

## Restrategised for Growth

### 1.0 FY 2014 Performance Analysis:

The audited Full Year 2014 (FY 2014) result of Unilever Nigeria Plc (Unilever) for the period ended December 31, 2014 shows that its Turnover (T/O) decreased by 7.08% to N55.75bn, compared with N60bn recorded in the corresponding period of 2013. The cost of sales also decreased by 5.25% to N35.58bn from N37.55bn recorded in FY 2013. Cost of sales as a percentage of turnover rose to 63.82% from 62.59% as at FY 2013. The administrative, selling and distribution expenses increased by 6.33% to N15.56bn. These expenses as a percentage of turnover increased to 27.91% in FY 2014 from 24.39% in FY 2013.

The other operating income stood at N5.59mn as at FY 2014, in the prior period, the company recorded other operating expenses of N23.59mn. The company recorded a significant increase of 64.53% in its finance cost of N1.91bn in FY 2014 from N1.16bn in 2013. The increase in finance costs can be mostly attributed to an increase in the net interest charges on the Bank of Industry (BOI) loan, as well as an increase on the interest costs on third party loans. Net interest charges on the BOI loan rose to N198.03mn in FY 2014 from N11.53mn in 2013 while interest costs on third party loans rose by 60.37% to N1.31bn in FY 2014. The Profit Before Tax (PBT) fell to N2.87bn, a decrease of 57.71% from N6.79bn recorded in the corresponding period of 2013. The tax provision also decreased by 77.73% to N460.89mn from N2.07bn, leading to a Profit After Tax (PAT) of N2.41bn in FY 2014 from N4.72bn in the corresponding period of 2013, representing a decrease of 48.94%. The company's profit margins decreased in FY 2014 compared with FY 2013. This is a reflection of the deliberate refocus on the route to market, consumer needs and aspirations, product quality, capacity expansion and zero business waste that put pressure on the company's performance but would enable it grow sustainably into the future.

Tuesday, June 23, 2015

Table 1:	SELL
Current Price	N45.50
Fair Value	N31.36

*The turnover in FY December 2014 decreased by 7.08% to N55.75bn.*

*The company recorded a significant increase of 64.53% in its finance cost of N1.91bn in FY 2014.*

*The company's profit margins declined in FY 2014.*

**Table 2: Financial Performance (N'bn)**

	FY 2014	FY 2013	Change
T/O	55.75	60.00	(7.08%)
EBIT	4.61	7.79	(40.77%)
PBT	2.87	6.79	(57.71%)
PAT	2.41	4.72	(48.94%)

Table 3: Quarterly Result Highlights (N'bn)

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Turnover	14.91	12.12	14.35	15.45	13.83	14.39
PBT	0.86	0.33	0.47	0.99	1.09	1.76
PAT	0.59	0.59	0.36	0.71	0.75	1.22

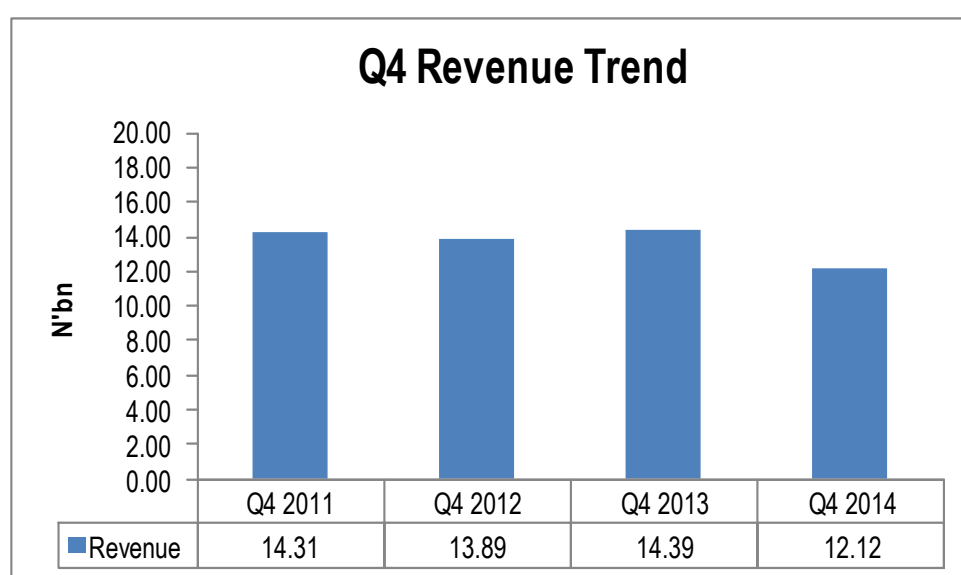
*The company's profit margins decreased in 2014 compared with 2013.*

