

November 8, 2022

Earnings Note



## Event

Unilever Nigeria Plc ('the Company') reported an underwhelming financial performance in Q3 2022, away from the trend in the previous quarters. Although revenue grew by 22% on a year-on-year basis to N20.96bn, it declined by 10% on a quarter-on-quarter basis. We think that weak demand amid macroeconomic bottlenecks (particularly shrinking household purchasing power) resulted in weak demand for the Company's products in Q3 2022 relative to Q2 2022. However, price adjustments done in the previous quarters supported the year-on-year growth.

Gross margin shrunk steeply to 14% in Q3 2022, from 32% in Q3 2021. Higher raw material costs, amid foreign exchange illiquidity and higher commodity prices in the global markets, were the drivers of the decline. We view the significant gross margin decline as the Company's inability to effectively pass on costs to the final consumers due to competitive pressures.

Notably, the trend we see in the Nigerian Fast Moving Consumer Goods (FMCG) industry is that, relative to brands, consumers are focused on the cheapest available products due to a double-whammy of weak income levels and eroding purchasing power. Therefore, it becomes challenging for companies like Unilever to pass on costs to consumers when there is a downtrading in a very competitive market. In absolute terms, gross profit declined by 47% YoY to N2.98bn in Q3 2022.

The Company incurred a N2.61bn operating loss in Q3 2022, as the reported gross profit did not cover operating expenses. Operating expenses rose by 12% YoY to N5.61bn, attributed to heightened inflationary pressures. Loss before tax stood at N2.51bn, while loss after tax stood at N2.26bn.

N'mn	Q3 2022	Q3 2021		Q2 2022	Q2 2021		Q1 2022	Q1 2021
Revenue	20,962	17,253		23,246	16,339		20,561	16,510
<b>Revenue Growth</b>	<b>22%</b>			<b>42%</b>			<b>25%</b>	
Gross profit	2,981	5,580		7,027	4,452		7,174	4,181
<b>Gross margin</b>	<b>14%</b>	<b>32%</b>		<b>30%</b>	<b>27%</b>		<b>31%</b>	<b>26%</b>
Operating profit	(2,607)	345		956	298		2,143	-282
<b>Operating margin</b>	<b>-12%</b>	<b>2%</b>		<b>4%</b>	<b>2%</b>		<b>9%</b>	<b>-2%</b>
Net profit	(2,255)	269		110	1,004		1,796	-574
<b>Net margin</b>	<b>-11%</b>	<b>2%</b>		<b>0%</b>	<b>6%</b>		<b>8%</b>	<b>-4%</b>
<b>Earnings Per Share</b>	<b>(N0.39)</b>	<b>N0.05</b>		<b>N0.02</b>	<b>N0.17</b>		<b>N0.31</b>	<b>(N0.10)</b>

Source: Company Accounts, WSTC Research

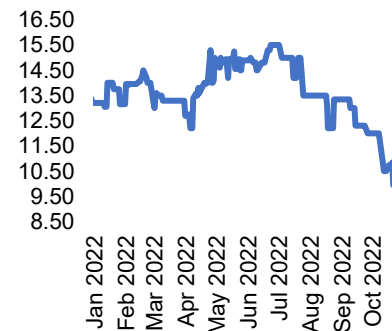
# SELL

**Fair Value Estimate:**  
**N8.57**

Price Return: **-14%**

## Stock Data

Current price (N)	10.00
Shares Outstanding (mn)	5,745
Market Cap (N'mn)	57,450
52-week high (N)	15.50
52-week low (N)	9.80
Trailing EPS (N)	0.12
Forward EPS (N)	0.01
Forward PE (X)	963.30
Justified PE Multiple (X)	825.86



Stock Data	FY 2020	FY 2021	FY 2022F
P/E	N/A	83.47x	963.30x
P/BV	0.92x	0.87x	0.91x
PBT Margin	-7%	3%	0%
PAT Margin	-6%	1%	0%
RoE	-6%	1%	0%
Dividend Yield	0%	5%	0%

## Analysts

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## 9M 2022 Financial Performance

