

July 11, 2024

Earnings Note

## Event

In 2023, Unilever Nigeria (“the Group”) announced plans to make changes to its business model to accelerate growth and sustain profitability, while enhancing its ability to meet consumer needs. This strategic moves, as highlighted by the management, includes exiting the Home Care and Skin Cleansing categories to concentrate on higher growth opportunities. Subsequently, production for Home Care category ceased in June 2023, and sales ceased in September 2023, while production for Skin Cleansing category ceased in December 2023. Despite these changes, the Group’s revenue grew significantly in 2023.

## Revenue Remained Strong

Boosted by a 46% surge in nutrition category revenue, 41% rise in personal care revenue, and 312% uptick in beauty & wellbeing revenue, the Group achieved a total revenue growth of 51%, reaching N103.88 billion (2022: N68.64 billion). We posit that the revenue growth across the product categories was supported by higher pricing.

## Product Segment Breakdown

| Revenue (N'mn)       | FY 2023        | FY 2022       | Growth     | Contribution to Total Revenue |
|----------------------|----------------|---------------|------------|-------------------------------|
| Nutrition            | 63,253         | 43,361        | 46%        | 61%                           |
| Personal Care        | 33,119         | 23,456        | 41%        | 32%                           |
| Beauty & Wellbeing   | 7,507          | 1,821         | 312%       | 7%                            |
| <b>Total revenue</b> | <b>103,880</b> | <b>68,637</b> | <b>51%</b> |                               |

**Source:** Company Accounts, WSTC Research.

Notwithstanding the surge in revenue, gross margin contracted by 400 basis points to 35% (2022: 39%), as cost of goods outpaced revenue growth. Specifically, cost of goods rose by 61% to N67.86 billion (2022: N42.04 billion), driven by inflation and impact of Naira depreciation on imported input materials. The lower gross margin reflects the competitive nature of the industry and the Group’s inability to sufficiently transfer the cost burden to consumers.

Owing to persistent inflationary pressures, operating expenses (opex) grew by 13% to N20.12 billion (2022: N17.79 billion), with distribution expenses and administrative expenses escalating by 42% and 8%, respectively. However, due to revenue growth outpacing the growth in opex, opex margin declined to 19% (2022: 26%). Accordingly, operating profit spiked by 89% to N16.83 billion (2022: N8.89 billion), and operating margin improved to 16% (2022: 13%).

Underpinned by the strong operating profit, and a 229% rise in finance income which offset the 165% concurrent growth in finance cost, the Group reported a profit after tax of N16.41 billion, marking a 205% growth from the N5.38 billion in 2022.

Notably, the Group reported a loss of N7.98 billion resulting from the discontinuation of certain operations in the year.

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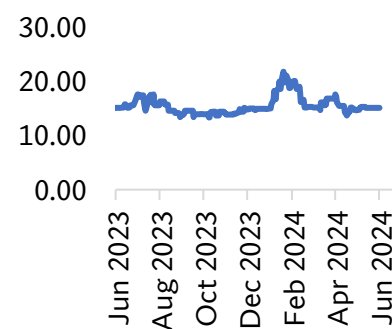
**Fair Value Estimate:**  
**N19.30**

Total Return: +16%

## Stock Data

|                           |        |
|---------------------------|--------|
| Current price (N)         | 17.10  |
| Shares Outstanding (m)    | 5,745  |
| Market Cap (N'mn)         | 98,240 |
| 52-week high (N)          | 21.70  |
| 52-week low (N)           | 12.95  |
| Trailing EPS (N)          | 2.86   |
| Forward EPS (N)           | 1.81   |
| Forward PE (X)            | 9.43   |
| Justified PE Multiple (>) | 10.66  |

Price Movement



| Stock Data     | FY 2022 | FY 2023 | FY 2024F |
|----------------|---------|---------|----------|
| P/E            | 18.27x  | 5.98x   | 9.43x    |
| P/BV           | 1.45x   | 1.32x   | 1.22x    |
| PBT Margin     | 13%     | 21%     | 11%      |
| PAT Margin     | 8%      | 16%     | 8%       |
| RoE            | 8%      | 23%     | 13%      |
| Dividend Yield | 1%      | 4%      | 3%       |

## Analysts

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## Decline in Total Asset

The Group's total asset contracted by 7%, on the back of reduction in plant, property and equipment (PPE) (-13%), inventory (-20%), and cash balance (-15%). In our view, the decline in cash balance stemmed from the paydown of outstanding liabilities, as payables declined by 38%. Notably, following the exit from the Home Care segment, the Group reclassified the segment's building as an investment property, and leased some of its assets to a third party. As a result, a reclassification of N2.74 billion to lease property was reported, resulting in the decline in PPE.