The company's profit margins decreased in 2014 compared with 2013. The Gross Profit Margin decreased to 36.18% in 2014 from 37.41% in 2013. The EBIT Margin decreased significantly in 2014 to 8.28% from 12.98% in 2013. The PBT margin decreased to 5.15% in 2014 from 11.32% in 2013, the PAT margin also decreased to 4.33% in 2014, down from 7.87% in 2013.

Table 4: Profitability Margins (%)

	FY 2014	FY 2013	FY 2012
GP* Margin	36.18	37.41	38.97
EBIT Margin	8.28	12.98	16.01
PBT Margin	5.15	11.32	14.74
PAT Margin	4.33	7.87	10.08

\*GP – Gross Profit

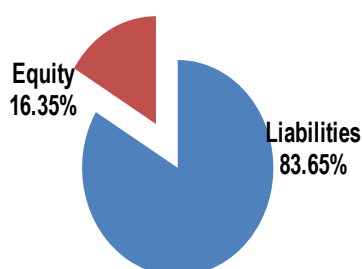


A cursory look at the balance sheet position as at FY 2014 compared with the position as at FY 2013 shows an increase in the company's fixed assets. The total fixed assets increased by 6.91% to N24.83bn from N23.22bn in FY 2013. The inventory increased to N8.61bn from N6.99bn in FY 2013. The cash and bank balances recorded a decrease of 58.07% from N3.18bn in FY 2013 to N1.33bn in FY 2014. The decrease in cash and bank balance was due to a substantial decrease in cash at bank and in hand, cash at bank and in hand fell by 61.99% to N1.14bn in FY 2014 from N2.99bn in 2013. The trade debtors and other receivables increased in FY 2014 by 4.93% to N8.54bn from N8.14bn in the FY 2013 period. The trade creditors and other payables decreased by 28.36% to N15.11bn from N21.09bn as at FY 2013. The working capital stood at a negative N12.80bn from a negative N9.67bn recorded in FY 2013, while net assets for the period decreased by 20% to stand at N7.48bn from N9.35bn as at FY 2013.

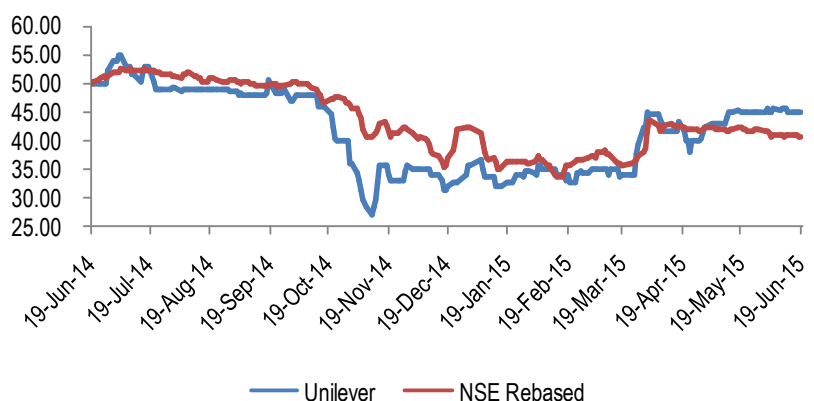
The total assets of the company which stood at N45.74bn as at FY 2014 were financed by a mix of equities and liabilities in the ratio of 16.35% and 83.65% respectively.

