

UNILEVER NIGERIA PLC

...Ongoing Efficiency Measures Produce Positive Outcomes Despite Harsh Macro Conditions

August 25, 2023



Earnings Note

Event

In the second quarter of 2023, Unilever Nigeria Plc ('the Company') faced significant challenges, primarily reflected in a substantial 73% year-on-year decrease in profit before tax (PBT). The primary cause of this profit decline was attributed to foreign exchange losses. However, it's worth noting that the company's underlying performance remained relatively robust.

Revenue and Cost Analysis

Revenue for Q2 2023 witnessed a noteworthy 27% year-on-year growth, amounting to N29.59 billion. This surge was mainly driven by higher pricing. Moreover, on a quarter-on-quarter basis, revenue experienced a 20% increase. This growth was necessitated by the continuous rise in input and other production costs, which compelled price adjustments.

In our effort to assess the company's core performance, we made adjustments to the cost of sales by isolating one-off items that had been incorporated into it. We reclassified these items as non-operating activities. As a result, our adjusted cost of sales registered a 13% year-on-year decline, reaching N24.39 billion. We attribute this reduction to improved inventory management. In previous quarters, the company's strong liquidity position enabled it to frontload inventory purchases, thereby mitigating its exposure to escalating input costs and foreign exchange fluctuations.

Consequently, adjusted gross profit soared by an impressive 124% year-on-year to N19.21 billion, translating to a remarkable 65% gross margin for Q2 2023, compared to 37% in the same quarter of the previous year. We attribute these strong margins in Q2 2023 to the company's ongoing restructuring efforts, including divestitures, which have streamlined operations and enhanced efficiency.

Operating Expenses and Profit Performance

Operating expenses exhibited a 28% year-on-year decline, amounting to N4.39 billion. This reduction was primarily driven by a 36% decrease in marketing spending, which fell from N4.83 billion in Q2 2022 to N3.09 billion in Q2 2023. On the other hand, administrative expenses increased by a modest 2% year-on-year to N1.30 billion, despite heightened inflationary pressures during the period.

HOLD

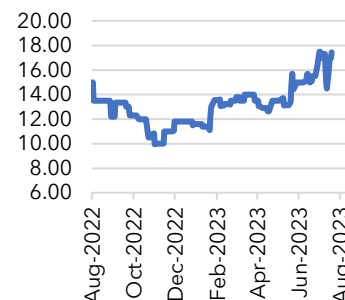
Fair Value Estimate:
N14.31

Total Return: 0%

Stock Data

Current price (N)	14.50
Shares Outstanding (mn)	5,745
Market Cap (N'mn)	83,303
52-week high (N)	19.25
52-week low (N)	9.80
Trailing EPS (N)	0.78
Forward EPS (N)	0.76
Forward PE (X)	19.07
Justified PE Multiple (X)	18.82

Price Movement



Stock Data

	FY 2021	FY 2022	FY 2023F
P/E	121.03x	18.65x	19.07x
P/BV	1.27x	1.23x	1.18x
PBT Margin	3%	9%	6%
PAT Margin	1%	5%	4%
RoE	1%	7%	6%
Dividend Yield	3%	2%	2%

Analysts

Abdulrauf Bello

a.bello@wstc.com.ng

Isaac Osaro

i.osaro@wstc.com.ng

Oluwadamilola Pase

o.pase@wstc.com.ng

Operating profit witnessed a remarkable surge, rising by 493% year-on-year to N14.84 billion in Q2 2023, compared to N2.50 billion in Q2 2022. This surge was a result of margin improvements and strong growth in revenue. However, the bottom line was marred by substantial foreign exchange losses. Due to an upward adjustment of the exchange rate by 65% to N750+/\$1, the company incurred net foreign currency losses of N11.52 billion based on its letters of credit with banks. Additionally, the company recorded other losses of N3.76 billion relating to impairments and restructuring costs.

