

UNILEVER NIGERIA PLC



... Defying a Tough Operating Environment

July 19, 2022



Earnings Note

Event

Unilever Nigeria Plc's rebound continued, as she records another quarter of strong revenue growth in Q2 2022. Revenue grew by 42% year-on-year. The growth was evenly driven by the Company's two operating segments – Food Products and Home & Personal Care. The revenue generated from the Food Products business grew by 45% YoY, while the revenue generated from the HPC business grew by 40% YoY.

We attribute the overall company's revenue growth to a combination of price and volume growth. On pricing, the need to offset the impact of rising input costs influenced the decision of higher pricing. Meanwhile, we believe that volume growth during the quarter was driven by increased marketing efforts, including a deepened route-to-market initiatives. For context, the Company's marketing-related spending spiked by 41% YoY to N4.83bn in Q2 2022. In our view, the competitive pressure in the industry, amid persistent declining purchasing power of consumers due to heightened inflationary pressures, necessitated the increased marketing spending.

Exchange Losses Depress Bottomline

Operating profit grew by 221% YoY to N956mn, thus translating to a 200-basis point operating margin expansion in Q2 2022. This was due to higher pricing during the period. However, profit after tax dipped by 89% YoY to N110mn. The decline was induced by foreign exchange losses in Q2 2022.

Cash Balance Keeps Growing, where are the Investments?

Although on a quarter-on-quarter basis, trade and other receivables grew by 30% to N18.99bn, the Company ended Q2 2022 with a N63.39bn cash balance, from N60.84bn as of Q1 2022 ending March 2022 and N55.69bn as of year-open. As of Q2 2022 ending June 2022, the Company's cash position accounted for 53% of total assets and 98% of net assets. The cash increase in Q2 2022 was driven by the strong revenue growth and delayed payments to creditors (i.e., trade payables).

Meanwhile, despite the relatively strong cash generation by the Company, investments remained weak. In Q2 2022, capex was N542mn. In absolute terms, the amount represented a 138% increase from Q2 2021 spend but the capex intensity of 2% is relatively low in our view. Our perspective is that limited growth opportunities due to the current challenging macroeconomic and operating environment is making investment opportunities less attractive for the Company's managers.

Q2 2022 Performance

N'mn	Q2 2022	Q2 2021	% growth
Revenue	23,246	16,339	42%
Gross profit	7,027	4,452	58%
Gross margin	30%	27%	
Operating profit	956	298	221%
Operating margin	4%	2%	
Net profit	110	1,004	-89%
Net margin	0%	6%	
N'mn	Q1 2022	Q1 2021	% growth
Revenue	20,561	16,510	25%
Gross profit	7,174	4,181	72%
Gross margin	31%	26%	
Operating profit	2,143	(282)	859%
Operating margin	9%	-2%	
Net profit	1,796	(574)	413%
Net margin	8%	-4%	

Source: Company Accounts, WSTC Research

SELL

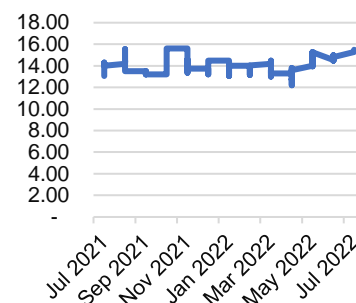
Fair Value Estimate:
N13.38

Price Return: **-14%**

Stock Data

Current price (N)	15.50
Shares Outstanding (mn)	5,745
Market Cap (N'mn)	89,048
52-week high (N)	17.00
52-week low (N)	12.20
Trailing EPS (N)	0.12
Forward EPS (N)	0.73
Forward PE (X)	21.19
Justified PE Multiple (X)	18.29

Price Movement



Stock Data	FY 2020	FY 2021	FY 2022F
P/E	-23.70x	129.38x	21.19x
P/BV	1.43x	1.35x	1.33x
PBT Margin	-7%	3%	7%
PAT Margin	-6%	1%	5%
RoE	-6%	1%	6%
Dividend Yield	0%	3%	3%

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H1 2022 Financial Performance

