



Arthur Stevens
Asset Management Ltd.

12/15/2020

UNILEVER GROUP

VALUATION REPORT





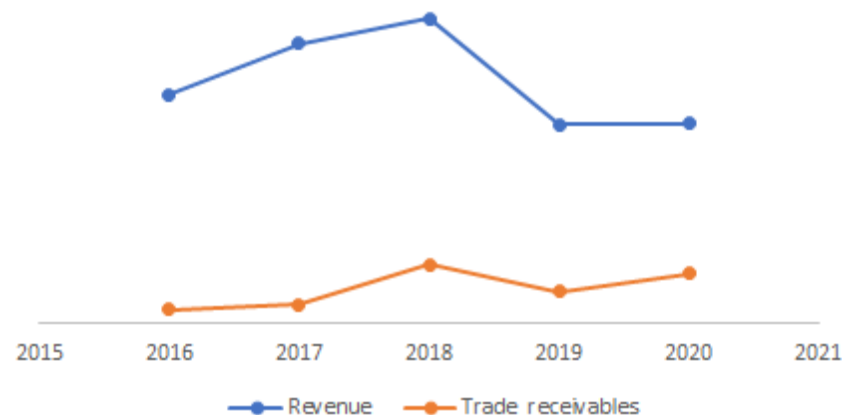
Unilever Group, a household name making some of the world's best – known brands.

In FY'19 Unilever Group revenue declined significantly by 35% from N92.89bn in FY'18 to N60.49bn in FY'19. In this same period the management tightened credit terms to customers in an effort to maintain quality assets and remain efficient in its working capital management which saw its trade receivables decline by 45% in FY'19.

We saw a trend of significant increase in trade receivables which suggest that Topline growth in the period was majorly supported by credit sales. Trade receivables grew by 33%, 38% and 219% in FY'16, FY'17 and FY'18 respectively; similarly, we saw revenue grow by 18%, 22% and 9% in FY'16, FY'17 and FY'18 respectively. Given that the revenue decline in FY'19 (-35%) was in the same trend with the decline in trade receivables during the same period. In early 2020, we saw the company faced with a dwindling market share amidst weak purchasing power of consumers and the redirection of consumers' appetite and preferences towards other alternatives.

Market Statistics	
NSE Code	UNILEVER
Current Price (N) @ 15/10/2020	13.50
Target Price (N)	7.50
Recommendation	SELL
52- week High (N)	24.05
52- weeks Low (N)	9.90
Year-to-Date Return (%)	-38.64
Down-side	-44.44%

REVENUE VS TRADE RECEIVABLES



Source: Company's statement, ASAM research



Sterling Revenue Growth

However, in the recently released Q3'20 financial result the group recorded a significant recovery on its topline as revenue grew by 94% YoY from N8.97bn IN Q3'19 to N 17.39bn in Q3'20. The Food Products business segment grew by 25% QoQ, from N7.86bn in Q2'2020 to N9.83bn in Q3'2020, On the other hand, the Household and Personal Care business segment grew by 23% QoQ, from N6.15bn in Q2'2020 to N7.57bn in Q3'2020. Overall, the total revenue QoQ growth stood at 24% from N14.01bn in Q2'2020 to N17.39bn in Q3'2020.

Income statement	Q1'2019	Q1'2020	% change	Q2'2019	Q2'2020	% change	Q3'2019	Q3'2020	% change
Revenue	19,236	13,329	-31%	23,422	14,008	-40%	8,970	17,395	94%
Cost of Sales	(15,367)	(9,902)	-36%	(15,945)	(11,279)	-29%	(10,682)	(13,667)	28%
Gross Profit	3,869	3,427	-11%	7,477	2,729	-63%	(1,712)	3,729	318%
Other Income	26	22	-18%	3	27	942%	(15)	(12)	17%
Operating income	3,896	3,449	-11%	7,479	2,756	-63%	(1,727)	3,716	315%
Operating expenses	(2,377)	(2,946)	24%	(4,927)	(4,023)	-18%	(2,815)	(4,735)	68%
Other gains/losses	(200)	(49)	75%	(17)	(597)	-3333%	(99)	(429)	-334%
Operating profit	1,318	453	-66%	2,535	(1,864)	-174%	(4,641)	(1,449)	69%
Finance income	804	496	-38%	398	354	-11%	646	35	-95%
Finance cost	(94)	(1)	-99%	(263)	(5)	-98%	(85)	(619)	625%
Profit before tax	2,027	948	-53%	2,670	(1,515)	-157%	(4,080)	(2,033)	50%
Total taxes	(507)	(166)		(676)	(118)		1,077	492	
Profit after tax	1,521	783	-49%	1,994	(1,634)	-182%	(3,004)	(1,541)	49%

Source: WSTC research



About Unilever.