Profit Performance

Consequently, profit before tax experienced a significant 73% year-on-year decline, amounting to N170 million in Q2 2023, compared to N629 million in Q2 2022. Profit after tax also declined by 17% year-on-year, reaching N91 million in Q2 2023, down from N111 million in Q2 2022.

Q2 2023 Financial Performance

Income Statement (N' mn)	Q2 2023	Q2 2022	%
Revenue	29,597	23,246	27%
Cost of Sales	(10,386)	(14,672)	-29%
Gross Profit	19,211	8,574	124%
Other Income	26	31	-14%
Operating income	19,237	8,605	124%
Selling and distribution expenses	(1,301)	(1,274)	2%
Marketing and Administrative expenses	(3,093)	(4,827)	-36%
Operating expenses	(4,393)	(6,101)	-28%
Operating profit	14,844	2,503	493%
Impairment loss on trade receivables	(1,398)	7	-19994%
Other expense	(2,359)	(478)	393%
Finance income	1,571	172	811%
Finance cost	1,874	(507)	469%
FX Loss	(14,362)	(1,069)	1244%
Other gains/losses	(14,674)	(1,875)	683%
Profit before tax	170	628	-73%
Taxes	(78)	(518)	-85%
Profit after tax	91	110	-17%

Source: Company Accounts, WSTC Research

Outlook

Looking ahead, we anticipate the company to maintain its revenue growth driven by pricing strategies in the near term. However, we foresee margin contraction due to normalised costs, particularly higher cost margins owing to near-term foreign exchange illiquidity and inflationary pressures impacting operating expenses. The prospect for volume growth appears challenging due to the expected impact of high inflationary pressures on consumers' disposable income, amidst industry competition.

The medium-term outlook for the company remains uncertain, as much of its future performance depends on the progress of ongoing business restructuring efforts. Previously, the company expressed its intent to exit the Home Care and Skin Cleansing categories to focus on higher growth opportunities, but the extent of progress in this regard remains unclear.

On a positive note, the company's financial health appears robust, evident in its strong balance sheet characterised by ample cash, well-capitalised reserves, and low debt exposure. Our fair value estimate for the company's stock stands at N14.31, which is in line with the current share price. Therefore, we recommend a **HOLD** position for investors.

