

Unilever Nigeria

What to do with all that cash?

We revise our estimates for Unilever. Our key changes are driven by the expected impact of a stronger cash-build on interest income, capex cuts to match depreciation in forecast years and medium-term margin expansion. As a result, we up our TP by 23.0% to NGN40.5/share. The increase is further driven by a lower risk-free rate of 13.7% and upward revision to FY18E EPS. We maintain our SELL rating as we believe its valuation is still stretched given the recent re-rating. On our estimates, Unilever trades on FY18 P/E and EV/EBITDA multiples of 29.0x and 18.0x, respectively. While still trading below its five-year average forward P/E of 39.2x, we are still unable to justify the stock's valuation at this level vs Nestle Nigeria (SELL; TP: NGN1,262.9; CP: NGN1,380.0), which we estimate trades on FY18 P/E of 26.6x.

Changes to estimates driven by excess cash in FY18-19E

Given the slowdown in sales growth observed for Nestle Nigeria in the food segment in 4Q17 and that we are yet to see material increases in the price of *Knorr* in the current quarter, we revise our estimates for Unilever. We cut our sales forecasts by an average of 1.7% in FY17-18 and by 6.2% in FY19. We raise our EBITDA forecast by 2.3% in FY18 and 10.6% in FY19 as we view management's drive to contain costs and move the production of *Blue Band margarine* to Nigeria as pleasing and supportive of medium- to long-term margin capture. However, we are mindful of tailwind FX risks associated with Unilever's FX exposure. In a meeting with management in 2017, it admitted that its FX effective rate was closer to NGN285/\$ when most of the consumer companies under our coverage were sourcing FX at rates above NGN300/\$. With FX rates now above ~NGN335/\$ for most consumer companies and price increases in FY18-20 expected to be sub-inflationary, we expect EBITDA margin to decline to 14.7% in FY18. However, we raise our net profit forecast by 20.4% and 33.5% in FY18 and FY19 with expectations of healthy interest income on significant cash balance driving the material revisions.

Extraordinary dividend is a strong possibility

We believe the excess cash obtained from the rights issue will lead to Unilever ending with a net cash balance of NGN29.8bn in FY17E and NGN31.2bn in FY19E. With management not disclosing any major expansion capex plans for FY18 and the *Blue Band* plant in Agbara completed and commissioned in December 2017, capex should moderate to depreciation from FY18. We therefore cut our modelled capex to match depreciation in FY18-22. This therefore supports the strong cash-build which we see for Unilever in FY18-22 with FCF forecast to post 25.7% CAGR. Unilever's management is now faced with the decision of what to do with the excess cash from the rights issue and the expected build-up from FCF. We have modelled that it continues to earn interest income which is the main driver of our earnings revision estimates in FY18 and FY19. There is the risk that it could pay extraordinary dividends in FY18 as we now estimate it will end FY17 and FY18 with net cash/equity of 38.9% and 40.6%, respectively.

FY17 results – what do we expect?

Ahead of Unilever's FY17 results release, we forecast FY17 sales growth of 35.7% YoY and net profit growth of 112.6% YoY. We expect EPS (diluted for the additional 1.9bn shares issued in recent capital call) to grow by 94.7% YoY to NGN1.58. Thomson Reuters consensus forecasts FY17 EPS of NGN1.56 which is 1.3% below our forecast. Further out we forecast EPS CAGR of 15.8% in FY18-22.

Increasing TP

SELL (maintained)

TP: NGN40.5 (previously NGN32.95)

Consumer Goods & Retail
Nigeria

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Report date: 19 March 2018

Current price, NGN 52.75
Upside/downside, % -23.3

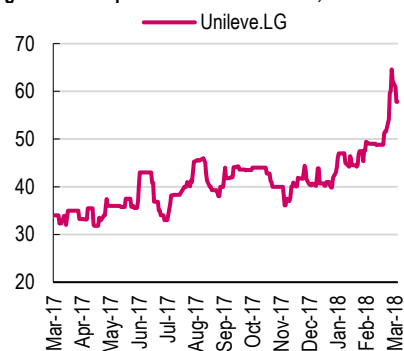
MktCap, \$mn 841.8
Average daily volume, \$k 128
Free float, % 32.3
Bloomberg UNILEVER NL

Summary valuation and financials, NGNm (unless otherwise stated)

