

UNILEVER Delivers Strong Performance Amidst Cost Pressures

Price Increases and Volume Growth Prop Up Topline Performance

At the end of its 9M:2024 financial result, **UNILEVER** recorded an impressive topline growth of +45.84% YoY to NGN103.85bn (vs NGN71.21bn in 9M:2023). This performance was majorly strengthened by multiple price adjustments implemented throughout the period, resulting in considerable growth across its food segment, which surged by +42.20% YoY to NGN61.40bn. This segment includes leading brands such as Knorr bouillon cubes and Royco. Conversely, revenue from the home and personal care (HPC) segment saw a considerable growth of +51.46% YoY, totaling NGN42.44bn. Despite the company's previous indication of plans to divest from this segment, sales of these products continued until the recent period, thereby contributing to the observed increase. By geography, domestic sales experienced robust growth (+45.30% YoY) retaining its position as the primary driver of revenue growth, contributing c.97% to the total revenue. Meanwhile, export revenue also registered an uptick of +65.07% YoY to NGN3.24bn in 9M:2024, benefiting from the higher exchange rate. **For the remainder of the year, we project a 33.80% revenue growth for UNILEVER, reaching NGN138.99bn by 2024FY. This growth outlook is supported by strategic price adjustments to offset inflationary pressures and an anticipated increase in festive season demand, particularly in the food segment. Additionally, strong brand loyalty, increased volumes sold, and sustained sales in the home care segment are expected to support this growth. However, we acknowledge that ongoing industry and broader macroeconomic challenges may present downside risks to this forecast.**

Stronger Profitability Amid Rising Cost Pressures

UNILEVER's production costs climbed by +25.82% YoY to NGN60.96bn, up from NGN48.44bn in the previous period, primarily driven by a 69.53% surge in input costs. However, due to stronger topline growth, the cost-to-sales ratio declined to 58.70% from 68.03% in 9M:2023. This shift contributed to an expansion in both gross profit and gross margin, which increased to NGN42.79bn and 41.30%, respectively, compared to NGN22.76bn and 31.97% in 9M:2023. Meanwhile, total operating costs surged by 128.20% YoY to NGN30.05bn, largely due to a substantial increase in branding and marketing costs (up +285.51% to NGN11.99bn) on campaigns aimed at boosting visibility and sales in the personal care and nutrition segments. Additional contributors include higher selling and distribution expenses (+64.92% to NGN4.49bn) and overhead expenses (+89.90% to NGN11.05bn), reflecting inflationary pressures, the impact of Naira depreciation on foreign obligations, and increased investments on capability building. However, despite these cost escalations, the operating profit showed an improvement of +27.20% YoY to NGN10.13bn, largely due to the expansion in revenue.

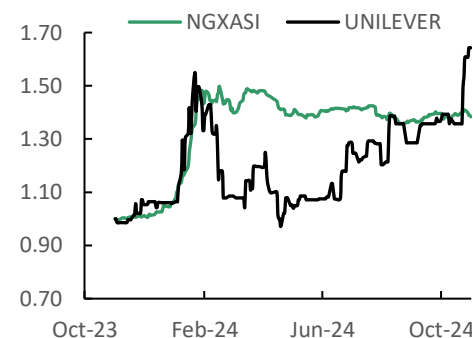
UNILEVER recorded a net finance income of NGN3.83bn (vs NGN2.73bn in the prior period) owing to an increase in interest on call deposits and FX gain on bank balances, which outpaced the increase in finance costs during the period. Overall, the company ended the period with a Profit After Tax (PAT) of NGN11.01bn, a significant jump from NGN1.67bn in 9M:2023. Likewise, the net margin, Return on Asset (ROA) and Return on Equity (ROE) improved from 10.48%, 6.41% and 10.01% in 9M:2023 to 10.60%, 8.20% and 13.56% in 9M:2024. **Anticipating continued substantial cost pressures throughout the year, we foresee a consequent pressure on margins. Nevertheless, we expect robust topline expansions as well as increases in finance income through FX gains on bank deposits to contribute to the expected improvement in profit at the end of the year. Thus, we expect PAT to expand by 73.47% YoY to NGN14.64bn from NGN8.44bn in 2023FY.**

Higher Debt Stock Increases Exposure to Likely FX Fluctuations

UNILEVER's debt profile increased for the first time in four years, reaching NGN3.00bn, largely due to a strategic loan of USD1.62bn secured in partnership with Wecyclers Outcomes Partnership Limited. This funding is earmarked to support sustainability initiatives, particularly recycling and waste management projects. However, this new debt introduces exposure to potential FX fluctuations, which could impact future costs. As a result, both the company's debt-to-asset and debt-to-equity ratios edged up to 0.02x and 0.04x, respectively. On a positive note, liquidity ratios showed improvement, with the quick and current ratios rising to 1.83x and 2.54x (from 1.57x and 1.83x in 9M:2023). This reflects a stronger ability to meet short-term obligations.

However, the company's operating cash flow took a sharp hit due to a significant increase in inventory, as **UNILEVER** sought to lock in favourable prices for raw materials and packaging. This inventory build-up led to a drop in earnings quality, with the cash flow-to-earnings ratio declining to -0.03x in 9M:2024, down from 4.02x in the previous period.

