

Improved Domestic Demand Underscores Performance

Strong Sales in the HPC Segment Spurs Revenue Growth

Unilever Nigeria Plc (**UNILEVER**) performed impressively in its 2021FY and Q1:2022 financial scorecards. In 2021FY, the company delivered a topline growth of 13.82%YoY, to NGN70.52bn from NGN61.96bn in 2020FY. The positive performance was significantly supported by the increased patronage in the domestic market, pushing domestic sales up by (+15.05%YoY) to NGN69.77bn from NGN60.64bn in 2020FY. On the other hand, export sales fell by -42.73%YoY to NGN756.47mn from NGN1.32bn in 2020FY. On a segmental basis, the Home and Personal Care Products (HPC) recorded robust growth (+41.87%YoY) while the Food Product Segment contracted by 9.08%YoY. We attribute the decline in the food segment to the highly competitive operating environment and opine that the cumulative topline growth was driven by a combination of factors, including price hikes across product segments, improved production volume, and the essential nature of the HPC product. Building on this positive momentum, the firm recorded revenue growth of 24.54%YoY in Q1:2022 to NGN20.56bn (from NGN16.51bn in Q1:2021). However, contrary to the momentum witnessed in 2021FY, the bulk of its revenue in Q1:2022 came from its Food product segment (+26.15%YoY). We attribute this to the sustained improvement in domestic demand (+23.31%YoY) to NGN20.24bn from NGN16.41bn in Q1:2021. **As we advance into the next quarters, the company's near-term outlook appears promising, with scope for further topline growth. This is expected to be driven by the sustained increase in domestic demand on account of consumer spending on essential products (such as the HPC products). We also expect brand loyalty to the company seasoning products (Knorr) to result in topline expansion in the food segment. However, a downside to this outlook would be the weakened purchasing power of consumers due to the continuous rise in inflationary pressure. On this premise, we anticipate a revenue growth of 15.70%YoY to NGN81.59bn in 2022FY.**

Earnings Undeterred by Cost Pressures

Although production cost edged up marginally by 2.04%YoY in 2021FY, *fuelled by the rise in raw material cost (+3.89%YoY)*, the impact was toned down by the sharper growth in topline. Thus, cost to sales improved to 71.13% in 2021FY (vs.79.34% in 2020FY). Similarly, in Q1:2022, the cost to sales ratio improved to 64.11% (from 74.68% in Q1:2021) as the growth in revenue also outpaced the increase in production cost (+8.58%YoY). Operating expenses in the period also shot up by 13.53%YoY, as the company invested substantially in marketing expenses (+38.81%YoY) to drive sales volume. Notwithstanding, the operating margin improved to 10.64% in Q1:2022 (from 2.98% in Q1:2021).

The firm recorded a notable increase in finance cost (+252.43%YoY) to NGN121.13mn from NGN34.37mn in Q1:2021, owing to the increase in employee benefit charges and exchange rate loss. Overall, Profit Before Tax and Profit After Tax settled higher at NGN2.35bn and NGN1.80bn (from a loss position of **NGN129.98mn** and **NGN573.89mn** in Q1:2021), respectively. **While we expect production costs to remain elevated for the rest of the year, our earnings outlook is hinged mainly on the expected topline expansion and the firm's ability to keep up with cost-efficiency.**

Trade Payables Management Impacts Liquidity Metrics

Despite the improvement in the company's working capital position to NGN48.43bn in Q1:2022 from NGN45.69bn at the end of last year, both current and quick ratios came in lower at 2.05x and 1.64x in Q1:2022 (from 2.13x and 1.76x in 2021FY). This can be attributed to the faster growth in trade payables (+14.50%), leading current liabilities higher (+14.52%). However, the slower improvement in current assets (+9.99%) signals a lower ability for the company to cover its short-term obligations.

Outlook and Recommendation

We project a 2022FY expected EPS of NGN0.56 and a target PE of 27.12x. This yields a target price of NGN15.07 and implied 3.25% upside potential based on the closing price on May 17th, 2022. Hence, we rate the ticker a **HOLD**.