Income Statement (N'mn)	H1 2022	H1 2021	%
Revenue	43,806	32,421	35%
Cost of Sales	(29,606)	(24,204)	22%
Gross Profit	14,201	8,217	73%
Other Income	67	0	100%
Operating income	14,268	8,217	74%
<i>Selling and distribution expenses</i>	<i>(2,285)</i>	<i>(1,477)</i>	55%
<i>Marketing and Administrative expenses</i>	<i>(8,884)</i>	<i>(6,713)</i>	32%
Operating expenses	(11,169)	(8,190)	36%
Operating profit	3,099	26	11,647%
Non-operating profit/(loss)	(120)	605	-120%
<i>Impairment loss on trade receivables</i>	<i>52</i>	<i>0</i>	100%
<i>Finance income</i>	<i>457</i>	<i>651</i>	-30%
<i>Finance cost</i>	<i>(629)</i>	<i>(45)</i>	1,483%
Profit before tax	2,979	631	372%
Income taxes	(1,072)	(194)	653%
Profit after tax	1,907	437	336%
Balance Sheet Information (N'mn)	H1 2022	FY 2021	%
Assets			
Non-current assets			
Plant, property & equipment	21,752	22,376	-3%
Intangible assets	3	3	-12%
Total non-current assets	21,756	22,380	-3%
Current assets			
Inventories	14,591	14,956	-2%
Trade and other receivables	18,993	14,993	27%
Cash and bank balances	63,397	55,698	14%
Asset held for sale	262	262	0%
Total current assets	97,243	85,909	13%
Total Assets	118,998	108,289	10%
Liabilities			
Current liabilities			
Trade and other payables	50,610	39,739	27%
Current income tax liabilities	633	479	32%
Total current liabilities	51,243	40,218	27%
Non-current liabilities			
Total non-current liabilities	2,960	2,309	28%
Total Liabilities	54,203	42,527	27%
Net Assets	64,796	65,762	-1%

Source: Company Accounts, WSTC Research

Outlook

We expect the earnings driver to remain the same in the remaining quarters of the year— price increases on products. On the other hand, we expect net margins to be under pressure, on the back of the foreign exchange illiquidity and higher input costs.

After incorporating the Q2 2022 performance, and our expectations for H2 2022, we revised our FY 2022 EPS was lowered to N0.85 ([previous](#): N1.14). Accordingly, our fair value estimate for the stock is reduced to N13.38 (previous: N14.24). We recommend a SELL for the stock. At the current market price, the stock trades at a forward price-to-earnings of 21.19x, which is 14% above our estimated justified P/E multiple of 18.29x.

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	70,524	85,287	88,416	96,508	104,943	114,137
EBITDA	4,665	11,055	12,300	13,604	13,714	15,352
EBIT	1,129	6,008	8,763	9,743	9,516	10,786
Profit before taxation (PBT)	2,061	6,180	9,804	10,973	10,699	12,147
Net profit (PAT)	688	4,203	6,667	7,462	7,275	8,260
EPS (₦)	0.12	0.73	1.16	1.30	1.27	1.44
DPS (₦)	0.50	0.50	0.79	0.89	0.87	0.98
Balance sheet (NGN mn)						
Current assets	85,647	96,306	95,056	101,736	108,401	115,768
Non-current assets	22,380	19,091	17,378	18,343	19,392	20,534
Total assets	108,289	115,397	112,434	120,079	127,794	136,301
Current liabilities	40,218	45,996	39,239	43,979	49,518	54,739
Non-current liabilities	2,309	2,309	2,309	2,309	2,309	2,309
Shareholders' equity	65,762	67,092	70,886	73,791	75,966	79,253
Book value per share (₦)	11.45	11.68	12.34	12.84	13.22	13.80
Cash flow statement (NGN mn)						
Cash from operating activities	20,090	13,374	2,597	12,700	13,554	14,549
Cash from investing activities	(928)	(696)	(783)	(3,596)	(4,064)	(4,346)
Cash from financing activities	(363)	(3,501)	(2,873)	(4,557)	(5,100)	(4,973)
Net increase/ (decrease) in cash	18,799	9,177	(1,058)	4,548	4,389	5,230
Free cash flow to equity	18,264	10,987	774	7,875	8,306	8,842
Ratio analysis						
EBITDA margin	7%	13%	14%	14%	13%	13%
Operating margin	2%	7%	10%	10%	9%	9%
ROE	1%	6%	10%	10%	10%	11%
ROA	1%	4%	6%	6%	5%	6%
Dividend payout ratio (%)	417%	68%	68%	68%	68%	68%

Source: Company Accounts, WSTC Research

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 15\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 15% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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