

UNILEVER Sustains Growth Trajectory

Strongest Revenue Performance in 19 Quarters

UNILEVER ended 2022FY on a positive note as its topline surged by 25.59% YoY to NGN88.57bn (from NGN70.52bn in 2021FY). The expansion was spearheaded by growth in the Food products segment which expanded by 37.47% YoY to NGN42.63bn (vs. NGN31.01bn in 2021FY). **In our view, the upward price review on its flagship products (Knorr bouillon cubes and Royco) during the 2022FY were the major catalysts propelling for this growth.** Revenue from the Home & Personal care (HPC) segment also advanced by 16.27% YoY. The overall positive performance was also significantly supported by the increased patronage in both the domestic (+25.39%YoY) and export market (+44.31%), which recovered from a dip in 2021.

UNILEVER sustained this impressive momentum in Q1:2023, delivering a topline expansion of 19.69% to NGN24.61bn (the highest quarterly revenue in 19 quarters). Again, the food segment anchored topline performance, expanding by 41.19% to NGN13.33bn (vs. NGN9.44bn in Q1:2022), while revenue from the HPC segment increased marginally by 1.43%. We opine that the firm's decision to divest from its HPC segment is a major reason for the slowdown in sales or the segment. **Going further in 2023, topline performance in the Food Product segment shows significant potential. We expect brand loyalty to the company's 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 and intense competition in the seasoning space. On this premise, we anticipate- a moderate revenue growth of 10.06%YoY to NGN97.49bn in 2023FY. We are however concerned about the potential impact of its plan to divest operations from the Home and Personal care segment (which contributed c.52% of revenue over the past 5 years).**

Margins Remain Sturdy Despite Rising Costs

Anchored on higher raw material costs (+32.98% YoY), **UNILEVER's** production cost increased by 14.42% YoY in 2022FY. The firm's cost-to-sales ratio, however, improved to 64.80% (vs 71.13% in 2021FY). Operating expenses also increased to NGN23.31bn (+26.43% YoY) on the back of surge in brand and marketing (+25.45% YoY), utility expenses (+45.23% YoY), and royalty expenses (+55.93% YoY). In similar fashion, cost to sales ratio in Q1:2023 improved to 56.92% (vs 65.11% in Q1:2022) as the growth in revenue also outpaced the increase in production cost (+4.64% YoY). Despite this increase, operating margin improved to 18.52% (from 10.64% in Q1:2022), largely supported by the expansion in topline. We note a significant uptick in finance cost in Q1:2023 (+223.24% YoY), rising from trade obligations with banks and exchange losses. Thus, interest coverage declined to 11.64x (vs 18.06x in Q1:2023). Overall, Profit Before Tax and Profit After Tax settled higher at NGN4.35bn (+85.01% YoY) and NGN2.67bn (+48.65% YoY) from NGN2.35 and NGN1.80 in Q1:2022).

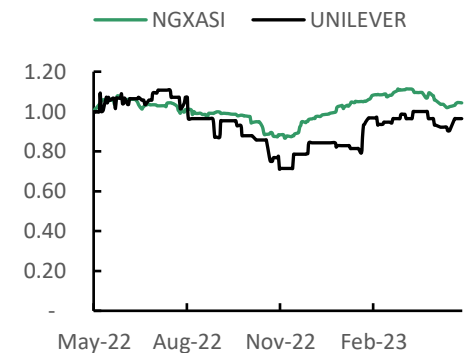
While we expect production costs to remain elevated for the rest of the year, our earnings outlook is mainly hinged on the expected topline expansion and the firm's ability to keep up with cost-efficiency.

We also note the improvement in **UNILEVER's** liquidity position: Current, Quick and cash ratio ticked up to 1.88x, 1.58x and 1.24x in Q1:2023 (from 1.82X, 1.56x and 1.19x in 2022FY). Owing to lower trade receivables (-5.97%) and higher cash from operations (+140.42%). This signals an improved ability of the firm to meet short-term obligations as they rise.

Recommendation

We project a 2023FY expected EPS of NGN0.97 and a target PE of 13.60x. This yields a target price of NGN13.21 and implied 2.16% downside potential based on the closing price on May 3rd, 2023. Hence, we rate the ticker a **HOLD**.

