

Unilever Delivers Highest 9M Revenue in History

Summary: At the end of 9M:2023, UNILEVER's results outperformed that of the corresponding period despite the difficult operating environment. Revenue expanded by 25.95% YoY to NGN81.58bn during the period (vs. NGN64.77bn in 9M:2022). This growth was underpinned by increased revenue in the Food segment (+40.84% to NGN43.18bn) and the Home and Personal Care (HPC) segment (+12.57% to NGN38.39bn). Strong customer loyalty to the company's products drove higher sales and contributed to the robust performance of the top line. Notably, the company recorded a surge in export sales, primarily due to the impact of foreign exchange (FX) depreciation on the Naira value of export sales, which grew by a 105.02% YoY to NGN2.03bn.

Likewise, production cost surged during the period by 30.65% YoY to NGN62.17bn owing to the higher inflationary environment, revaluation loss on foreign currency-related trade loans and restructuring costs on the divestment from its HPC segment. As a result, the cost-to-sales ratio ticked up to 76.22% (higher than 73.47% in 9M:2022). However, foreign exchange revaluation gains on receivables helped to shore up operating expenses, which declined marginally by 4.40% YoY to NGN16.05bn. Despite facing rising costs, UNILEVER managed to achieve a remarkable 217.87% YoY increase in operating profit, reaching NGN1.73bn during the period, a significant jump from NGN0.54bn in the corresponding period. Also, net finance income rose considerably to NGN3.18bn (from -NGN0.07bn) due to foreign exchange gain on foreign denominated bank balances, bringing the total Pre-Tax Profit to NGN4.91bn (from NGN4.73bn in 9M:2022). Furthermore, effective tax rate came in higher at c. 66%, bringing the Profit After Tax to NGN1.67bn (vs. a Loss After Tax of NGN348.01mn in 9M:2022).

Positive: Net margin, Return on Equity (ROE) and Earnings quality improved to 2.05%, 2.46% and 4.02x (from -0.54%, -0.52%, and -17.13x in 9M:2022), respectively.

Negative: Liquidity metrics- current ratio, quick ratio and cash ratio all declined to 1.83x, 1.57x, and 1.18x, respectively from 1.88x, 1.58x, and 1.20x in 9M:2022. This decline was driven by a more significant increase in current liabilities - *intercompany payables* (72.33% YoY).

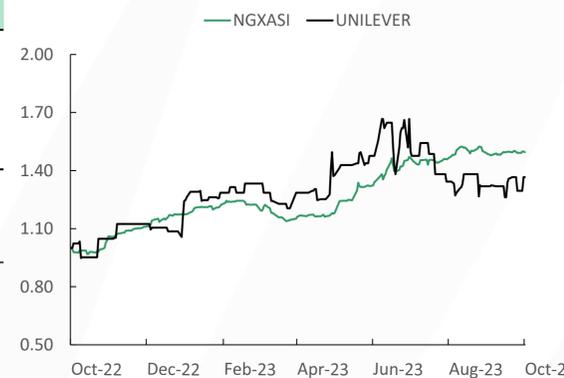
Outlook: In 2023FY, we expect UNILEVER to sustain its positive momentum and achieve a 13.58% YoY revenue growth to NGN100.60bn in 2023FY. This is hinged on continued customer loyalty, extension of the sale of their skin cleansing product category, as well as increased sales during the festive season. Despite possible cost pressures due to the high inflationary environment, we project an expansion in bottom line of 22.08% to NGN5.45bn in 2023FY.

Valuation

Trailing EPS	1.30
BVPS	11.80
P/E	11.01x
P/BV	1.22x
Target PE	18.45X
Dec-2023 Exp.	
EPS	0.97
Dec 2023 Target price	NGN17.90
Current Price	NGN14.35

Stock Highlights

Yr Hi	17.50
Yr Lo	11.10
YTD return	+17.24%
Beta	0.75
Adjusted Beta	0.83
Shares outstanding	5.75bn
Market cap [NGN]	82.44bn
Most recent period	9M:2023



Recommendation: HOLD TP: 17.90 CP: 14.35 UPP: 24.71%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Revenue	81.58	64.77	25.95%
Cost of Sales	62.17	47.59	30.65%
Gross Profit	19.40	17.18	12.92%
OPEX	16.05	16.79	-4.40%
Operating Profit	1.73	0.54	217.87%
Net Finance Income/(Cost)	3.18	-0.07	-4604.95%
PBT	4.35	0.47	819.13%
PAT	2.67	-0.35	-867.30%

Balance Sheet	9M:2023	2022FY	YtD Change
Property, Plant and Equipment	21.01	21.49	-2.25%
Total Asset	135.40	125.39	7.99%
Total Equity	67.80	67.56	0.35%
Total Debt	-	-	-
Total Liabilities	67.61	57.83	16.91%

Key Metrics

Profitability Ratio	9M:2023T	2022FY	3-yr Hist. Avg
ROA	5.53%	3.56%	-0.05%
ROE	11.04%	6.61%	0.42%
Net Margin	7.10%	5.04%	-0.13%

Efficiency Ratio	9M:2023T	2022FY	3-yr Hist. Avg
Asset Turnover	0.78%	0.71%	0.68x

Liquidity Ratio	9M:2023T	2022FY	3-yr Hist. Avg
Current Ratio	1.83x	1.88x	2.10x
Quick Ratio	1.57x	1.58x	1.72x
Cash Ratio	1.18x	1.20x	1.31x

Solvency Ratio	9M:2023T	2022FY	3-yr Hist. Avg
Interest Coverage	3.86x	-0.57x	-0.24x
Debt to Equity	0.00x	0.00x	0.00x
Debt to Asset	0.00x	0.00x	0.00x

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs

		EPS					Min	Max
		0.87	0.92	0.97	1.02	1.07	15.18	20.81
Target P/E	17.45x	15.18	16.05	16.93	17.80	18.67		
	17.95x	15.62	16.51	17.41	18.31	19.21		
	18.45x	16.05	16.97	17.90	18.82	19.74		
	18.95x	16.49	17.43	18.38	19.33	20.28		
	19.45x	16.92	17.89	18.87	19.84	20.81		

DISCLAIMER

Analysts' Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation

The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

BUY: Target Price of the stock is above the current market price by at least 10 percent

HOLD: Target Price of the stock ranges between -10 percent and 10 percent from the current market price.

SELL: Target Price of the stock is more than 10 percent below the current market price.

Movements in Price Target

Company Name: Unilever Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
01-Nov-2023	14.35	17.90	-	BUY	BUY

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Unilever Nigeria Plc	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

CONTACT INFORMATION

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
adaezeonyemachi@meristemng.com (+234 808 369 0213)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
davidadu@meristemng.com (+234 810 940 4836)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 803 355 0008)
crmwealth@meristemng.com (+234 01 738 9948)

Registrars

oluseyiowoturo@meristemregistrars.com (+234 802 321 0561)
www.meristemregistrars.com (+23401-280 9250)

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
trustees@meristemng.com

Group Business Development

sulaimanadedokun@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 394 2967)
info@meristemng.com

Investment Research

praiseihansekhien@meristemng.com (+234 817 007 1512)
research@meristemng.com

Analyst(s)

temiloluwaoyenuga@meristemng.com (+234 809 549 0743)

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
brandandcomms@meristemng.com (+23401-280 9250)

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research Portal: research.meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com