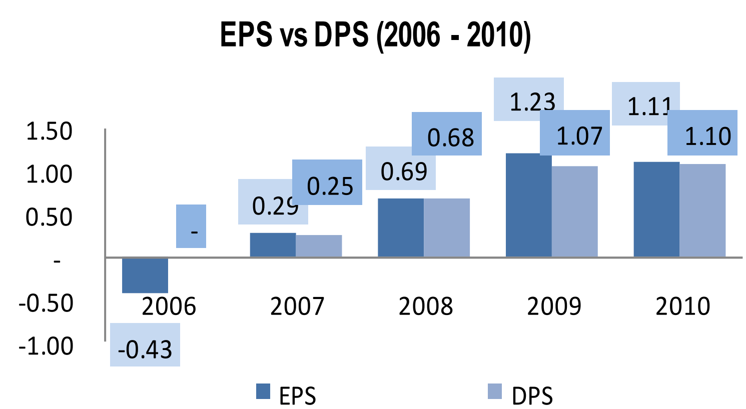
The Board members of Unilever are made up of seasoned professionals and people with proven track records in their business endeavours. The executive directors also have the varied experience and exposure required to deliver superior value to their shareholders and positively impact other stakeholders.

5.5 Investment Analysis

The average dividend payout in the last four years is 96.55%. The high dividend payout may be a deliberate attempt by the board to reward the shareholders for the years of non-dividend payment.

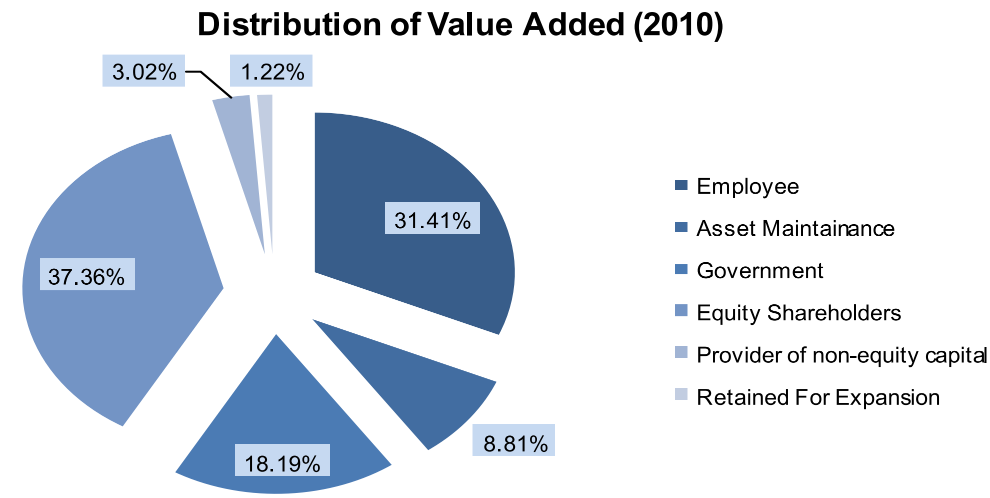
The performance of Unilever in the last five years has been impressive despite the harsh macroeconomic environment in which the company carried out its operations. The Earnings Per Share (EPS) increased from a loss position of N0.43k in 2006 to a positive position of N1.11k in 2010 and grew marginally by **2.12%** from N1.08 in 2009 to **N1.11** in 2010.The company paid a dividend of N1.10 to its shareholders whose names were in the register of members as at April 11, 2011 for the year ended December 31, 2010. The DPS increased by 2.12% from N1.08 kobo in 2009 to N1.10 in 2010. The average dividend payout in the last three years is 96.55%. The high dividend payout may be a deliberate attempt by the board to reward the shareholders for the years of non-dividend payment. The net assets per share (NAPS) increased from N1.04 in 2006 to N2.20 in 2010, representing a CAGR of 20.50%, and a marginal increase of 1.62% between 2009 and 2010.





5.6 Value Added Distribution

The wealth created by the efforts of the company's employees stood at N10.84bn in 2010 from N10.49bn in 2009, representing a growth of 3.35%. The value added was distributed amongst employees, equity shareholders, providers on non-equity, government, assets maintenance, and for company's expansion in the proportion of 31.41%, 37.36%, 3.02%, 18.19%, 8.81% and 1.22% respectively.