## Dividend Information

The Group declared a final dividend of 75 kobo for 2023.

## FY 2023 Financial Performance

| Income Statement (N'mn)                  | FY 2023         | FY 2022         | Growth (%)        |
|--|-----------------|-----------------|-------------------|
| <b>Revenue</b>                           | <b>103,880</b>  | <b>68,637</b>   | <b>51%</b>        |
| Cost of sales                            | (67,855)        | (42,037)        | 61%               |
| <b>Gross profit</b>                      | <b>36,024</b>   | <b>26,601</b>   | <b>35%</b>        |
| Other income                             | 933             | 78              | 1098%             |
| <b>Operating income</b>                  | <b>36,958</b>   | <b>26,679</b>   | <b>39%</b>        |
| Selling and distribution expense         | (4,088)         | (2,873)         | 42%               |
| Marketing and administrative expense     | (16,036)        | (14,914)        | 8%                |
| <b>Operating expense</b>                 | <b>(20,124)</b> | <b>(17,787)</b> | <b>13%</b>        |
| <b>Operating profit</b>                  | <b>16,833</b>   | <b>8,891</b>    | <b>89%</b>        |
| <b>Non-operating profit / (loss)</b>     | <b>5,059</b>    | <b>(168)</b>    | <b>3117%</b>      |
| Impairment gain / (loss)                 | 3,427           | (441)           | 877%              |
| Finance income                           | 4,674           | 1,422           | 229%              |
| Finance cost                             | (3,042)         | (1148)          | 165%              |
| <b>Profit before tax</b>                 | <b>21,892</b>   | <b>8,723</b>    | <b>151%</b>       |
| Income tax                               | (5,477)         | (3,345)         | 64%               |
| <b>Profit from continuing operations</b> | <b>16,414</b>   | <b>5,379</b>    | <b>205%</b>       |
| <b>Balance Sheet (N'mn)</b>              | <b>FY 2023</b>  | <b>FY 2022</b>  | <b>Growth (%)</b> |
| <b>Assets</b>                            |                 |                 |                   |
| PPE                                      | 18,771          | 21,491          | -13%              |
| Inventory                                | 13,021          | 16,332          | -20%              |
| Receivables                              | 26,315          | 21,247          | 24%               |
| Cash                                     | 56,606          | 66,318          | -15%              |
| Others                                   | 1,496           | 3               | 48471%            |
| <b>Total Assets</b>                      | <b>116,210</b>  | <b>125,390</b>  | <b>-7%</b>        |
| <b>Liabilities</b>                       |                 |                 |                   |
| Payables                                 | 32,076          | 52,405          | -39%              |
| Others                                   | 9,717           | 5,420           | 79%               |
| <b>Total Liabilities</b>                 | <b>41,793</b>   | <b>57,825</b>   | <b>-28%</b>       |
| <b>Net Assets</b>                        | <b>74,509</b>   | <b>67,565</b>   | <b>10%</b>        |

Source: Company Accounts, WSTC Research

## Q1 2024 Financial Performance

Volume sales grew by 17% year-on-year, which along with sustained pricing strategy (+41% year-on-year) pushed revenue up by 58% to N32.32 billion (Q1 2023: N20.48 billion). However, the trend of cost of goods growth outpacing revenue continued in the quarter, with cost of goods climbing higher by 75% to N18.82 billion (Q1 2023: N10.75 billion). Consequently, gross margin remained pressured, declining by 571 basis points to 42% (Q1 2023: 47%).

On the back of escalation in media investment aimed at enhancing brand awareness for continued operations, marketing expenses surged by 435% to N4.01 billion (Q1 2023: N749.49 million). This surge, compounded by a 54% uptick in selling and distribution expenses, and a 35% growth in administrative expenses, led to a substantial 101% increase in operating expenses. Consequently, operating profit plummeted by 22% to N3.84 billion (Q1 2023: N4.92 billion), and operating margin contracted by 1200 basis points to 12% (Q1 2023: 24%).

