



## VALUATION REPORT Unilever Nigeria Plc.



## Our Thought on: UNILEVER NIGERIA PLC VALUATION

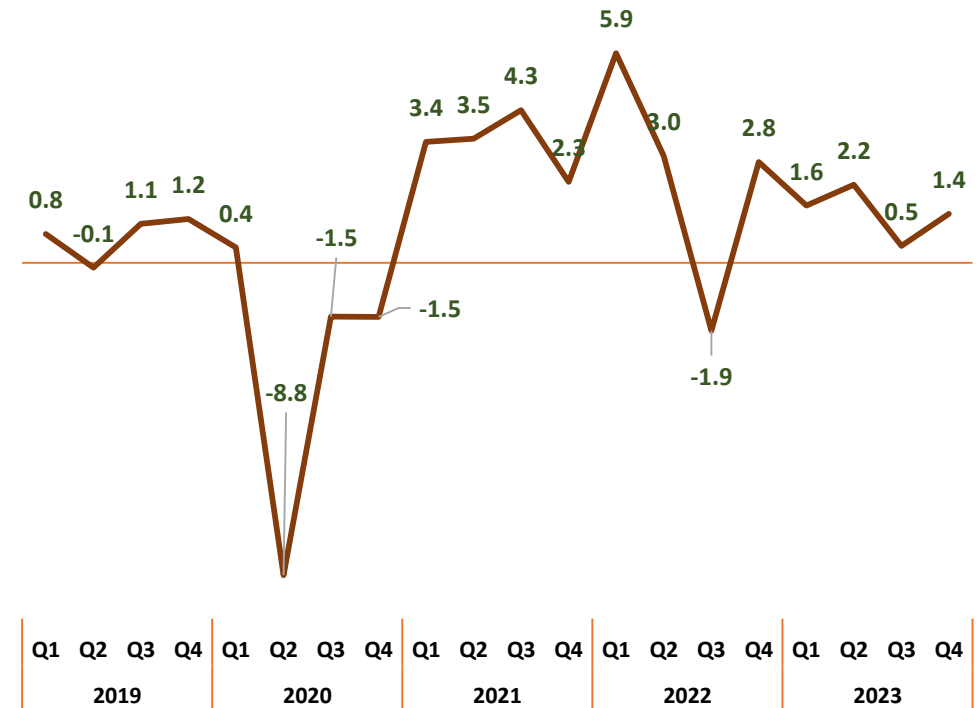
### Sector/Industry Review

#### INTRODUCTION

Over the course of a five-year duration, the manufacturing sector contribution to GDP has been unstable, although the sector tried to withstand macroeconomic indices pressure from time to time. The manufacturing is being hit by the high inflationary environment characterized by the high foreign exchange rate and insecurity in the country.

- **In Q2 2020**, the manufacturing sector's contribution to GDP and the GDP itself experience the lowest growth at the peak of the COVID pandemic. The two quarters Q3 & Q4 improved compared to Q2 but still closed negative.
- **AS at 2021 post-COVID year**, the sector regained its supply chain and revenue generation previously disrupted by the pandemic, contribution to the country's economy improved than the 2019 pre-COVID year.
- The sector has been bolstering with tremendous growth post-COVID until **Q3 2022** when the recession that started in the country in 2020 affected the sector so badly due to high inflationary pressures, currency depreciation, lack of liquidity in the foreign exchange market, and rising energy prices.
- June 2023, the new government administration enacted the unification of foreign exchange rate in the country, this affected all sectors including the manufacturing sector. This policy reform had its toughest impact on the manufacturing sector mainly because its raw materials are mostly sourced internationally.

