



PRIMARY STATISTICS

Market Cap. (NGN)	N48.805billion (US\$381.28 million)
Earnings Yield (%)	3 %
Return On Equity (ROE)	29.02%
Return on Total Assets (ROTA)	23%
Operating Margin (%)	6.83%
Shares Outstanding	3,783,296,250
Share Float	49.96%
No of Shareholders	90,648
Estimated EPS (N)	0.00
Price as at Date - 06/12/06 (NGN)	12.90
52-Week Price range (High-Low) (NGN)	24.60- 12.06
Stock Volatility (β - 3years)	0.73

BUSINESS SUMMARY & INVESTMENT RATIONALE:

- ❖ Unilever operates in the conglomerates sector of The Nigerian Stock Exchange (NSE) which comprises Multi-National Companies (MNCs) engaged in the manufacture & distribution of consumer & household goods, sales and distribution of automobiles. Recent economic policies designed to encourage the growth of local industries through specific ban on various consumer goods have been of immense benefit to the operators in the conglomerates sector, most especially those in manufacturing and distribution of consumer and household goods sub-division. Companies in this sector are A.G Leventis, CFAO, Chellarams, John Holt Industries, PZ Industries, SCOA, UACN, UTC, UNILEVER and recently TRANSCORP.
- ❖ Unilever Nigeria Plc, was incorporated as Lever Brothers (West Africa) Ltd on 11th April, 1923 by Lord Leverhulme, but the company’s antecedents can be traced back to it trading interests in Nigeria and West Africa generally, and to the fact that he had since the 19th century been greatly involved in the soap business in Britain.
- ❖ Unilever is involved in the manufacture and marketing of mass market, high quality consumer products and these products brands are categorized into Foods, Home Care,

and Personal Care. Some of its major brands are Blue Band, Lipton, Royco, Omo and Key Soaps, Close Up, Lux, Pears, Vaseline and lately Knorr which is regarded as a taste benchmark amongst its peers.

- ❖ *The company is both exposed to business and financing risk.* Financing risk is on the increase as debt dominates the company's capital base. In the same vein, increasing competition from PZ is a threat to Unilever's market share in the conglomerate sub-sector. The effect of this has been noticed in the continuous decline in turnover of Unilever. Other smaller companies producing substitute products are equally posing a 'crowd-out' effect on Unilever's market share and this will definitely impact on the company's operating income vis-à-vis the bottom-line.
- ❖ We strongly recommend SELL due to our analysis of the company's financials and other publicly available information. The recently released half year result of the company is a loss of N1, 832 billion and the full year result could erode deeply into the shareholders' fund by not less than 60%.
- ❖ Further risk attached to our valuation is activity of regulatory agencies such as NAFDAC and political risk in addition to high dependence on imported raw materials.
- ❖ The current price of about N12.90 suggests that the stock is trading at about 3 times its relative and intrinsic value. This strengthens our position and rating of the stock as a SELL.

SUB-INDUSTRY REVIEW:

Unilever operates within the conglomerate section and also one of the multinationals. The sector is engaged in manufacturing and sale of food and household products to the sales and distribution of automobiles. In the conglomerate however, a sub classification based on the product substitutability, input process would group Unilever, UACN and PZ as a sub-sector. This is necessary in order to have a reasonable basis of comparison. Striking features of this group is that they are deeply involved in a lot of research and development activities and also rely on supply of essential raw materials supported through licencing and technical agreement with their related affiliated companies abroad. Diversified product portfolio is another unique feature of the sub-sector.

The sector depends heavily on the performance of the economy as they rely on consumers' disposable income to increase their bottom-lines. As a result, variables like inflation, interest rates, exchange rates, fiscal policies and infrastructure affect the Sectoral performance.