FX gains soared by 1765% to N1.64 billion (Q1 2023: N87.68 million). This gain stemmed from the volatility in the foreign exchange market in Nigeria which impacted the exchange difference on bank balances. Additionally, we believe the Group's exports also contributed to the FX gain.

Furthermore, the elevated interest rate environment drove finance income and finance cost substantially by 145% and 274% respectively, resulting in a 352% rise in net finance cost. Consequently, profit before tax dipped by 3% to N4.36 billion (Q1 2023: N4.50 billion). Despite the 3% dip, a 40% decline in tax expense bolstered the bottom-line, as net profit grew by 19% to N3.36 billion (Q1 2023: N2.82 billion).

## Q1 2024 Financial Performance

| Income Statement (N'mn)              | 3M 2024        | 3M 2023        | Growth (%)   |
|--------------------------------------|----------------|----------------|--------------|
| <b>Revenue</b>                       | <b>32,316</b>  | <b>20,476</b>  | <b>58%</b>   |
| Cost of sales                        | (18,815)       | (10,751)       | 75%          |
| <b>Gross profit</b>                  | <b>13,501</b>  | <b>9,725</b>   | <b>39%</b>   |
| Other income                         | 25             | 23             | 12%          |
| <b>Operating income</b>              | <b>13,526</b>  | <b>9,747</b>   | <b>39%</b>   |
| Selling and distribution expense     | (1,400)        | (909)          | 54%          |
| Marketing and administrative expense | (8,287)        | (3,917)        | 112%         |
| <b>Operating expense</b>             | <b>(9,687)</b> | <b>(4,826)</b> | <b>101%</b>  |
| <b>Operating profit</b>              | <b>3,839</b>   | <b>4,921</b>   | <b>-22%</b>  |
| <b>Non-operating profit / (loss)</b> | <b>520</b>     | <b>(423)</b>   | <b>-223%</b> |
| Impairment gain / (loss)             | 4              | (263)          | -101%        |
| Finance income                       | 364            | 149            | 145%         |
| FX gain                              | 1,636          | 88             | 1765%        |
| Finance cost                         | (1,483)        | (396)          | 274%         |
| <b>Profit before tax</b>             | <b>4,359</b>   | <b>4,499</b>   | <b>-3%</b>   |
| Income tax                           | (1,003)        | (1,678)        | -40%         |
| <b>Profit after tax</b>              | <b>3,356</b>   | <b>2,820</b>   | <b>19%</b>   |
| Balance Sheet (N'mn)                 | 3M 2024        | 3M 2023        | Growth (%)   |
| <b>Assets</b>                        |                |                |              |
| PPE                                  | 18,729         | 20,891         | -10%         |
| Inventory                            | 22,584         | 16,430         | 37%          |
| Receivables                          | 44,380         | 19,978         | 122%         |
| Cash                                 | 38,971         | 78,129         | -50%         |
| Others                               | 1,434          | 3              | 47943%       |
| <b>Total Assets</b>                  | <b>126,098</b> | <b>135,431</b> | <b>-7%</b>   |
| <b>Liabilities</b>                   |                |                |              |
| Payables                             | 37,530         | 58,061         | -35%         |
| Others                               | 10,703         | 7,135          | 50%          |
| <b>Total Liabilities</b>             | <b>48,232</b>  | <b>65,196</b>  | <b>-26%</b>  |
| <b>Net Assets</b>                    | <b>77,866</b>  | <b>70,235</b>  | <b>11%</b>   |

Source: Company Accounts, WSTC Research

## Outlook

Unilever Nigeria Plc has demonstrated resilience by achieving volume growth despite the discontinuation of some of its business segments, as well as the persistent macroeconomic challenges in the operating environment. Looking ahead, we anticipate that volume growth will be sustained, as market penetration deepens. Additionally, the recent launch of the new Rexona 72 hours deodorant will be value accretive to volume sales. We also foresee sustained pricing during the year, to counteract rising inflationary pressures. Given these expectations, we project a revenue growth of 32% to N137.36 billion for FY 2024.

While we expect margins to remain pressured, due to elevated cost input driven by inflationary pressures, and sustained media investments behind brands which are also expected to heighten operating expenses, we opine that the fundamentals of the business remain strong. Furthermore, we expect the Group to continue to mitigate FX losses through improved localisation of raw materials, and increased exports to drive more FX gains.