Company	UNILEVER
Valuation	
Trailing EPS (NGN)	NGN0.15
BVPS	11.45
P/E	99.00x
P/BV	1.31x
Target PE	27.13x
Dec-2022 Exp. EPS	NGN0.56
Dec 2022 Target price	NGN15.07
Current Price	NGN14.60
Up/Downside Potential	3.25%
Ratings	HOLD
Trailing Key metrics	
ROE	8.55%
ROA	4.97%
Net margin	4.83%
Asset Turnover	0.66x
Leverage	0.58x
Share/Share Price Statistics	
Yr Hi	15.30
Yr Lo	12.20
YTD return	+25.41%
Beta	0.97
Adjusted Beta	0.98
Shares outstanding	5.75bn
Market cap [NGN]	86.18bn
Financial year end	December
Most Recent Period (MRP)	Q1:2022

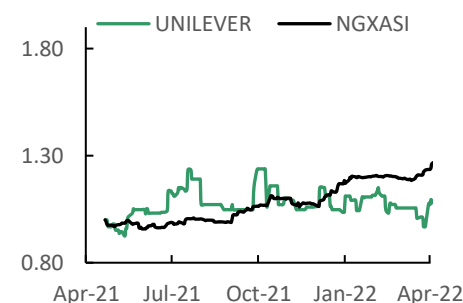


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs							Min	11.91
EPS							Max	18.44
	15.07	0.46	0.51	0.56	0.61	0.66		
Target PE	26.13x	11.91	13.21	14.52	15.83	17.13		
	26.63x	12.13	13.46	14.80	16.13	17.46		
	27.13x	12.36	13.72	15.07	16.43	17.79		
	27.63x	12.59	13.97	15.35	16.73	18.11		
	28.13x	12.82	14.22	15.63	17.04	18.44		

Financial Highlights and Forecasts (NGN billion)							
<i>Profit & Loss Account</i>	Q1:2022	Q1:2021	2022F	2023F	2024F	2025F	2026F
Revenue	20.56	16.51	81.59	91.38	100.52	110.58	121.63
Cost of sales	13.39	12.33	54.67	59.40	64.33	70.77	77.84
Gross profit	7.17	4.18	26.93	31.98	36.19	39.81	43.79
Operating expense	5.07	4.46	20.24	22.75	25.03	27.53	30.29
Operating profit	2.19	-0.28	3.00	5.38	7.24	8.04	9.08
Finance cost	0.12	0.03	0.00	0.00	0.00	0.00	0.00
PBT	2.35	-0.13	4.69	7.38	9.14	9.77	11.16
PAT	1.80	-0.57	3.19	5.02	6.22	6.64	7.59
<i>Balance Sheet</i>	Q1:2022	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	21.83	22.38	21.09	18.73	17.80	16.79	16.53
Total Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Assets	116.33	108.29	107.72	116.22	126.77	139.14	152.70
Total Equity	67.56	65.76	68.18	73.11	79.22	85.74	93.19
Total Current Liabilities	46.06	40.22	38.51	41.99	46.35	52.12	58.12
Non-Current Liabilities	2.72	40.22	38.51	41.99	46.35	52.12	58.12
Total Liabilities	48.77	42.53	39.54	43.11	47.56	53.39	59.51
<i>Financial Ratios</i>	Q1:2022	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	34.89%	25.32%	33.00%	35.00%	36.00%	36.00%	36.00%
Operating Margin	10.64%	-1.71%	3.67%	5.89%	7.20%	7.28%	7.46%
Net Margin	8.74%	-3.48%	3.91%	5.49%	6.19%	6.01%	6.24%
Return on Asset	1.54%	-0.53%	2.96%	4.32%	4.90%	4.78%	4.97%
Return on Equity	2.66%	-0.87%	4.68%	6.87%	7.85%	7.75%	8.14%
Asset Turnover	0.18x	0.15x	0.76x	0.79x	0.79x	0.79x	0.80x
Financial Leverage	1.72x	1.65x	1.58x	1.59x	1.60x	1.62x	1.64x
Current Ratio	2.05x	2.14x	2.25x	2.33x	2.36x	2.36x	2.36x
Quick Ratio	1.64x	1.76x	1.87x	1.93x	1.95x	1.94x	1.96x

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year) (F- Forecast)

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Company Name: Unilever Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
17-May-2022	14.60	17.31	15.07	BUY	HOLD

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