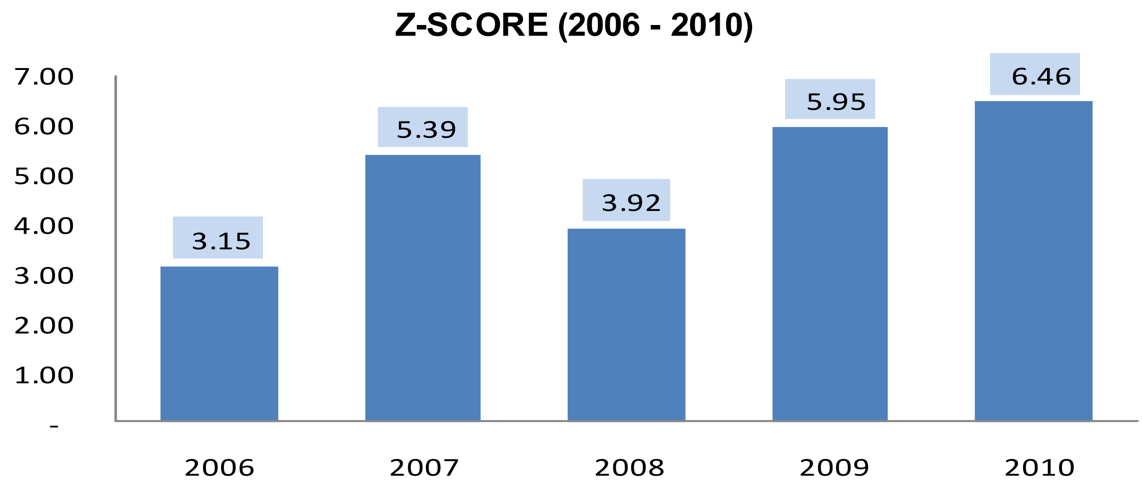
Unilever is a safe company for all stakeholders, based on 2010 Published Account.

6.0 Bankruptcy Test – Altman Z- Score Model

We used the Z-Score model, developed by Edward Altman, to determine the probability of Unilever going into bankruptcy within 2 years from December 2010. The result of the test shows that the company scores a rating of 6.46, meaning that it is a safe company for all stakeholders based on the published financial for the period ended December 2010. The 5 year Z-Score is presented on the table and chart below.

Table 6: Z-Score Model

	2010	2009	2008	2007	2006
OPBIT/Total Assets	0.26	0.28	0.19	0.13	(0.06)
Net Working Capital/Total Assets	(0.01)	0.05	0.03	(0.05)	(0.07)
Sales/Total Assets	1.80	1.88	1.59	1.67	1.37
Market Value of Equity/Total Liabilities	5.78	4.52	2.34	5.40	3.22
Accumulated Retained Earnings/Total Assets	0.24	0.25	0.19	0.09	0.10
Share Price (December)	26.90	18.50	10.38	21.85	12.50
Market Value of Equity	101,770	69,991	39,271	82,665	47,291
Z-Score	6.46	6.00	3.92	5.39	3.15



7.0 Q1 2011 Unaudited Result Update

The performance of the company in Q1 2011 indicates that TO, PBT, and PAT in the Q1 2011 are 27.86%, 36.77% and 38.97% of the FY 2010 figures, respectively.

The unaudited Q1, result of **Unilever Nigeria Plc (Unilever)** for the period ended March 30, 2011 showed that its Turnover (TO) increased by 19.31% to **N13.04bn**, compared with N10.93bn in the corresponding period of 2010. TO was mainly driven by improved distribution efficiency. According to the company, the operating costs are much higher than the prior year on account of input risks and productivity risks. However, the company was able to improve on its cost per unit of sales, leading to 65% growth in operating profit from N1.47bn in 2010, to N2.42bn in 2011. Profit Before Tax (PBT) increased by 70.01**%** between Q1 2010 and 2011 to **N2.35bn**. This increase is partly due to a drop in financing costs. The company also made a tax provision of **N723.83mn** in Q1 2011, compared with N426.79bn in the corresponding period of 2010. This brought about a 70.04% increase in the company's Profit after Tax (PAT), which stood at N1.62bn in 2011, compared to N957.99bn in 2010.

The company's profit margins increased in Q1 2011 over Q1 2010 and increased over the FY December 2010 figure. The operating profit margin increased to 18.6**%** from 13.4% in 2010. The PBT margin increased to 18.04% in Q1 2011 from 12.67% as at Q1 2010 and from 13.67% as at the end of the financial year in December 2010. This shows that the company's total costs as a percentage of TO stand at 81.96%, lower than 87.34% recorded in the corresponding period of 2010. PAT Margin stood at 12.49%, up from 8.76% in the corresponding period of 2010 and up from 8.93% as at FY 2010 .The results also indicate that the TO, PBT, and PAT in the Q1, 2011 are 27.86%, 36.77% and 38.97% of the FY Audited TO, PBT and PAT for the period ended December 2010. Given the run rate, the company will surpass its previous year's performance.