Overall, we estimate a N19.30 fair value for the Group's stock, which implies a 10.66x justified price-to-earnings (P/E). At the current market price of N17.10, we recommend a **HOLD** for the stock, with a total return of 16% (13% price return and a dividend yield of 3%).

## Financial Projections

| Income statement (NGN mn)        | FY 2022 | FY 2023  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F | FY 2029F |
|----------------------------------|---------|----------|----------|----------|----------|----------|----------|----------|
| Revenue                          | 68,637  | 103,880  | 137,355  | 156,481  | 177,538  | 196,632  | 214,989  | 234,012  |
| EBITDA                           | 10,870  | 23,070   | 16,367   | 23,523   | 28,448   | 28,516   | 31,398   | 38,883   |
| EBIT                             | 8,450   | 20,260   | 13,071   | 19,529   | 24,052   | 23,573   | 26,034   | 33,022   |
| Profit before taxation (PBT)     | 8,723   | 21,892   | 15,321   | 20,998   | 26,023   | 26,164   | 27,863   | 34,940   |
| Net profit (PAT)                 | 5,379   | 16,414   | 10,418   | 14,279   | 17,695   | 17,791   | 18,947   | 23,759   |
| EPS (₦)                          | 0.94    | 2.86     | 1.81     | 2.49     | 3.08     | 3.10     | 3.30     | 4.14     |
| DPS (₦)                          | 0.25    | 0.75     | 0.48     | 0.70     | 1.32     | 1.33     | 1.48     | 1.86     |
| Balance sheet (NGN mn)           | FY 2022 | FY 2023  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F | FY 2029F |
| Current assets                   | 103,896 | 96,035   | 115,373  | 125,971  | 142,381  | 158,752  | 173,416  | 187,245  |
| Non-current assets               | 21,494  | 20,223   | 20,566   | 22,050   | 22,447   | 22,904   | 23,773   | 24,842   |
| Total assets                     | 125,390 | 116,302  | 135,940  | 148,021  | 164,828  | 181,657  | 197,189  | 212,087  |
| Current liabilities              | 55,377  | 33,797   | 46,530   | 47,078   | 50,405   | 56,822   | 61,268   | 61,445   |
| Non-current liabilities          | 2,448   | 7,996    | 8,791    | 8,803    | 8,587    | 8,816    | 8,606    | 8,094    |
| Shareholders' equity             | 67,565  | 74,509   | 80,619   | 92,139   | 105,836  | 116,018  | 127,315  | 142,548  |
| Book value per share (₦)         | 11.76   | 12.97    | 14.03    | 16.04    | 18.42    | 20.19    | 22.16    | 24.81    |
| Cash flow statement (NGN mn)     | FY 2022 | FY 2023  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F | FY 2029F |
| Cash from operating activities   | 12,025  | (3,785)  | (2,337)  | 24,718   | 26,018   | 15,746   | 27,516   | 31,474   |
| Cash from investing activities   | 257     | 1,542    | 2,673    | (376)    | (584)    | (565)    | (2,374)  | (3,402)  |
| Cash from financing activities   | (1,408) | (8,268)  | (7,532)  | (6,378)  | (6,454)  | (9,625)  | (9,889)  | (10,648) |
| Net increase/ (decrease) in cash | 10,873  | (10,510) | (7,196)  | 17,964   | 18,980   | 5,556    | 15,252   | 17,424   |
| Free cash flow to equity         | 9,778   | (7,986)  | (9,200)  | 15,621   | 18,769   | 8,330    | 19,044   | 22,423   |
| Ratio analysis                   | FY 2022 | FY 2023  | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F | FY 2029F |
| EBITDA margin                    | 16%     | 22%      | 12%      | 15%      | 16%      | 15%      | 15%      | 17%      |
| Operating margin                 | 12%     | 20%      | 10%      | 12%      | 14%      | 12%      | 12%      | 14%      |
| ROE                              | 8%      | 23%      | 13%      | 17%      | 18%      | 16%      | 16%      | 18%      |
| ROA                              | 4%      | 13%      | 7%       | 9%       | 10%      | 9%       | 9%       | 11%      |
| Dividend payout ratio (%)        | 27%     | 26%      | 26%      | 28%      | 43%      | 43%      | 45%      | 45%      |

**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  $\geq 20\%$  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.

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