The total assets of the company which stood at N45.74bn as at FY 2014 were financed by a mix of equities and liabilities in the ratio of 16.35% and 83.65% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N31.37bn, accounting for 82% of the total liabilities, while the long-term liabilities stood at N6.89bn accounting for 18% of the total liabilities. The long-term liabilities constituted mainly of deferred tax liabilities and loans and borrowings, which stood at N2.85bn and N762.60mn respectively. The short-term liabilities constituted mainly of short-term loans and borrowings which totalled N16.01bn.

Financing Mix



Unilever VS NSE Rebased (Jun'14-Jun'15)



### 1.1 Q1 2015 Performance Analysis:

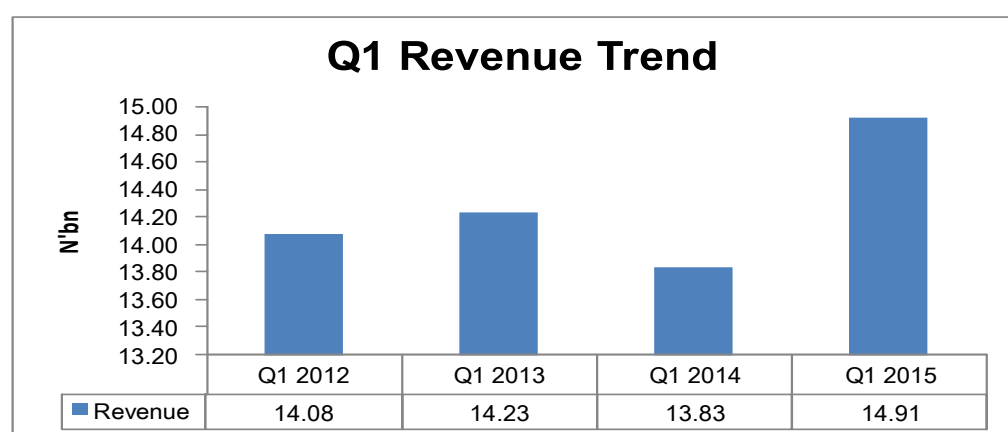
As at Q1 2015, the PBT margin decreased over the Q1 2014, but increased over the Financial Year ended December (FY), 2014 figure. The PBT margin decreased to 5.80% in Q1 2015 from 7.88% as at Q1 2014, but an increase from 5.15% recorded at the end of FY 2014. This trend shows an improvement over the last quarter of the year 2014 and signifies progress in realising its growth ambitions in the long term. The PAT margin currently stands at 3.96%, down from 5.43% in the corresponding period of 2014, and also down from 4.33% as at FY 2014. The result also indicates that the percentage of T/O, PBT, and PAT in the Q1 2015 to the Audited T/O, PBT and PAT for the period ended December 2014 are: 26.74%, 30.10% and 24.48%, respectively. We note that business activities were generally slow in Q1 2015 because of the general elections and the security issues in the country. Given the run rate, the company is likely to meet and surpass its previous year's performance.

*The company should meet its previous year's performance.*

**Table 5: Profitability Margins (%)**

	Q1 2015	Q1 2014	Q1 2013	Q1 2012
<b>GP* Margin</b>	33.95	37.94	36.45	34.90
<b>EBIT Margin</b>	10.88	10.32	16.17	16.20
<b>PBT Margin</b>	5.80	7.88	14.20	15.69
<b>PAT Margin</b>	3.96	5.43	8.88	9.95

\*GP – Gross Profit



**Table 6: Financial Performance (N'bn)**

	Q1 2015	Q1 2014	Change
<b>T/O</b>	14.91	13.83	7.78%
<b>EBIT</b>	1.62	1.43	13.58%
<b>PBT</b>	0.86	1.09	(20.65%)
<b>PAT</b>	0.59	0.75	(21.34%)

## 2.0 Drivers of Performance:

Unilever's performance was adversely impacted by the following factors:

- The difficult operating environment, described by Unilever as volatile, uncertain, complex and ambiguous (VUCA).
- The route to market transformation which involved the rationalization of trade inventories which put downward pressure on the company's performance.
- Increase in the interest charges on loans causing a significant increase in finance costs.