H1 2023 Financial Performance

Income Statement (N'mn)	H1 2023	H1 2022	Growth (%)
Revenue	54,206	43,806	24%
Cost of Sales	(24,395)	(28,058)	-13%
Gross Profit	29,811	15,748	89%
Other Income	53	67	-21%
Operating income	29,864	15,815	89%
Selling and distribution expenses	(2,559)	(2,285)	12%
Marketing and Administrative expenses	(7,642)	(8,884)	-14%
Operating expenses	(10,200)	(11,169)	-9%
Operating profit	19,664	4,646	323%
Non-operating profit/(loss)	(15,145)	(1,667)	809%
Impairment loss on trade receivables	(1,661)	52	-3094%
Finance income	1,754	457	284%
Finance cost	1,483	(629)	336%
FX loss	(14,362)	(1069)	1243%
Other expenses	(2359)	(478)	494%
Profit before tax	4,519	2,979	52%
Income tax	(1,757)	(1,072)	64%
Profit after tax	2,762	1,907	45%
Balance Sheet (N'mn)	H1 2023	H1 2022	Growth (%)
Assets			
Property, plant, and equipment	20,725	21,752	-5%
Inventories	11,517	14,591	-21%
Trade and other receivables	32,387	18,993	71%
Cash and bank balances	82,733	63,397	31%
Others	1,316	266	396%
Total Assets	148,679	118,998	25%
Liabilities			
Trade and other payables	74,322	50,610	47%
Others	5,467	3,593	52%
Total Liabilities	79,789	54,203	47%
Net Assets	68,890	64,796	6%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Revenue	70,524	88,571	106,935	115,043	128,849	139,244	150,492	162,661
EBITDA	4,665	9,966	20,359	12,873	13,580	14,537	18,861	19,000
EBIT	1,129	7,545	17,686	8,731	8,684	8,967	13,594	13,307
Profit before taxation (PBT)	2,061	7,812	6,935	9,890	9,689	10,424	14,275	13,750
Net profit (PAT)	688	4,467	4,369	6,725	6,589	7,089	9,707	9,350
EPS (₦)	0.12	0.78	0.76	1.17	1.15	1.23	1.69	1.63
DPS (₦)	0.50	0.25	0.25	0.41	0.40	0.68	1.10	1.06
Balance sheet (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Current assets	85,647	103,896	112,303	127,289	133,728	142,278	153,120	165,746
Non-current assets	22,380	21,494	20,694	20,579	22,125	26,303	27,055	27,868
Total assets	108,289	125,390	132,997	147,868	155,853	168,581	180,175	193,614
Current liabilities	40,218	55,377	60,051	69,634	73,384	81,329	87,115	97,514
Non-current liabilities	2,309	2,448	2,448	2,448	2,448	2,448	2,448	2,448
Shareholders' equity	65,762	67,565	70,497	75,786	80,021	84,803	90,612	93,652
Book value per share (₦)	11.45	11.76	12.27	13.19	13.93	14.76	15.77	16.30
Cash flow statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Cash from operating activities	20,090	12,031	23,013	23,012	11,145	17,469	18,823	22,739
Cash from investing activities	(928)	669	1,779	(517)	(2,604)	(5,258)	(1,378)	(1,471)
Cash from financing activities	(363)	(1,828)	(15,840)	(3,788)	(5,187)	(5,337)	(7,860)	(10,902)
Net increase/ (decrease) in cash	18,799	10,873	8,951	18,708	3,354	6,874	9,586	10,366
Free cash flow to equity	18,264	9,365	6,735	16,634	1,869	4,691	8,843	11,640
Ratio analysis	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
EBITDA margin	7%	11%	19%	11%	11%	10%	13%	12%
Operating margin	2%	9%	17%	8%	7%	6%	9%	8%
ROE	1%	7%	6%	9%	8%	9%	11%	10%
ROA	1%	3%	3%	4%	4%	4%	5%	5%
Dividend payout ratio (%)	417%	32%	30%	35%	35%	55%	65%	65%

Source: Company Accounts, WSTC Research

Disclaimer & Disclosures

The value of any investment is subject to fluctuations, i.e. may rise and fall. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of an investment to increase or decrease. Hence investors may not get back the full value of their original investment.

Investment Recommendation

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

- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

This document is not an offer to buy or sell any security. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

This document is based on information WSTC Securities Limited (WSTC Securities) received from publicly available reports and industry sources. WSTC Securities may not have verified all of this information with third parties. Neither WSTC Securities nor its shareholders, directors, employees or advisors can guarantee the accuracy, reasonableness or completeness of the information received from any sources consulted for this publication; and neither WSTC Securities nor its shareholders, directors, employees or advisers accept any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. This document is not to be relied upon and should not be a substitute for the exercise of independent judgment.

This document includes certain statements, estimates and projections concerning the anticipated future performance of securities listed on the Nigerian Exchange and as to the market for these shares. Such statements, estimates and projections are based on information that we consider reliable and may reflect various assumptions made concerning anticipated economic developments, which have not been independently verified and may or may not prove correct. No representation or warranty is made as to the accuracy of such statements, estimates and projections or as to their appropriateness for the purpose intended and it should not be relied upon as such. Opinions expressed are current opinions as of the date appearing on this material only and may change without notice. Other third parties may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

This document is for information purposes only and private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of WSTC Securities.

Additional information on recommended securities/instruments is available on request.

WSTC Securities Limited is a Trading License Holder of the Nigerian Exchange Limited (NGX) and is registered with the Securities & Exchange Commission (SEC) as a Broker/Dealer to conduct Securities Brokerage & Dealing in Nigeria. Therefore, we may deal in any securities listed on the NGX.

WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

© WSTC Securities Limited 2023.