Income Statement (N'mn)	9M 2022	9M 2021	Growth (%)
<b>Revenue</b>	<b>64,769</b>	<b>49,674</b>	<b>30%</b>
Cost of Sales	(47,587)	(35,877)	33%
<b>Gross Profit</b>	<b>17,182</b>	<b>13,796</b>	<b>25%</b>
Other Income	95	0	100%
<b>Operating income</b>	<b>17,277</b>	<b>13,796</b>	<b>25%</b>
<i>Selling and distribution expenses</i>	<i>(3,470)</i>	<i>(2,288)</i>	<i>52%</i>
<i>Marketing and Administrative expenses</i>	<i>(13,317)</i>	<i>(10,932)</i>	<i>22%</i>
<b>Operating expenses</b>	<b>(16,787)</b>	<b>(13,220)</b>	<b>27%</b>
<b>Operating profit</b>	<b>490</b>	<b>577</b>	<b>-15%</b>
<b>Non-operating profit/(loss)</b>	<b>(17)</b>	<b>460</b>	<b>-104%</b>
Impairment loss on trade receivables	54	(206)	126%
Finance income	887	666	33%
Finance cost	(957)	0	100%
<b>Profit before tax</b>	<b>473</b>	<b>1,037</b>	<b>-54%</b>
Taxes	(821)	(331)	148%
<b>Profit after tax</b>	<b>(348)</b>	<b>706</b>	<b>-149%</b>
Balance Sheet (N'mn)	9M 2022	9M 2021	Growth (%)
<b>Asset</b>			
Property, plant and equipment	21,525	26,035	-17%
Inventories	17,973	15,648	15%
Trade and other receivables	21,359	9,528	124%
Cash and bank balances	61,547	48,641	27%
Others	3	613	-99%
<b>Total asset</b>	<b>122,407</b>	<b>100,465</b>	<b>22%</b>
<b>Liabilities</b>			
Trade and other payables	56,457	35,450	59%
Others	3,409	1,267	169%
<b>Total liabilities</b>	<b>59,866</b>	<b>36,716</b>	<b>63%</b>
<b>Net Asset</b>	<b>62,541</b>	<b>63,749</b>	<b>-2%</b>

Source: Company Accounts, WSTC Research

## Outlook

We maintain a SELL recommendation for the stock. The near-term outlook for Unilever is bleak, and we link it to possible loss of market share, weakening moat, and overall macroeconomic vulnerabilities. On the positive side, the Company's balance sheet is strong. The Company closed 9M 2022 with a N122.41bn total assets, with cash accounting for 50% of total assets and 98% of net assets.

We view the cash-rich balance sheet in two forms. The first form is that the strength of the balance sheet equips the Company to invest in growth in the long term. However, an investment for growth would only be optimal when the market fundamentals are good (i.e., when there is a growing effective demand). Unfortunately, the Nigerian economy has shown severe underlying weaknesses over the past few years which has hindered major corporates from crystallising returns on their investments. We expect macroeconomic vulnerabilities to be present in the near term. Therefore, it could take a bit longer for concrete growth investments to happen.

On the other hand, a large chunk of cash balance without being utilised may suggest inefficiency. While the possible reason for the non-utilisation is understood, we believe that there is an opportunity cost.

Based on our weak outlook, we estimate a fair value of N8.57, which is a downgrade from our previous target price of N13.38. Relative to the current market price, we estimate a 14% total downside for the stock. We no longer expect the Company to declare dividend in FY 2022 due to our expectations for weak earnings by the end of the year. All in, we recommend a **SELL**.

**Financial Projections**

<b>Income statement (NGN mn)</b>	<b>FY 2021</b>	<b>FY 2022F</b>	<b>FY 2023F</b>	<b>FY 2024F</b>	<b>FY 2025F</b>	<b>FY 2026F</b>
Revenue	70,524	88,070	101,138	110,786	124,493	135,249
EBITDA	4,665	2,314	4,147	8,522	9,178	12,176
EBIT	1,129	24	101	4,090	4,199	6,766
Profit before taxation (PBT)	2,061	88	1,291	5,368	5,574	8,314
Net profit (PAT)	688	60	878	3,650	3,791	5,654
EPS (₦)	0.12	0.01	0.15	0.64	0.66	0.98
DPS (₦)	0.50	0.00	0.03	0.19	0.20	0.49
<b>Balance sheet (NGN mn)</b>						
Current assets	85,647	96,514	103,373	105,940	116,600	122,226
Non-current assets	22,380	21,851	19,829	19,275	20,520	24,577
Total assets	108,289	118,365	123,201	125,214	137,119	146,803
Current liabilities	40,218	53,107	57,065	55,604	64,813	69,980
Non-current liabilities	2,309	2,309	2,309	2,309	2,309	2,309
Shareholders' equity	65,762	62,949	63,827	67,301	69,997	74,514
Book value per share (₦)	11.45	10.96	11.11	11.71	12.18	12.97
<b>Cash flow statement (NGN mn)</b>						
Cash from operating activities	20,090	3,411	4,369	3,330	11,518	12,114
Cash from investing activities	(928)	(478)	(832)	(2,600)	(4,849)	(7,919)
Cash from financing activities	(363)	(3,830)	0	(176)	(1,095)	(1,137)
Net increase/ (decrease) in cash	18,799	(897)	3,536	554	5,573	3,058
Free cash flow to equity	18,264	692	2,346	(548)	5,293	2,647
<b>Ratio analysis</b>						
EBITDA margin	7%	3%	4%	8%	7%	9%
Operating margin	2%	0%	0%	4%	3%	5%
ROE	1%	0%	1%	6%	6%	8%
ROA	1%	0%	1%	3%	3%	4%
Dividend payout ratio (%)	417%	0%	20%	30%	30%	50%

**Source:** Company Accounts, WSTC Research

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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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