	2016	2017E	2018E	2019E
Revenue	69,777	94,716	103,382	111,985
EBITDA	8,352	14,440	15,168	17,415
Net income	3,072	6,532	10,459	11,941
Net debt	8,441	-29,819	-31,281	-39,833
EPS, NGN	0.81	1.58	1.82	2.08
DPS, NGN	0.05	1.58	1.82	2.08
EV/Sales, x	3.0	2.2	2.0	1.9
EV/EBITDA, x	24.9	18.9	18.0	15.7
P/E, x	65.0	33.4	29.0	25.4
Net debt/EBITDA, x	1.0	-2.1	-2.1	-2.3
Dividend yield, %	0.1	3.0	3.5	3.9
FCF yield, %	0.9	-5.9	2.7	5.5
RoIC, %	18.8	16.6	17.3	23.7

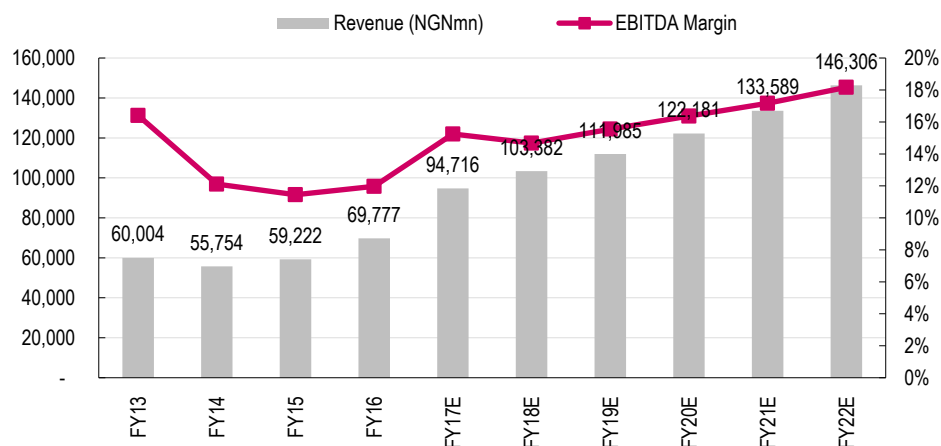
Source: Company data, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks, NGN



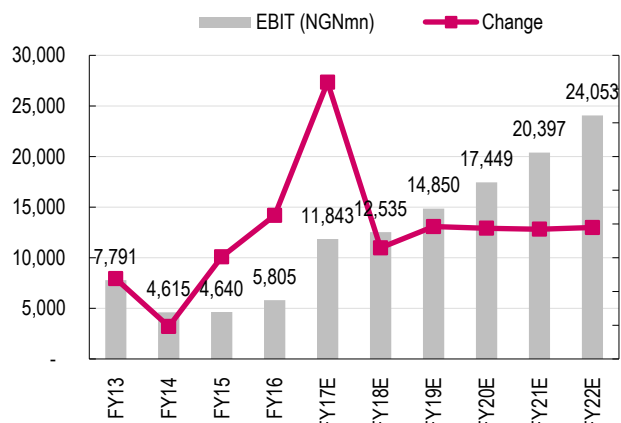
Source: Bloomberg

Figure 2: Revenue and EBITDA margin



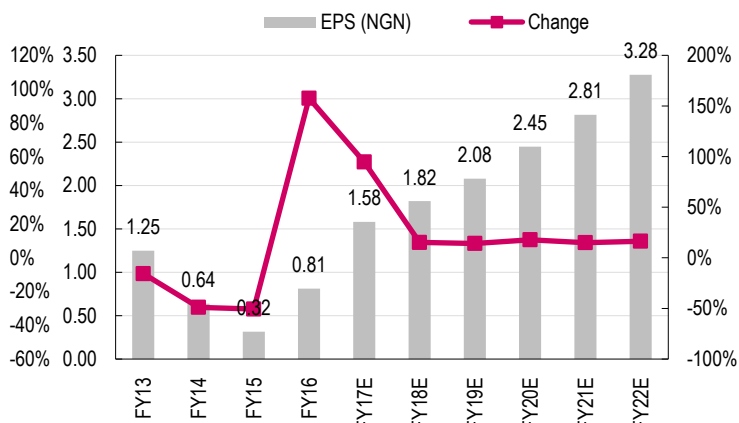
Source: Company data, Renaissance Capital estimates

