

Regaining Grounds In the Domestic Market

Stronger Domestic Demand Spurs Double-Digit Growth

UNILEVER's 9M:2021 financial performance closely mirrored the steady rebound in economic activities and improved aggregate demand. During the nine-month period, the firm recorded an exceptional growth in revenue of 31.27% YoY from NGN44.73bn in 9M:2020 to NGN58.72bn in 9M:2021. The performance was specifically influenced by the increase in domestic sales- up by 33.19% YoY to NGN58.40bn (vs. NGN43.85bn recorded in 9M:2020). On the other end, export sales slumped significantly by 63.94%YoY from NGN881.48mn in 9M:2020 to NGN317.87mn in 9M:2021. The Home and Personal Care Products (HPC) and Food Product Segments both witnessed solid sales growth, increasing by 43.89%YoY and 21.41%YoY, respectively. **We attribute this to a mix of factors- notably improved demand for food seasoning and home-care products. We also do not rule out the revenue impact of an upward price review on specific products considering the current state of inflation. Overall, we remain optimistic about the firm's performance for the rest of the year. Our outlook is hinged on the continued growth in domestic sales, bolstered by improved economic conditions. On this note, we project a 26.24%YoY growth in 2021FY revenue to NGN78.22bn (vs. 61.96bn in 2020FY).**

Moderation in Cost-to-Sales Ratio Strengthens Margins

Direct cost increased by 22.98% from NGN34.84bn in 9M:2020 to NGN42.86bn in 9M:2021. As a result, the cost-to-sales ratio improved marginally to 72.98% from 77.90% in 9M:2021. Operating expenses also increased by 28.02%YoY due to administrative cost pressures (+28.83%YoY). Nevertheless, operating margin shunned the increase in expenses, settling at 1.15% in 9M:2021 from a negative position of **6.39%** in 9M:2020. Finance income also improved by 31.64%YoY, further giving earnings a facelift. Hence, profit before tax surged by 154.73%YoY to NGN1.12 in 9M:2021 from a loss position of **NGN2.60bn** in 9M:2020. Similarly, profit after tax peaked significantly by 152.56%YoY to NGN1.08bn in 9M:2020 from a loss of **NGN2.06bn** in the same period last year.

In 2021FY, we expect costs to hover at current levels mainly due to inflation and challenges related to foreign exchange. Despite this, we see more room for earnings expansion at the end of the financial year, given our revenue projections.

Increase in Trade Payables Impacts Liquidity Ratios

We observed an improvement in earnings quality as operating cashflow exceeded net income, resulting in a negative net operating accrual of NGN10.68bn. Elsewhere, the firm's liquidity ratios-current and acid test ratio declined to 2.07x and 1.64x from 2.30x and 1.81x following the increase in trade payables to NGN35.75bn from NGN27.42bn.

Recommendation

For 2021FY, we project an EBITDA of NGN6.25bn and an EV/EBITDA of 10.01x. Having adjusted for net debt of -NGN36.86bn, we arrived at a target price of NGN17.31. This implies an upside potential of 10.95% on the closing price as of the 29th of October 2021. Thus, we rate the counter **BUY**.

Company	UNILEVER
Valuation (Trailing)	
Trailing EPS (NGN)	-0.14
BVPS	11.10
P/E	n/m*
P/BV	1.41x
Target EV/EBITDA	10.01x
Dec-2021 Exp. EBITDA	6.25bn
Dec 2021 Target price	NGN17.31
Current Price	NGN15.60
Up/Downside Potential	+10.95%
Ratings	BUY
Key metrics (Trailing)	
ROE	n/m*
ROA	n/m*
Net margin	-1.08%
Asset Turnover	0.79x
Leverage	1.58x
Share Price Data	
Year High	NGN15.60
Year Low	NGN11.65
YTD return	-25.32%
Beta	0.91
Adjusted Beta	0.94
Shares outstanding	5.75bn
Market cap [NGN]	89.62bn
Financial year end	December
Most Recent Period (MRP)	9M:2021