*The route to market transformation which involved the rationalization of trade inventories which put downward pressure on the company's performance.*

## 2.1 Strategic Focus:

Moving forward, Unilever plans on producing a sturdier business model which will enable it to achieve sustainable growth. Unilever plans on improving its business model by continuing to deliberately refocus on the route to market, consumer needs and aspirations, product quality, capacity expansion and zero business waste. It also plans on being more aggressive about driving down costs and actively finding savings throughout its supply chain.

*Moving forward, Unilever plans on producing a sturdier business model which will enable it to achieve sustainable growth.*

Unilever plans to continue to leverage on the Unilever Sustainable Living Plan (USLP) to deliver value to all its stakeholders and positively affect the communities it operates in.

## 3.0 Business:

Unilever Nigeria is a member of the Unilever Plc family, one of the world's leading consumer goods companies whose food, home and personal care brands are used by families in many countries. The company was formerly known as Lever Brothers (West Africa) Ltd and changed its name to Unilever Nigeria Plc in 2001. Unilever Overseas Holdings B.V is the immediate parent company of Unilever Nigeria, holding as at December 2014 50.04% of the company's shares while Unilever Plc UK is its ultimate parent company. There is a move by the immediate parent company, Unilever Overseas Holdings B.V to increase its interest in Unilever Nigeria to a maximum of 75% through a tender offer which is currently ongoing in the market.

The company's international brands include: Close-Up Toothpaste, Pepsodent Toothpaste, LUX Beauty Soap, Lifebuoy Soap and Vaseline Petroleum Jelly in the Personal Care Unit of the business; Blue Band Margarine, Lipton Yellow Label Tea and Knorr bouillon cubes in the Foods Unit; and OMO Multi-Active Detergent and Sunlight washing powder in the Home Care Unit. Other regional and local products include the Pears Baby Products range and Royco bouillon cubes.

**Table 7: Company Summary**

Ticker	Unilever
Sector	Consumer Goods
Sub-sector	Personal & Household Products
Date of Incorporation	April 11, 1923
Date of Listing	Sept 1, 1973
Financial Year End	December
Number of Fully Paid Share	3,783,296,250
Current Capitalization(NGN)	170,248,331,250
NSE Capitalization (NGN)	11,353,116,802,289
% of NSE Capitalisation	1.50
52 Week high NGN	55
52 Week low NGN	27
YTD Return (%)	25.98
52 Weeks Average Volume Traded	1,401,075
Trailing EPS NGN	0.60
Trailing P/E Ratio (X)	75

*As at June 19, 2015*

**Table 8: Shareholding Structure as at December 31, 2014**

Shareholders	No. of Shares Held	% of Shareholding
Unilever Overseas Holding B.V	1,893,006,656	50.04
Nigerian Public and Institutions	1,890,289,594	49.96
<b>Total</b>	<b>3,783,296,250</b>	<b>100.00</b>

**Table 9: Directors' Shareholding as at December 31, 2014**

Director	Position	Holdings
His Majesty Nnaemeka A.Achebe MNI, CFR	Chairman	55,976
Mr. Yaw Nsarkoh	Managing Director/CEO	Nil
Mr. Atedo N.A. Peterside, CON (Indirect)	Non-Executive	4,700,000
Sen. Udoma U. Udoma, CON (Indirect)	Non-Executive	1,637,500
Mallam Abba Kyari	Independent Non-Executive	67,654
Mr. Ologbaraete K. Pinnick	Executive Director	16,649
Mrs. Adesola Sotande-Peters**	Executive Director	Nil

\*\*Appointed with effect from 1st of January 2015

*Unilever's products are segmented into Food Products and Home and Personal Care Products.*

*Unilever is one of the largest sellers of packet tea with their Lipton brand. It is also a leader in the Nigerian margarine market with Blue Band.*

*The Home and Personal care segment is responsible for the sale of skin care, fabric care and oral care products and contributed 50.43% to revenue in FY 2014.*

## 4.0 Product Analysis

Unilever is one of the world's leading consumer goods companies whose food, home and personal care brands are used by many families in many countries. Unilever's products are segmented into Food Products and Home and Personal Care Products.