Figure 3: EBIT and change



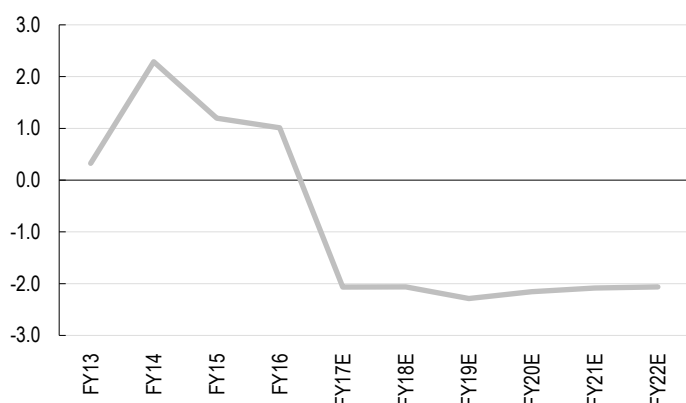
Source: Company data, Renaissance Capital estimates

Figure 4: EPS (NGN) and change



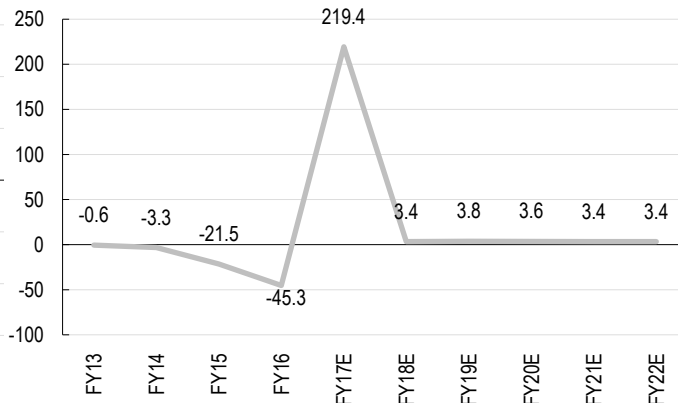
Source: Company data, Renaissance Capital estimates

Figure 5: Net debt/EBITDA, x



Source: Company data, Renaissance Capital estimates

Figure 6: Net debt (cash)/dividends



Source: Company data, Renaissance Capital estimates

Revision to estimates

Figure 7: Change in estimates, NGNm (unless otherwise stated)

	Previous			New			Change		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Net revenue	95,773	105,763	119,425	94,716	103,382	111,985	-1.1%	-2.3%	-6.2%
EBITDA	14,520	14,832	15,750	14,440	15,168	17,415	-0.5%	2.3%	10.6%
EBITDA margin	17%	15%	14%	15.2%	14.7%	15.6%	,	,	,
EBIT	11,923	12,143	13,031	11,843	12,535	14,850	-0.7%	3.2%	14.0%
EBIT margin	14%	13%	12%	13%	12%	13%	,	,	,
Net profit	6,588	8,686	8,942	6,532	10,459	11,941	-0.8%	20.4%	33.5%
EPS (NGN)	1.59	1.51	1.56	1.58	1.82	2.08	-0.6%	20.4%	33.5%

Source: Renaissance Capital estimates

Figure 8: RenCap vs consensus, NGNm (unless otherwise stated)

	RenCap			Consensus			Difference		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Net revenue	94,716	103,382	111,985	94,806	101,226	113,408	0%	2%	-1%
EBITDA	14,440	15,168	17,415	14,772	15,374	17,948	-2%	-1%	-3%
EBITDA margin	15.2%	14.7%	15.6%	15.6%	15.2%	15.8%			
EBIT	11,843	12,535	14,850	12,195	12,229	14,155	-3%	3%	5%
EBIT margin	12.5%	12.1%	13.3%	12.9%	12.1%	12.5%			
Net profit	6,532	10,459	11,941	6,797	8,638	10,037	-4%	21%	19%
EPS (NGN)	1.58	1.82	2.08	1.56	1.64	1.92	1%	11%	8%

Source: Thomson Reuters, Renaissance Capital estimates

Valuation and rating

Figure 9: DCF Valuation summary, NGNm (unless otherwise stated)

	FY18E	FY19E	FY20E	FY21E	FY22E	Terminal value
EBIT, NGNm	12,535	14,850	17,449	20,397	24,053	
Tax rate	30%	30%	30%	30%	30%	
NOPAT	8,774	10,395	12,214	14,278	16,837	
Depreciation and amortisation	2,633	2,565	2,548	2,535	2,525	
Adjusted operating cash flow	11,408	12,960	14,762	16,813	19,362	
Change in net working capital	-71	6997	1115	2567	4317	
Capex	-2478	-2492	-2505	-2505	-2487	
Free cash flow (FCF)	8,859	17,465	13,372	16,876	21,192	283,956
Beta	0.8	0.8	0.8	0.8	0.8	
Debt/Capital	0.4%	0.4%	0.4%	0.4%	0.4%	
WACC	17.7%	17.7%	17.7%	17.7%	17.7%	
Discount period	-	1.0	2.0	3.0	4.0	
Discount factor	1.00	0.85	0.72	0.61	0.52	
Present value of FCF	8,859	14,842	9,657	10,357	11,053	148,100
Enterprise value						202,869
Net cash						-29819
Retirement benefit obligations						-3538
Long service award obligations						-478
Other employee benefits						-107
Retirement benefit surplus						432
Employee loan receivable						104
Equity Fair Value						229,101
Less 2018 dividend outflows						-9082
Net equity value						220,019
No. of shares out, mn						5,745
Shares fair value, NGN						38.3
Current price, NGN						52.8
Potential downside						-27%