Company	UNILEVER
Valuation	
Trailing Revenue	NGN136.52
BVPS	NGN14.14
P/BV	2.09x
Target P/E	11.04x
Dec-2024 Exp. EPS	NGN2.55
Dec-2024 Target Price	NGN28.14
Current Price	NGN29.60
Upside Potential	-4.93%
Ratings	HOLD
Key metrics	
ROE	0.35%
ROA	0.21%
Net margin	10.60%
Asset Turnover	1.02x
Leverage	1.65x
Yr Hi	NGN29.60
Yr Low	NGN13.60
YTD return	+100.00%
Beta	0.82
Adjusted Beta	0.88
Shares outstanding	5.75bn
Market cap [NGN]	170.05bn
Financial year-end	December
Most Recent Period	9M:2024



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Recommendation

We have a fair value estimate of NGN28.14 for **UNILEVER**, suggesting a downside potential of 4.93% from its closing price of NGN29.60 as of November 21st, 2024. Thus, we rate the ticker a **HOLD**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2024 Target Price to key input models							Min	21.57
							Max	35.50
							EPS	
	28.14	₦2.15	₦2.35	₦2.55	₦2.75	₦2.95		
Target P/E	10.04x	21.57	23.58	25.59	27.60	29.61		
	10.54x	22.65	24.75	26.86	28.97	31.08		
	11.04x	23.72	25.93	28.14	30.35	32.55		
	11.54x	24.79	27.10	29.41	31.72	34.03		
	12.04x	25.87	28.28	30.69	33.09	35.50		

Metrics	Value
Discounted Cashflow Approach	NGN28.99
Relative Valuation	NGN26.15
Fair Value	NGN28.14

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	9M:2023A	9M:2024A	2024F	2025F	2026F	2027F	2028F
Revenue	71.21	103.85	139.00	166.99	211.32	250.99	291.69
Cost of sales	48.44	60.96	82.07	101.86	128.91	153.10	177.93
Gross profit	22.76	42.89	56.93	65.13	82.42	97.88	113.76
Operating expense	13.17	30.05	37.52	39.63	45.60	54.73	60.80
Other Income	0.09	0.16	0.37	1.32	-0.16	1.00	1.33
Operating profit	7.96	10.13	18.27	24.85	34.68	39.51	48.32
Finance cost	-0.27	2.94	3.97	3.95	4.87	5.58	7.24
PBT	10.70	13.96	21.53	28.85	39.16	43.02	47.62
PAT	1.67	11.01	14.64	19.61	26.63	29.26	32.38

Balance Sheet	9M:2023A	9M:2024A	2024F	2025F	2026F	2027F	2028F
Property, Plant and Equipment	21.01	19.51	19.93	26.44	36.53	49.44	64.05
Total Debt	0.00	3.00	3.06	4.65	6.33	7.91	9.41
Total Assets	135.40	134.23	163.35	196.07	247.31	297.79	346.93
Total Equity	67.80	81.21	84.90	100.21	121.66	145.75	171.53
Total Current Liabilities	62.52	44.56	67.56	84.73	110.60	133.62	153.56
Non-Current Liabilities	5.09	8.46	10.89	11.14	15.05	18.42	21.84
Total Liabilities	67.61	53.02	78.45	95.87	125.64	152.04	175.40

Financial Ratios	9M:2023A	9M:2024A	2024F	2025F	2026F	2027F	2028F
Gross Margin	31.97%	41.30%	40.96%	39.00%	39.00%	39.00%	39.00%
Operating Margin	11.19%	9.76%	13.14%	14.88%	16.41%	15.74%	16.57%
Net Margin	2.35%	10.60%	10.53%	11.75%	12.60%	11.66%	11.10%
Return on Asset	1.23%	8.20%	8.96%	10.00%	10.77%	9.82%	9.33%
Return on Equity	2.46%	13.56%	17.24%	19.57%	21.89%	20.07%	18.88%
Return on Invested Capital	-182.07%	30.93%	136.69%	194.03%	238.57%	187.53%	117.97%
Asset Turnover	0.53x	0.77x	1.74x	1.80x	1.90x	1.88x	1.84x
Financial Leverage	2.00x	1.65x	1.92x	1.96x	2.03x	2.04x	2.02x
Debt to Asset Ratio	0.00x	0.02x	0.02x	0.02x	0.03x	0.03x	0.03x
Current Ratio	1.83x	2.54x	2.10x	1.98x	1.88x	1.84x	1.82x
Quick Ratio	1.57x	1.83x	1.77x	1.63x	1.55x	1.51x	1.48x

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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.

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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.

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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
29-Apr-2022	12.10	10.90	15.16	HOLD	BUY
14-Apr-2023	8.00	15.16	10.96	BUY	BUY
08-Aug-2023	11.00	10.96	17.70	BUY	BUY
02-Oct-2023	10.00	17.70	18.68	BUY	BUY
21-Nov-2024	29.60	18.68	28.14	BUY	HOLD

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Company	Disclosure
UNILEVER Nigeria Plc	

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