### 4.1 Food Products

This segment is involved in the sale of tea, seasoning and spreads. This division made up 49.57% of revenue in FY 2014. Unilever has the following brands under the food division: Lipton, Blue Band range (including Blue Band Original and Blue Band Spread for Bread), Knorr range (including Knorr Classic Knorr beef and Knorr Chicken) and Royco range (including Royco Cube, Royco Beef, Royco Chicken and Royco Goat Meat). Unilever is one of the largest sellers of packet tea with its Lipton brand. It is also a leader in the Nigerian margarine market with Blue Band. Competing products include Top Tea and Maggi.

### 4.2 Home and Personal Care Products

The Home and Personal care segment is responsible for the sale of skin care, fabric care and oral care products and contributed 50.43% to revenue in FY 2014. Unilever has the following brands under this division: Omo, Sunlight range (including Sunlight Detergent and Sunlight Dishwash), Pears range (including Pears Baby Jelly, Pears Baby Oil, Pears Baby Powder and Pears Baby Lotion/Moisturizing Cream), CloseUp range (including CloseUp Herbal, CloseUp White Now, CloseUp Complete 8 and CloseUp Complete 8 white), Lux range (including Lux Soft Caress, Lux Soft Touch and Lux Velvet Touch), Vaseline (including Vaseline Baby Jelly and Vaseline Blue Seal), Lifebuoy range (including Lifebuoy Total Protection, Lifebuoy Herbal, Lifebuoy Care and Lifebuoy Deofresh) and Pepsodent. Competing products including Sensodyne, Morning Fresh, Key Soap, Elephant Detergent, Zip Detergent and Soap, Jet Detergent, Duck Laundry Bar, Imperial Leather, Joy, Ariel, Macleans, Dabur and Pardontax.



## 5.0 SWOT Analysis

<p><b>Strength</b></p> <ul style="list-style-type: none"> <li>❖ Strong foreign technical partners</li> <li>❖ Large range of consumer products</li> <li>❖ Strong brand name</li> <li>❖ Well established quality products in the market</li> <li>❖ Has good understanding of the local markets</li> </ul>	<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>❖ Increase in finance costs</li> <li>❖ Declining profit margin</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>❖ Large market size in Nigeria and the neighbouring countries</li> <li>❖ Expected peace in the North East</li> <li>❖ Expectation of improved power supply</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>❖ Weak consumer spending</li> <li>❖ Rising interest rate in the country</li> <li>❖ Stiff competition in the market</li> <li>❖ Availability of cheaper alternatives</li> <li>❖ Foreign exchange risk</li> <li>❖ Poor infrastructure facilities in Nigeria</li> <li>❖ Security challenges in the country</li> </ul>

## 6.0 Forecast: Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- Expected growth in the market and the strategies of the company to capture additional markets
- Expected improvement in consumers' spending
- Expected drop in the demand for imported competing products
- Expected improvement in the security situation in Nigeria

Negative Factors:

- Foreign exchange risk
- The fragmented nature of the industry
- Rising finance costs
- The current weak consumers' spending

*We estimate a dividend per share of N0.94 for the FY 2015.*

Looking at the medium to long term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate a Turnover of N61.44bn, N69.24bn, N79.08bn, N89.91bn and N101.78bn for the periods ending December 2015, 2016, 2017, 2018 and 2019. We estimate EBIT of N7.55bn, N8.49bn, N9.72bn, N12.85bn and N14.54bn, and EBITDA of N9.72bn, N10.95bn, N12.50bn, N16.02bn and N18.13bn for the same period using EBIT margins of 12.28%, 12.26%, 12.29%, 14.29% and 14.29% respectively. Our PBT forecasts for the periods are: N5.45bn, N7.16bn, N8.24bn, N11.04bn and N12.56bn. Adjusting for tax, our PAT forecasts are N3.74bn, N4.92bn, N5.66bn, N7.58bn and N8.63bn. PAT Margin for the period are 6.09%, 7.10%, 7.16%, 8.43% and 8.48%. Our forecast final dividend for the FY 2015 is 94kobo per share