Source: Company data, Renaissance Capital estimates

Figure 10: Valuation summary

EV/EBITDA	39.4
DCF	38.3
P/E	43.7
TP, NGN	40.5
Current price, NGN	52.8
Potential downside	-23.30%
FY17 dividend yield	3.00%
Total expected return	-20.30%

Source: Company data, Renaissance Capital estimates

Figure 11: P/E valuation summary

P/E multiple for Unilever Nigeria, x	24
Unilever Nigeria diluted EPS for FY18E, NGN	1.82
Shares fair value, NGN	43.7
Current price, NGN	52.8
Potential upside/downside	-17.20%

Source: Renaissance Capital estimates

Figure 12: EV/EBITDA valuation summary, NGNm (unless otherwise stated)

Peer multiple for FY18, x	13.80
Premium/Discount to the peers	-
Implied EV/EBITDA for FY18, x	13.80
FY18E EBITDA	15,168
Implied EV	209,321
Net cash	-29,819
Retirement benefit obligations	-3,538
Long service award obligations	-478
Other employee benefits	-107
Retirement benefit surplus	432
Employee loan receivable	104
Equity fair value	-3,586
Less 2018 dividend outflows	-9,082
Net equity value	226,472
No. of shares out, mn	5,745
Shares fair value, NGN	39.4
Current price, NGN	52.8
Potential upside/downside	-25.30%

Source: Company data, Thomson Reuters, Renaissance Capital estimates

Figure 13: Unilever Nigeria: Income statement, NGN '000 (unless otherwise stated)

Dec-YE	2016	2017E	2018E	2019E	2020E	2021E	2022E
Revenue	69,777,061	94,716,003	103,382,257	111,985,323	122,181,009	133,588,654	146,306,205
Change	17.8%	35.7%	9.1%	8.3%	9.1%	9.3%	9.5%
Cost of sales	-49,481,020	-65,924,848	-72,407,846	-77,313,489	-83,130,673	-89,556,428	-96,619,079
Gross profit	20,296,041	28,791,155	30,974,412	34,671,834	39,050,335	44,032,225	49,687,126
Change	-3.6%	41.9%	7.6%	11.9%	12.6%	12.8%	12.8%
Gross margin	29.1%	30.4%	30.0%	31.0%	32.0%	33.0%	34.0%
Operating expenses	-14,490,996	-16,948,073	-18,439,560	-19,821,672	-21,601,386	-23,634,875	-25,633,696
Operating profit	5,805,045	11,843,082	12,534,852	14,850,162	17,448,950	20,397,350	24,053,430
Change	25.1%	104.0%	5.8%	18.5%	17.5%	16.9%	17.9%
Operating margin	8.3%	12.5%	12.1%	13.3%	14.3%	15.3%	16.4%
Depreciation & amortisation	-2,547,389	-2,597,245	-2,633,349	-2,564,933	-2,547,629	-2,534,953	-2,525,076
EBITDA	8,352,434	14,440,328	15,168,201	17,415,095	19,996,579	22,932,304	26,578,506
EBITDA margin	12.0%	15.2%	14.7%	15.6%	16.4%	17.2%	18.2%
Interest (paid) received	-1,698,623	-2,711,466	2,406,659	2,208,434	2,644,177	2,700,444	2,831,015
Profit before tax	4,106,422	9,131,616	14,941,512	17,058,595	20,093,127	23,097,794	26,884,446
Tax rate	25.2%	28.4%	30.0%	30.0%	30.0%	30.0%	30.0%
Taxation	-1,034,537	-2,599,299	-4,482,453	-5,117,579	-6,027,938	-6,929,338	-8,065,334
Attributable profit	3,071,885	6,532,317	10,459,058	11,941,017	14,065,189	16,168,456	18,819,112
Change	157.6%	112.6%	60.1%	14.2%	17.8%	15.0%	16.4%
Ave shares in issue, '000	3,783,296	4,273,724	5,745,007	5,745,007	5,745,007	5,745,007	5,745,007
EPS, NGN	0.8	1.6	1.8	2.1	2.4	2.8	3.3
Change	157.6%	94.7%	15.2%	14.2%	17.8%	15.0%	16.4%
DPS, NGN	0.1	1.6	1.8	2.1	2.4	2.8	3.3
Change	-50.0%	3061.6%	15.2%	14.2%	17.8%	15.0%	16.4%
Pay-out ratio	6%	100%	100%	100%	100%	100%	100%