Company	UNILEVER
Valuation (Trailing)	
Trailing EPS	0.93
BVPS	12.23
P/E	14.52x
P/BV	1.10x
Target PE	13.60x
Dec-2022 Exp. EPS	0.97
Dec 2022 Target price	13.21
Current Price	13.50
Up/Downside Potential	-2.16%
Ratings	HOLD
Key metrics	
ROE	7.60%
ROA	3.94%
Net margin	5.77%
Asset Turnover	0.71x
Leverage	1.93x
Yr Hi	NGN14.00
Yr Lo	NGN11.10
YTD return	16.38%
Beta	0.46
Adjusted Beta	0.64
Shares outstanding	5.75bn
Proposed DPS	NGN0.25
Market cap [NGN]	77.56bn
Financial year-end	December
Most Recent Period (MRP)	Q1:2023



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs							Min	13.21
EBITDA per share							Max	13.21
Target EV/EBITDA	13.21	0.87	0.92	0.97	1.02	1.07		
	13.19x	13.21	13.21	13.21	13.21	13.21		
	13.39x	13.21	13.21	13.21	13.21	13.21		
	13.60x	13.21	13.21	13.21	13.21	13.21		
	13.80x	13.21	13.21	13.21	13.21	13.21		
	14.01x	13.21	13.21	13.21	13.21	13.21		

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	Q1:2022A	Q1:2023A	2023F	2024F	2025F	2026F	2027F
Revenue	20.56	24.61	97.49	56.59	64.92	78.33	91.23
Cost of sales	13.39	14.01	59.75	39.05	44.79	54.05	62.95
Gross profit	7.17	10.60	37.73	17.54	20.12	24.28	28.28
Operating expense	-5.07	-5.81	26.40	15.23	16.88	20.63	23.97
Operating profit	2.19	4.56	8.46	0.22	1.05	1.11	2.26
Other income	0.04	0.03	-1.41	-1.17	-1.13	-1.25	-1.02
Finance cost	0.16	-0.21	8.21	0.01	0.78	0.98	2.65
PBT	2.35	4.35	5.58	0.01	0.53	0.67	1.80
PAT	1.80	2.67	97.49	56.59	64.92	78.33	91.23
<i>Balance Sheet</i>	2022FY	Q1:2023	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	21.49	20.89	10.52	4.96	2.83	2.37	2.78
Total Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Assets	125	135	116.00	101.14	105.94	114.42	124.72
Total Equity	67.56	70.23	71.71	71.14	70.81	71.47	73.27
Total Current Liabilities	55.38	62.93	43.33	29.02	34.16	41.97	50.46
Non-Current Liabilities	57.83	2.26	43.33	29.02	34.16	41.97	50.46
Total Liabilities	57.83	65.2	44.29	30.00	35.13	42.94	51.45
<i>Financial Ratios</i>	2022FY	Q1:2023	2023F	2024F	2025F	2026F	2027F
Gross Margin	35.20%	37.36%	38.71%	31.00%	31.00%	31.00%	31.00%
Operating Margin	8.52%	10.70%	8.67%	0.40%	1.62%	1.42%	2.47%
Net Margin	5.04%	5.77%	5.72%	0.01%	0.82%	0.85%	1.97%
Return on Asset	3.94%	3.56%	4.81%	0.01%	0.50%	0.58%	1.44%
Return on Equity	7.60%	6.61%	7.78%	0.01%	0.75%	0.93%	2.45%
Asset Turnover	0.71x	0.71x	0.84x	0.56x	0.61x	0.68x	0.73x
Financial Leverage	1.93x	1.86x	1.62x	1.42x	1.50x	1.60x	1.70x
Current Ratio	1.82x	1.88x	2.43x	3.31x	3.02x	2.67x	2.42x
Quick Ratio	1.56x	1.58x	2.05x	2.93x	2.63x	2.29x	2.05x

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

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Movements in Price Target

Company Name: Unilever Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
04-May-23	13.50	12.46	13.21	HOLD	HOLD

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Unilever Nigeria Plc	

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