Manufacturing Sector GDP q-on-q



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## Sector/Industry Review

### THE FOOD, BEVERAGES, AND TOBACCO INDUSTRY

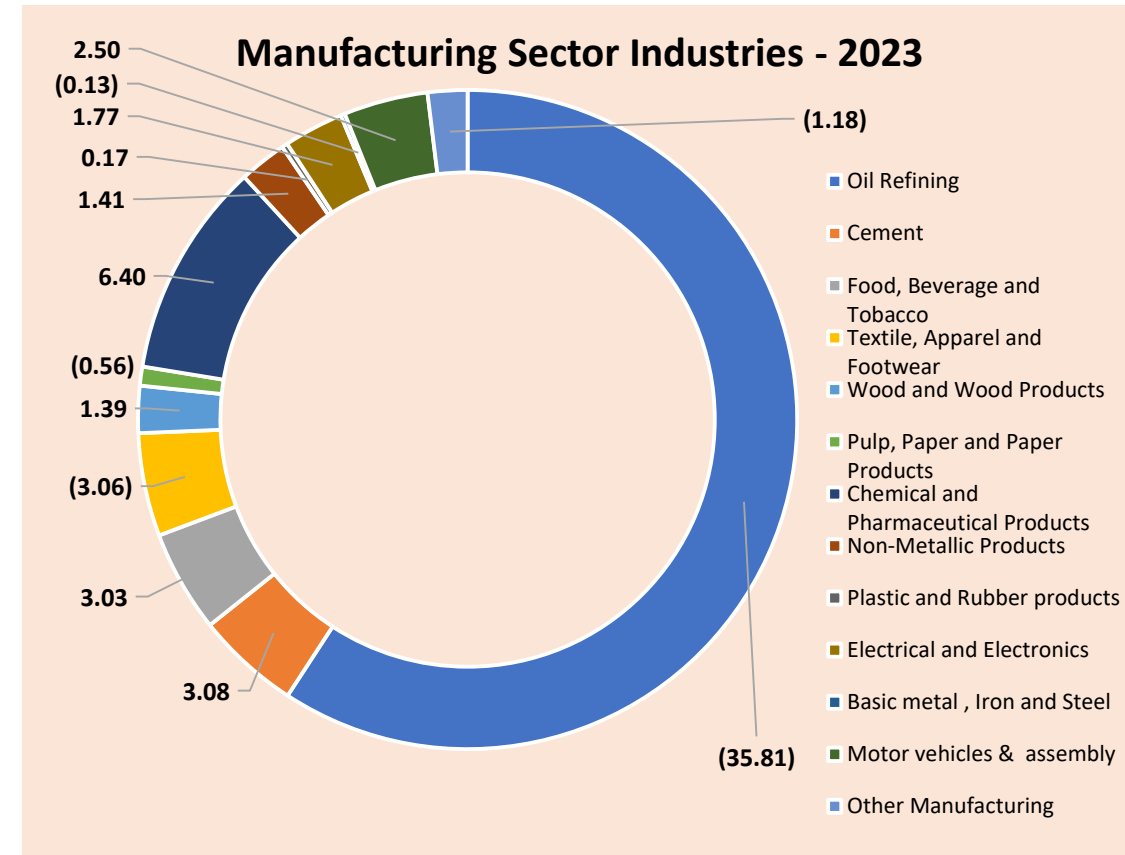
The Nigerian manufacturing sector comprises thirteen distinct industries, with Food, Beverages, and Tobacco being one of these key sectors, alongside twelve others.

The Food, Beverages, and Tobacco industry's impact on the GDP, and the manufacturing sector, has remained steadfast, with the annual and quarterly contributions consistently reinforcing its pivotal role in the national economy.

However, it is worth noting that a transient dip in performance of the industry is reinforced by the following macroeconomic factors:

- outrageous foreign exchange rate, emancipated by tremendous depreciation of naira, that caused illiquidity of foreign exchange in the market.
- high rate of insecurity also disturbed the activities of farmers of raw materials that are locally sourced for production. Likewise it disrupted distribution chain.

The food and beverage consumer goods industry in Q4 2023, was the fifth most resilient industry in the sector



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### EXCHANGE RATE FLUCTUATION

Both the manufacturing sector and all the industries in this category are faced with the increasing exchange rate following the unification in May 2023. Most of the companies in the food and beverage industry are being faced with exchange rate loss both in on cash held and purchase of raw material.