Source: Company data, Renaissance Capital estimates

Figure 14: Unilever Nigeria: Balance sheet, NGN '000 (unless otherwise stated)

	2016	2017E	2018E	2019E	2020E	2021E	2022E
PPE	29,272,186	30,767,926	30,788,460	30,817,056	30,856,402	30,892,678	30,908,469
Other non-current assets	140,160	105,546	116,667	153,405	167,371	182,998	240,503
Total non-current assets	30,948,762	32,115,244	31,970,571	31,934,048	31,905,096	31,890,557	31,910,192
Inventories	9,878,499	10,188,059	14,186,600	13,927,019	14,974,909	16,132,425	17,404,670
Trade and other receivables	18,945,578	32,246,769	29,629,830	26,078,774	28,787,854	31,841,679	35,273,825
Cash and cash equivalents	12,474,141	34,593,192	32,614,937	41,134,509	44,395,180	49,080,985	56,023,725
Other current assets	72,918	67,934	67,934	67,934	67,934	67,934	67,934
Total current assets	41,542,547	77,267,365	76,670,712	81,379,647	88,397,288	97,294,434	108,941,565
Total assets	72,491,309	109,382,610	108,641,282	113,313,695	120,302,384	129,184,991	140,851,757
Deferred tax	3,942,337	4,377,323	4,377,323	4,377,323	4,377,323	4,377,323	4,377,323
Borrowings	414,275	92,304	9,396	8,617	8,111	7,752	6,242
Other non-current liabilities	2,931,365	4,161,059	4,161,059	4,161,059	4,161,059	4,161,059	4,161,059
Total non-current liabilities	7,287,977	8,630,686	8,547,778	8,546,999	8,546,493	8,546,134	8,544,624
Trade and other payables	32,476,502	17,965,699	19,287,262	22,510,038	27,395,592	34,189,794	43,268,567
Borrowings	20,501,276	4,681,763	1,324,324	1,292,780	1,272,250	1,257,746	1,196,593
Other current liabilities	13,581,592	79,477,712	80,855,169	82,337,128	84,461,300	86,564,567	89,215,223
Total current liabilities	53,513,389	24,146,715	22,110,838	25,302,072	30,167,095	36,946,793	45,964,413
Total equity	11,689,943	76,605,208	77,982,666	79,464,624	81,588,796	83,692,063	86,342,720
Total liabilities and equity	72,491,309	109,382,610	108,641,282	113,313,695	120,302,384	129,184,991	140,851,757

Source: Company data, Renaissance Capital estimates

Figure 15: Unilever Nigeria: Cash flow statement, NGN '000 (unless otherwise stated)

Dec-YE	2016	2017E	2018E	2019E	2020E	2021E	2022E
NOPAT	1,867,340	8,471,969	8,774,396	10,395,113	12,214,265	14,278,145	16,837,401
Depreciation	2,547,389	2,597,245	2,633,349	2,564,933	2,547,629	2,534,953	2,525,076
Working capital	-27,643,892	-27,881,137	-71,160	6,996,677	1,114,617	2,567,235	4,316,877
Capex	-1,279,355	-3,881,018	-2,477,554	-2,491,673	-2,504,711	-2,504,787	-2,487,205
Operating FCF	-24,508,518	-20,692,941	8,859,031	17,465,049	13,371,800	16,875,546	21,192,149
Interest	-2,077,183	-2,711,466	2,406,659	2,208,434	2,644,177	2,700,444	2,831,015
Dividends	-186,388	-135,895	-9,081,601	-10,459,058	-11,941,017	-14,065,189	-16,168,456
Debt	15,064,301	-11,062,470	-3,440,347	-32,323	-21,037	-14,862	-62,663
Other	26,282,357	61,721,823	-721,998	-662,530	-793,253	-810,133	-849,305
FCF	14,574,569	27,119,051	-1,978,255	8,519,573	3,260,670	4,685,805	6,942,741
Cash balance, bop	-7,100,428	7,474,141	34,593,192	32,614,937	41,134,509	44,395,180	49,080,985
Cash balance, eop	7,474,141	34,593,192	32,614,937	41,134,509	44,395,180	49,080,985	56,023,725

Source: Company data, Renaissance Capital estimates