A cursory look at the balance sheet position as at Q1 2011 compared with the position as at December 2010 shows that the company's fixed assets increased during the review period. Its fixed assets increased by 6.07% to N12.45bn from N11.73bn in FY 2010. Stock increased by 10.69% to N6.95bn in Q1 2011 from N6.28bn in FY 2010. The company should continue to make appropriate efforts to reduce its stock level. Cash and bank balances increased marginally, from N2.23bn in FY 2010 to N2.45bn in Q1 2011. Unilever's working capital appreciated from a negative position of N199.41bn in FY 2010 to a positive N713.30mn in Q1 2011. Also, the net assets increased by 19.54% to N9.96bn in Q1 2011, from N8.33bn as at FY 2010.

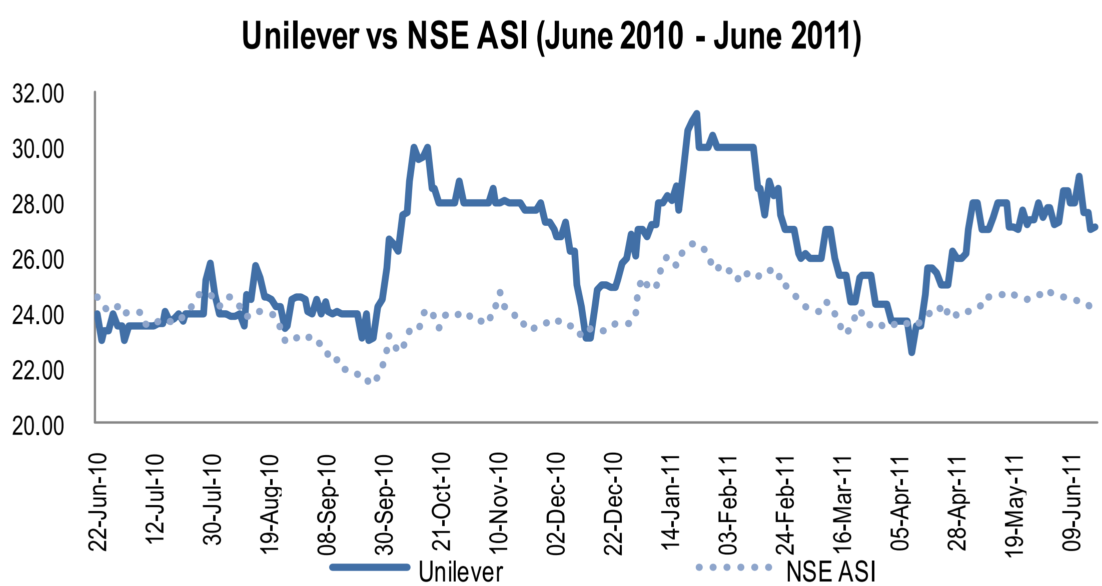
8.0 Historical Return Analysis

An investment in Unilever shares in January 2005 till date recorded a total return of 70.86%

An analysis of the historical return on the investment in the Ordinary Shares of Unilever between January 2006 and June 20, 2011 shows that it was a profitable investment. The total return during the period was made up of bonus issues and dividend payments, which the investors enjoyed on their investments. Unilever paid dividends consistently fom 2007 to 2010.

Investment in the shares of Unilever between 2006 and 2011 produced a total return of 70.86%

Our illustration using **N100,000** initial investment in January 2006 grew to **N170,858.71** as a result of dividends and bonus earned. This resulted in a profit of **N70,858.71** and a return of **70.86%**.The number of shares the initial investment bought, net of transaction costs, was 4,573 units. The total dividend earned during the period was **N15,948**, while bonus earned during the period was **1,143 units**. The share price appreciated by **29.11%** from **N20.99** in 2006 to **N27.10** as at June 20, 2011.



9.0 Valuation

In arriving at a fair value for the ordinary shares of Unilever, we used two valuation methods which are Discounted Future Earnings Method (DFE) and Discounted Free Cash Flow Method (DCF). We project Turnover, Earnings Before Interest and Tax (EBIT), Earnings Before Interest Tax Depreciation and Amortization (EBITDA), Profit After Tax (PAT) and Dividend Payment for the periods ending December 2011, 2012, 2013, 2014 and 2015.