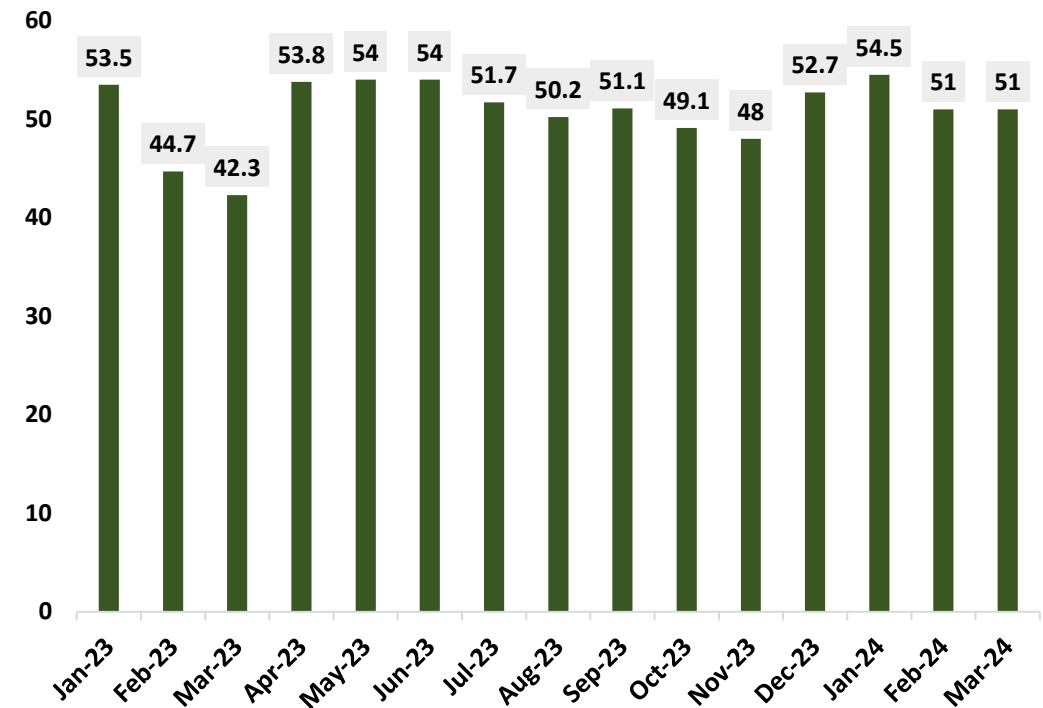
The official exchange rate has increased 235.98% from ₦464.50/\$1 as at May 30, 2023 before the announcement of the unification and is now at ₦1,560.67/\$1 as at the time of writing this report.

### PURCHASING MANAGERS' INDEX

The PMI, or Purchasing Managers' Index, indicates whether market conditions are expanding or contracting. A PMI above 50% suggests economic expansion in the previous month, while below 50% indicates contraction.

In H2-2023, demand for goods and services recorded lower performance in H2-2023 than Q2-2023. This was exacerbated by factors such as unrelenting high inflation, the implementation of subsidy and unification of foreign exchange system that weakened the naira and impacted the manufacturing sector. However, there has been improvement in the PMI in December 2023.

Purchasing Managers' Index



# VALUATION REPORT

ASAM Research

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## Company review

### Event

#### A cursory Examination of Unilever Nigeria Performance Over the Years

This is an evaluation of Unilever Nigeria performance over the years and its expected performance the next five years.

### Company Data

Tick (NGX)	UNILEVER	NESTLE	CADBURY
Current Price @ 22-Apr-2024	₦14.30	₦900.00	₦19.00
2024 Target Price	₦18.59	₦1,323.00	₦26.41
Rating	BUY	BUY	BUY
Upside	30%	47%	39%
52-Week Low (N)	₦12.80	₦899.90	₦11.20
52-Week High (N)	₦21.70	₦1,250.00	₦31.95
Shares outstanding (mn)	5,745	793	1,878
Market Capitalisation(mn)	₦82,153.58	₦713,390.63	₦35,685.84
Market Capitalisation (US\$'mn)	\$68.46	\$594.49	\$29.74
Trailing EPS (N)	1.49	-43.21	-14.71
Trailing P/S (x)	0.06x	0.01x	0.01x

	UNILEVER
<b>RECOMMENDATION</b>	<b>BUY</b>
Current Price	<b>14.30</b>
Intrinsic	<b>18.59</b>
Upside	<b>30%</b>

Source: NGX, ASAM Research

NPV of FCFF	27,604,464
NPV of TV	22,602,412
<b>Enterprise value</b>	<b>50,206,876</b>
Add: cash	56,605,904
Less: borrowings	0.00
<b>Equity value</b>	<b>106,812,780</b>
Outstanding shares	5,745,005
<b>Implied share price</b>	<b>18.59</b>
UPSIDE/DOWNSIDE	30%
<b>Recommendation</b>	<b>BUY</b>

# VALUATION REPORT

*The year 2023 has been a challenging one for Unilever Nigeria and other manufacturing companies due to the rise and unfavorable effect of the macroeconomic variables*

Unilever Nigeria has witnessed a declined revenue growth in 2019, reporting a revenue lower than reported in 2018. In the COVID year, the company's growth slowed at 2.3% but the reported revenue was an improvement on the 2019 revenue. Post-COVID, the revenue growth rate was impressive but slowed down again in 2023. The slow growth witnessed in 2023 was characterized by the highest level increasing exchange rate that the country has witnessed following unification of foreign exchange rate. The growth rate is expected to grow between 23% to 19% in the next five (5) years.