Profit and Loss =N='bn	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Turnover (Net Sales)	61.44	69.24	79.08	89.91	101.78
Cost of Sales	(38.54)	(43.43)	(49.60)	(54.60)	(61.80)
Gross Profit	22.90	25.81	29.48	35.31	39.98
Admin, Selling & Distribution Expenses	(13.19)	(14.86)	(16.98)	(19.30)	(21.85)
Depreciation	(2.17)	(2.46)	(2.79)	(3.16)	(3.59)
Other Operating Income	0.002	0.002	0.003	0.003	0.003
EBIT	7.55	8.49	9.72	12.85	14.54
EBITDA	9.72	10.95	12.50	16.02	18.13
Net Finance Cost	(2.10)	(1.33)	(1.48)	(1.82)	(1.98)
PBT	5.45	7.16	8.24	11.04	12.56
Taxation	(1.71)	(2.24)	(2.58)	(3.46)	(3.94)
PAT	3.74	4.92	5.66	7.58	8.63

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
EBITDA Margin	15.81%	15.81%	15.81%	17.81%	17.81%
EBIT Margin	12.28%	12.26%	12.29%	14.29%	14.29%
PBT Margin	8.86%	10.34%	10.42%	12.28%	12.34%
PAT Margin	6.09%	7.10%	7.16%	8.43%	8.48%
EPS(N)	0.99	1.30	1.50	2.00	2.28
DPS(N)	0.94	1.24	1.43	1.91	2.17
Dividend Payout	95.33%	95.33%	95.33%	95.33%	95.33%
Earnings Yield *	3.15%	4.14%	4.77%	6.39%	7.27%
Dividend Yield *	3.00%	3.95%	4.55%	6.09%	6.93%
P/E Ratio*	31.73	24.13	20.97	15.65	13.75
Number of Shares ('bn)	3.78	3.78	3.78	3.78	3.78
ROE	34.50%	55.68%	66.96%	78.43%	97.14%
Collection Days	21.26	21.26	21.26	21.26	21.26
Payment Days	51.69	51.69	51.69	51.69	51.69
Inventory Turnover	4.82	4.82	4.82	4.82	4.82
Interest Cover	3.33	5.67	5.90	6.45	6.70

*\*At Our Fair Value of N31.36*

Company	Unilever	PZ Cussons*
Turnover	55.75	72.91
Gross Profit	20.17	19.19
EBIT	4.61	6.58
PBT	2.87	6.95
PAT	2.41	5.08
GP Margin	36.18%	26.33%
EBIT Margin	8.28%	9.03%
PBT Margin	5.15%	9.53%
PAT Margin	4.33%	6.97%
ROE	32.26%	11.95%
Net Assets	7.48	42.54
Net Assets Per Share	1.98	10.71
PE Ratio	75.83	31.49
Earnings Yield	1.32%	3.18%
<i>*PZ Cusson's Year End is May</i>		

## 7.0 Valuation

*The fair value for Unilever Nigeria Plc is N31.36.*

We employed relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

### Assumptions:

- EV/EBITDA Multiple: 13.80x
- Debt: N16.78bn
- Cash: N1.33bn
- Number of shares in issue: 3.78bn

Applying the EV/EBITDA multiple of **13.80x**, we arrived at **N31.36** per share as the fair value.

The current market value of Unilever share is N45.50, the highest and the lowest closing prices in the last 52 weeks are N55 and N27 respectively. The forward earnings yield and dividend yield of the company at our fair value is 3.15% and 3.00% respectively. The current price of N45.50 to our fair value of N31.36, the share of Unilever is overvalued by 31.08%. We therefore place a **SELL** on the shares of Unilever Nigeria Plc at the current price as of June 22, 2015.

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