Unilever Nigeria Plc. is engaged in the manufacture and marketing of foods and food ingredients, and home and personal care products. The Company's segments are Food Products, Home Care and Personal Care products. Its Foods Products segment includes sale of tea, savory and spreads. The Company's Home Care segment includes sale of fabric care, household cleaning and water purification products. The international brands include Close-Up toothpaste, Pepsodent toothpaste, LUX beauty soap, Lifebuoy soap, Rexona, Vaseline lotion 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, Sunlight washing powder and Sunlight Dish washing liquid in the Home Care Unit. Other Regional and local jewels include the Pears Baby Products range and Royco bouillon cubes. The Company has manufacturing sites in Oregon, Lagos State and Agbara, Ogun State.





Review of Consumer Goods Industry

The Consumer goods sector is one of the biggest sectors in the world, and it's really no surprise as it is part of everyone's daily life. "Fast moving" refers to the fact that FCMG products usually have a short shelf life. Nigeria has a rapidly increasing population currently at about 200 million people, this shows the potential the Consumer Goods sector carries as the large population creates a large market for companies in the Consumer Goods sector. However, a few obstacles to such exploding growth in the sector includes high poverty rates with low disposable income, high inflation rates, poor ease of doing business, poor infrastructures etc. According to World Bank data, Nigeria, South Africa and Egypt – contributes above 50.0% of Africa's total consumer spending.

Retail and wholesale sales make up 16.1% of Nigeria's GDP, making retail and consumer goods sales the second largest contributor to the nation's GDP. Although informal trade still accounts for the vast majority of consumer spending, major international retailers are rapidly expanding their operations in Nigeria, such as Shoprite and Spar. Accordingly, Nigeria now reports one of the highest levels of market competition in Africa.

Broadly, as the disposable incomes of consumers continue to shrink in real term – owing to the consistent double-digit inflation rate and sluggish economic growth – consumers have constantly adopted affordability as the key factor in consumption decisions, rather than the brand name. Thus, while there is a fast-growing market for consumer goods firms, the price sensitivity of consumers resulted in an increased preference for more affordable substitute products.





Review of Consumer Goods Industry

In response to this, some consumer goods players have introduced smaller product units, “sachetization”, at lower retail prices to better capture the growing value segment. This is similar to the happenings in the brewery segment where players are introducing smaller units in 45cl sleek bottles to phase out the traditional 65cl bottles.

Lots of the raw materials used in Nigeria are imported from china and other countries which were badly affected by the pandemic. The Food business seems to reel from sterner competition which suppressed volumes. Consumers have constantly adopted affordability as the key factor in consumption decisions, thus Unilever’s premium brands continue to lag.

FMCG products are often near-identical, and for this reason price competition between retailers can be intense. To boost profitability, companies use marketing and other techniques to establish loyalty to the product, which enables them to charge higher prices. That said, managing input costs also remain vitally important, as small margin gains still have a significant impact on the bottom line due to the large volumes. Another important characteristic of the FMCG sector is that it generally does well in an economic downturn, with consumers rather cutting back on luxury products.

FMCG retailers generally operate in a low-margin environment. FMCG products usually enter consumer markets at low price points and as a result, spending power has to be fairly low for the majority of FMCG product categories to be adjudged as being unaffordable.



Valuation and Recommendation

We utilized the Free Cash Flow valuation methodologies in the valuation of the company's equity – absolute valuation (Free Cash Flow to Firm Model (FCFE)). Based on this, we arrived at a target price of NGN7.50, which implies a potential downside of 44.4%. Consequently, we place a **“SELL”** recommendation on the ticker.



Analyst Certification, Important Disclosure and Disclaimer

Analyst Certification

The research analysts who prepared this report certify as follows:

1. That all of the views expressed in this report articulate the research analyst(s) independent views/opinions regarding the companies, securities, industries or markets discussed in this report.
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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 – 200bps; i.e 10%). 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 – 200bps; i.e. 10%). 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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