The cost of sales expended was higher than 70% between 2019 – 2021, and marginally below 70% between 2022 and 2023. This high cost of sales left the gross profit margin achieved to be less than 30% between 2019 – 2021, and marginally higher than 30% between 2022 and 2023. It is expected that gross profit margin for the next five years will be between 29% to 26%.

The operating profit margin was low at rates not more than 12% from 2019 to 2023, this is projected to record lower margin below 4% in the next five years. The same lower margin was projected for both Profit Before Tax Margin and Profit After Tax Margin.

	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
<b>Revenue</b>	-34.89%	2.43%	13.82%	25.59%	10.01%	23.84%	23.84%	23.84%	19.83%	19.83%
<b>Cost of Sales</b>	92.15%	79.34%	71.13%	64.80%	69.34%	70.58%	70.58%	70.58%	73.66%	73.66%
<b>Gross Profit Margin</b>	7.85%	20.66%	28.87%	35.20%	30.66%	29.42%	29.42%	29.42%	26.34%	26.34%
<b>Operating Profit Margin</b>	-19.59%	-9.90%	1.55%	8.38%	12.75%	3.16%	3.73%	4.15%	1.36%	1.58%
<b>Profit Before Tax Margin</b>	-16.13%	-7.40%	2.92%	8.82%	14.04%	4.54%	4.85%	5.05%	2.11%	2.21%
<b>Profit After Tax Margin</b>	-12.27%	-6.40%	0.98%	5.04%	8.77%	3.03%	3.23%	3.37%	1.41%	1.47%

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# VALUATION REPORT

## Our Thought

The company recorded relatively low PBT and PAT owing to the very high cost of sales incurred coupled with high Marketing and administrative expenses incurred in 2023. The forecasted PAT is still expected to be low.

The company's high interest coverage ratio shows that it is poised to pay its debt. The debt to equity ratio shows that the company is utilizing its assets to fund its operations and has no debt incurred to a few years now.

The cash ratio shows that Unilever has enough cash and cash equivalent to pay off its current and excess cash available, hence, the company is more liquid.

	2023A	2024E	2025E	2026E	2027E	2028E
<b>Liquidity</b>						
Current ratio	2.2 x	2.2 x	2.0 x	1.9 x	1.7 x	1.6 x
Quick ratio	1.9 x	1.7 x	1.5 x	1.4 x	1.2 x	1.1 x
Cash ratio	1.2 x	0.9 x	0.7 x	0.5 x	0.4 x	0.3 x
<b>Solvency</b>						
Total debt ratio	0%	0%	0%	0%	1%	1%
Debt to equity ratio	0%	0%	1%	1%	1%	1%
Interest coverage ratio	3.9 x	3.1 x	4.5 x	6.2 x	2.4 x	3.4 x
<b>Income Statement</b>						
	2023'A	2024'F	2025'F			
Revenue	97,437,811.00	120,668,850.36	149,438,614.20			
Cost of sales	67,566,046.00	85,172,888.19	105,479,735.17			
<b>Gross profit</b>	<b>29,871,765.00</b>	<b>35,495,962.17</b>	<b>43,958,879.03</b>			
SG&A	20,959,326.00	28,960,524.09	35,865,267.41			
<b>EBITDA</b>	<b>8,912,439.00</b>	<b>6,535,438.08</b>	<b>8,093,611.62</b>			
Depreciation and amortization	3,508,551.00	2,721,118.31	2,522,769.93			
<b>Operating profit</b>	<b>12,420,990.00</b>	<b>3,814,319.77</b>	<b>5,570,841.69</b>			
Other income	986,913.00	986,913.00	986,913.00			
Finance income	3,427,638.00	1,922,899.43	1,922,899.43			
Finance cost	3,157,815.00	1,239,834.29	1,239,834.29			
<b>Profit before taxation</b>	<b>13,677,726.00</b>	<b>5,484,297.92</b>	<b>7,240,819.83</b>			
Income tax expense	(5,133,963.00)	(1,825,494.77)	(2,410,167.90)			
<b>Profit for the year</b>	<b>8,543,763.00</b>	<b>3,658,803.14</b>	<b>4,830,651.94</b>			