We estimate the **Turnover** of **N60.14bn**, **N74.58bn**, **N90.619bn**, **N108.29bn** and **N129.406n** for 2011, 2012, 2013, 2014 and 2015, respectively. We estimate **EBIT** of **N12.27bn**, **N15.22bn**, **N17.06bn**, **N19.93bn** and **N23.81bn** for the same period, based on EBIT Margin of 20.4% for 2011 and 2012, 18.8% for 2013, and 18.4% for 2014-2015. We estimate **EBITDA** of **N13.31bn**, **N16.32bn**, **N18.21bn**, **N21.14bn** and **N25.16bn** for the same period.

*Buying the stock at the current market price of N27.10, holding it to our fair value of N31.29 and adding the present value of the 5-year forecast dividend, investors will earn a total return of **42.75%.***

We also project a **DCF** of **N9.72bn**, **N11.98bn**, **N13.81bn**, **N16.04bn** and **N19.21bn**, **PAT** of **N6.92bn**, **N9.32bn**, **N11.33bn**, **N12.27bn** and **N14.55bn** and **Dividend Payment** of **N6.23bn**, **N8.39bn**, **N10.19bn**, **N10.96bn** and **N13.10bn** for the period, based on a dividend payout of 90**%** from its earnings. We applied a terminal growth rate of **7.86%**, which is the latest real GDP growth rate for the Nigerian economy. We used a beta value of **0.88x** based on the 5-year daily historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used the marginal rate of **10.87%**, based on the 12 month average marginal rate on 5 year FGN Bond as our risk free rate, and equity market premium of **8.00%**, which is the equity market premium used for countries with similar credit rating as Nigeria. Applying foregoing parameters on the Capital Asset Pricing Model (**CAPM**), the cost of equity generates **17.88%**, which is our cost of capital. Using **3.78bn** shares in issue, the **DFE** Model generates **N26.63** per share and the **DCF** Model generates **N35.10** per share. Applying a weight of 45% to the **DFE** and 55% to the **DCF**, we arrive at a value of **N31.29** per share, which is our fair value. Buying the stock at the current market price of N27.10, holding it to our fair value of **N31.29** and adding the present value of the 5-year forecast dividend, investors will earn a total return of **42.75%.** Relating this return to the Cost of Equity estimated by CAPM at **17.88%**, investment in Unilever shares will earn an excess return (alpha return) of **24.87%**. The 2011 forward earnings yield based on our fair value generate 5.84**%**, while the 2011 forward Dividend Yield based on **N1.65** Dividend per Share at our fair value generates **5.26%**. We therefore place a **BUY** on the shares of Unilever Nigeria Plc at the current market price for both dividend payment and capital appreciation.

We therefore place a BUY on the Shares of Unilever Nigeria Plc at the current market price for both dividend payment and capital appreciation.

Table 7: Fair Value Sensitivity Table (N)

		Discount Rates				
		15.88%	16.88%	17.88%	18.88%	19.88%
Growth Rates	5.86%	35.68	31.94	28.88	26.35	24.20
	6.86%	37.39	33.29	29.98	27.24	24.94
	7.86%	39.53	34.95	**31.29**	28.30	25.81
	8.86%	42.29	37.02	32.89	29.56	26.83
	9.86%	45.96	39.68	34.89	31.11	28.05

Table 8: Valuation Forecast and Parameters – Discounted Free Cash Flow (DCF)						
Year	2011	2012	2013	2014	2015	Terminal Value
Period	0.60	2	3	4	5	
Revenue (mn)	60,148	74,584	90,619	108,290	129,406	
EBIT(mn)	12,270	15,215	17,055	19,925	23,811	
EBITDA (mn)	13,308	16,320	18,213	21,136	25,075	
FCF(mn)	9,720	11,985	13,814	16,043	19,210	70,771.64
Discount Rate (%)	17.88	17.88	17.88	17.88	17.88	
Discount Factor	0.9064	0.7197	0.6105	0.5179	0.4394	
Present Value (mn)	8,810.26	8,625.24	8,433.89	8,309.46	8,440.99	90,891.35

Enterprise Value (mm)	133,511.20
Debt(mn)	730.81
Equity Value(mn)	132,780.39
Number Shares(mn)	3,783.30
Value Per Share(N)	35.10