*n/m: not meaningful

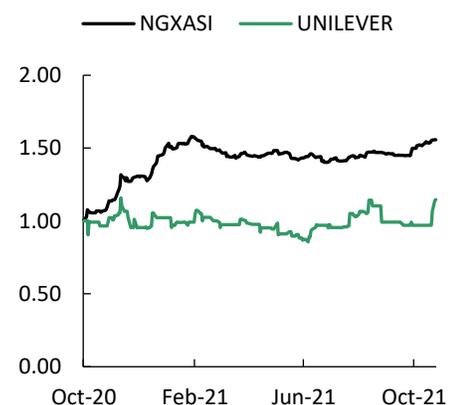


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	16.01
EBITDA per share						Max	18.67
		0.99	1.04	1.09	1.14	1.19	
Target EV/EBITDA	9.71x	16.01	16.50	16.98	17.47	17.95	
	9.86x	16.16	16.65	17.14	17.64	18.13	
	10.01x	16.31	16.81	17.31	17.81	18.31	
	10.16x	16.46	16.96	17.47	17.98	18.49	
	10.31x	16.60	17.12	17.63	18.15	18.67	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	9M:2021	2020 A	2021F	2022F	2023F	2024F	2025F
Revenue	58.72	61.96	78.22	86.04	94.64	104.11	114.52
Cost of sales	-42.86	49.16	57.51	62.53	67.03	72.46	79.91
Gross Profit	15.87	17.94	25.03	28.39	33.12	37.48	41.23
OPEX	-14.98	18.71	18.89	18.59	21.42	24.67	28.26
Other Income	-2.58	2.79	3.64	3.83	4.45	5.15	5.81
Operating Profit	-12.41	12.15	15.25	14.76	16.97	19.52	22.45
Finance Cost	-0.21	3.77	0.00	0.00	0.00	0.00	0.00
PBT	0.00	0.07	0.11	0.11	0.15	0.14	0.15
PAT	0.68	-0.71	6.25	9.00	11.77	13.93	15.43

Balance Sheet	9M:2021	2020 A	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	26.03	27.37	31.63	31.91	32.15	32.66	33.04
Total Debt	0.14	0.24	0.24	0.24	0.24	0.24	0.24
Total Assets	100.47	91.52	99.73	106.78	114.58	125.00	136.97
Total Equity	63.75	62.13	64.16	68.01	73.52	80.24	87.37
Total Current Liabilities	35.75	27.80	34.44	37.50	39.56	42.98	47.46
Non-Current Liabilities	0.96	63.98	67.05	74.05	81.85	91.98	103.81
Total Liabilities	36.72	29.39	35.56	38.77	41.06	44.76	49.60

Financial Ratios	9M:2021	2020 A	2021F	2022F	2023F	2024F	2025F
Gross Margin	27.02%	28.95%	32.00%	33.00%	35.00%	36.00%	36.00%
Operating Margin	1.15%	-1.15%	7.99%	10.46%	12.44%	13.38%	13.47%
Net Margin	1.84%	-6.15%	2.65%	4.55%	5.93%	6.57%	6.34%
Return on Asset	1.08%	-4.16%	2.08%	3.67%	4.90%	5.47%	5.30%
Return on Equity	1.70%	-6.13%	3.23%	5.76%	7.63%	8.52%	8.31%
Return on Invested Capital	3.59%	-28.63%	4.64%	9.98%	14.88%	18.62%	20.07%
Asset Turnover	0.93	0.96	1.24	1.30	1.34	1.35	1.37
Financial Leverage	1.58	1.47	1.55	1.57	1.56	1.56	1.57
Debt to Asset Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt to EBIT Ratio	0.21	-0.04	0.14	0.06	0.04	0.03	0.03
Current Ratio	2.07	2.30	1.95	1.97	2.07	2.14	2.19
Quick Ratio	1.64	1.81	1.46	1.58	1.65	1.71	1.75

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target
Company Name: Unilever Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-April-21	13.30	-	11.78	-	SELL
29-July-21	14.00	11.78	16.57	SELL	BUY
29-Oct-21	15.60	16.57	17.31	BUY	BUY

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