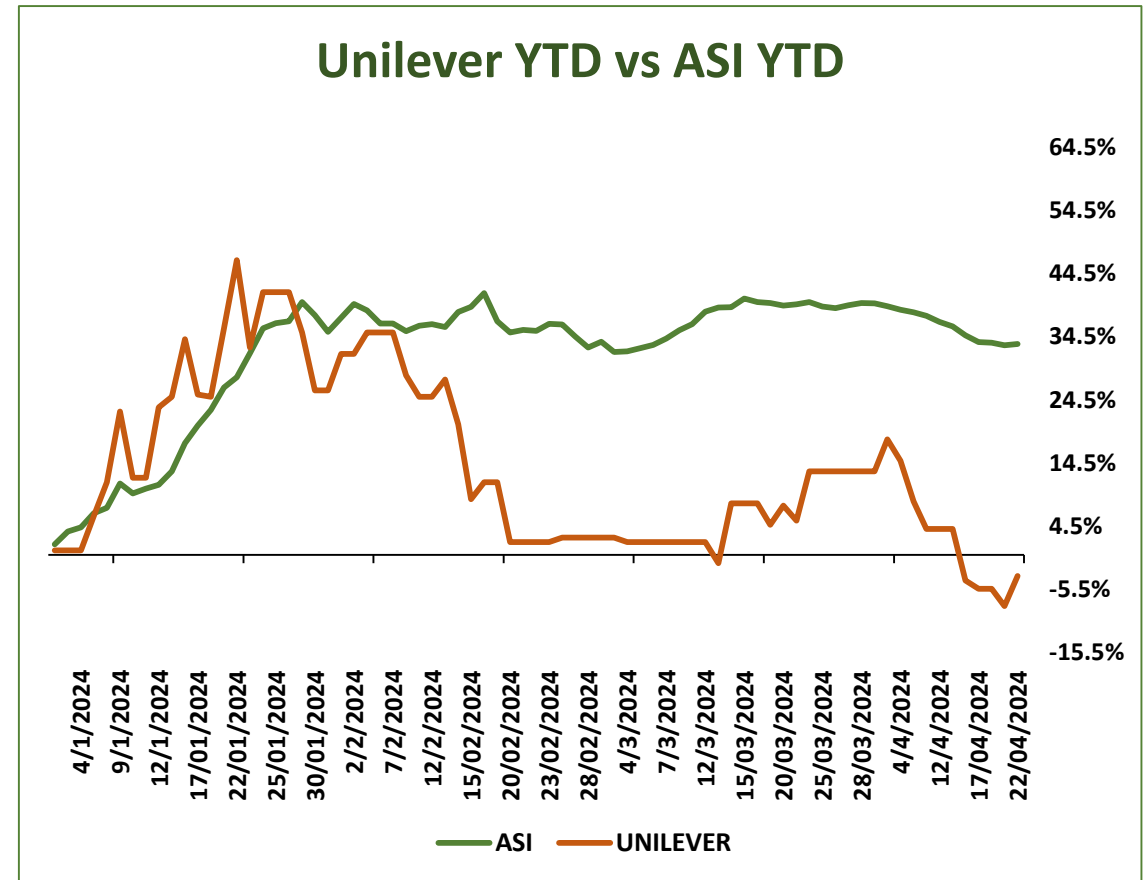
## THE STOCK EXCHANGE PERFORMANCE

Unilever Nigeria year-to-date (YTD) stock performance was -3.38%, as against the 33.34% ASI-NGX performance.

Although the performance for the year has not been impressive or has not outperformed the market, the values in the company's books are stable and has potential to remain afloat with cash while utilizing its asset and not heavy on debt.

According to our forecast analysis, we anticipate a potential 30% increase in the current price of N14.30, leading to a projected value of N18.59.

In light of this upside potential projected, our recommendation is to adopt a "BUY" position, suggesting that investors may want to increase their existing investment or add Unilever to their portfolio rather than missing out on the 30% upside potential. This recommendation is based on the expected price increase.



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### Investment Rating Criteria and Disclosure

Arthur Steven Asset Management adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell.

These generic ratings are defined below;

**Buy:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is greater than our estimated cost of equity.

**Hold:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the cost of equity, however, the expected total return on the stock is greater than or equal to the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 18.75%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

**Sell:** Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 18.75%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity, especially as we consider the average 4.5% total transaction cost for an average retail investor.

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