** We use 0.60 for period 1*

Table 9 : Valuation Forecast and Parameters – *Discounted Future Earnings (DFE)*						
Year	2011	2012	2013	2014	2015	Terminal Value
Period	0.60	2	3	4	5	
Revenue (mn)	60,148	74,584	90,619	108,290	129,406	
PBT(mn)	10,172	13,710	16,658	17,916	21,409	
TAX (mn)	3,255	4,387	5,330	5,732	6,850	
PAT(mn)	6,917	9,323	11,327	12,813	14,558	
Discount Rate (%)	17.88	17.88	17.88	17.88	17.88	
Discount Factor	0.9064	0.7197	0.6105	0.5179	0.4394	
Present Value (mn)	6,269.87	6,707.60	6,915.83	6,309.95	6,396.84	68,880.21

Enterprise Value (mm)	101,482.30
Debt(mn)	730.81
Equity Value (mn)	100,751.49
Number Shares(mn)	3,783.30
Value Per Share(N)	26.63

** We use 0.60 for period 1*

Table 10 :Valuation Summary			
Model	*Value(N)*	*Weight*	*Price(N)*
Discounted Free Cash Flow (DCF)	35.10	55%	19.31
Discounted Future Earnings (DFE)	26.63	45%	11.98
Per Share Value			31.29
Price as at September 07, 2010			27.35
Total Return (%)*			*42.75*

** The total return is inclusive of the present value of the 5-year forecast dividend*

Table 11: FSDH Research Earnings Forecast for Unilever (2011-2015)

	2011	2012	2013	2014	2015
Turnover(N'mn)	60,148	74,584	90,619	108,290	129,406
EBIT(N'mn)	12,270	15,215	17,055	19,925	23,811
EBITDA(N'mn)	13,308	16,320	18,213	21,136	25,075
PBT(N'mn)	10,172	13,710	16,657	17,915	21,409
Tax(N'mn)	3,255	4,387	5,330	5,732	6,850
PAT(N'mn)	6,917	9,322	11,327	12,812	14,558
Dividend Payment(N' mn)	6,225	8,390	10,194	10,964	13,102
EBIT Margin (%)	20.4	20.4	18.8	18.4	18.4
EBITDA Margin (%)	22.13	21.88	20.10	19.52	19.38
PBT Margin (%)	16.91	18.38	18.38	16.54	16.54
PAT Margin (%)	11.50	12.50	12.50	11.25	11.25
EPS(N)	1.83	2.46	2.99	3.22	3.85
DPS(N)	1.65	2.22	2.69	2.90	3.46
Earnings Yield (%)	5.84	7.88	9.57	10.29	12.30
Dividend Yield (%)	5.26	7.09	8.61	9.26	11.07
P/E Ratio(x)	17.11	12.70	10.45	9.72	8.13
Number of Shares(mn)	3,783.30	3,783.30	3,783.30	3,783.30	3,783.30
Dividend Payout	90%	90%	90%	90%	90%

Table 12: Comparative Analysis

Company	Unilever	UACN	PZ	Average
Turnover	46,808	52,314	62,668	53,930
Gross Profit	17,446	16,450	17,287	17,061
EBITDA	7,761	11,699	9,661	9,707
PBT	6,152	7,094	7,951	7,066
PAT	4,181	5,451	5,585	5,072
Total Assets	25,935	102,372	58,969	62,425
Current Liabilities	14,395	32,061	15,268	20,575
Long Term Liabilities	3,205	24,723	4,993	10,974
Interest Bearing Liabilities	731	20,512	-	10,622
Working Capital	(199)	16,487	18,962	11,750
Capital Employed	11,540	70,311	43,700	41,850
Net Assets	8,335	45,588	38,708	30,877
EBITDA Margin(%)	16.58	22.36	15.42	18.12
Interest Cover(x)	20.81	4.78	56.80	27.46
Debt Ratio (%)	67.86	51.35	34.36	51.19
Long Term Liabilities/Equity(%)	-	56.34	-	56.34

PZ has different financial year end.

Table 13: Annual Capital Growth & Returns Analysis of N100,000 Investment in Unilever Nigeria Plc since January 03, 2006							
Value Receipt Period	2006	2007	2008	2009	2010	2011	Total
Holding As At January	4,573	5,716	5,716	5,716	5,716	5,716	
Bonus Shares Received	1,143	-	-				1,143
Cumulated Holding	5,716	5,716	5,716	5,716	5,716	5,716	
Dividend Earned	-	-	1,286	3,498	5,505	5,659	15,948

	20-June-2011
Accumulated Shareholding	5,716
Increase in Shareholding (%)	25.00
Price (N)	27.10
Market Value (N)	154,910.38
Total Dividend (N)	15,948.34
Value of Investment (N)	170,858.71
Cost of Investment (N)	100,000.00
Profit (N)	70,858.71
% Increase	70.86
CAGR	11.31%

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