Industrial Peer Group Review : Comparable Conglomerates

	PZ	UACN	Unilever
Turnover-5Yr Avrg			
1-Year Price Chg.(%)	44.94	31.28	-45.15
30- Day Price Chg (%)	-14.8	-8.57	5.56
Long Term Debt/Equity (%)	12.20	26.47	52.55
Pretax Margin (%)	11.04	10.05	6.83
Return On Equity (ROE)%	13.20	12.64	29.02
Stock Market Cap. (NGN'bn)	59.665	32.886	48.805
Earnings Yield (%)	5.45	5.55	0.00
12-Month Tailing EPS(k)	1.28	1.42	0.00
Trailing P/E Ratio	18.34	18.03	0.00
52-Week High - Low (NGN)	28.93- 6.20	31.70- 3.00	24.60- 12.06
Recent Stock Price(as at Dec.6, 2006)	23.48	25.60	12.90
Stock Volatility-(β)	0.45		0.73

UNILEVER PLC- DIVISIONS/PRODUCTS PORTFOLIO:

Unilever as supplier of fast-moving consumer goods (FMCG) has three (3) broad divisions - Foods, Home care and Personal care. In the foods division, it is the largest seller of packet tea with Lipton brand leading the foods and beverages category. It is also the category leader in Margarine in the country with the Blue band brand. The Home & Personal care division is highly visible in the home care market in the country, which includes cleansing and hygiene products. The products include Omo, Key, Lux, Pears and Sunsilk.

RECENT DEVELOPMENTS:

- In October 2006, the Board of Unilever Nigeria Plc announced the appointment of Mr. Robert E. Clarke as its Managing Director as a replacement for Mr. G.Kapur (former Vice Chairman/Managing Director) who resigned in May, 2006.
- In December 2005, the KNORR brand was added to the company's products

portfolio. In Nigeria, Knorr is regarded as a taste benchmark. Consequently over the past one year, the company has invested in machines and a new savoury hall.

- QUARTERLY RESULTS :Q1-2006 & Q2-2006

Unilever's recent quarterly results have been unimpressive. Turnover dipped significantly by 44% in the Q1-2006 and 37% in Q2-2006. Quarterly EBIT was negative both in Q1-2006 & Q2-2006 as operating expenses shot up considerably especially in the second quarter. The Loss Before Tax of N1,832 billion for the second quarter has already reduced the shareholders' fund by about 25% and this scenario is a pointer to the outcome of 2006FY result. Shareholders' value may have been reduced by about 60% by the year end December 2006. This indicates a longer waiting period for any marginal return on investment.

Though no information is available from the company as to the causes of this, but a critical look at the accounts is indicative of huge provision for bad debts and other exceptional items already factored into the quarterly results. The increasing gearing is equally worrisome

Table I: FINANCIALS
UNILEVER NIGERIA PLC

Per share data					
(Year end December 31)	2001	2002	2003	2004	2005
Tangible Book Value	8	9	13	13	20
Primary EPS(NGN)	1.79	0.52	0.62	0.73	0.53
Dividends(NGN)	1.04	0.50	0.61	0.70	0.00
Payout Ratio	58%	96%	99%	95%	0%
Prices - High	28.8	40	19.19	24.25	24.6
- Low	16.5	13.48	12.87	13.54	13.3
P/E Ratio - High	16	77	31	33	46
- Low	9	26	21	18	25
Prices Year end(NGN)	14.56	27.27	15.50	18.52	20.51
P/E Yr end	8	53	25	25	38
Income Statement Analysis(NGN'000)					
Revenues	15,203,511	19,003,356	23,693,923	28,576,997	33,390,940
Operating Income	1,589,621	2,164,611	3,263,835	3,648,129	3,100,344
Depreciation	255,911	310,028	449,019	470,962	588,130
Interest Expenses	3,224	111,522	485,719	621,423	818,928
Pretax Income	1,586,397	2,053,089	2,778,116	3,026,706	2,281,416
Effective Tax rate	34.24%	23.44%	32.68%	26.52%	29.15%
Net Income	2,164,114	1,571,918	1,870,258	2,167,249	1,616,457

**Table II: Balance Sheet Key information
(NGN'000)**

Cash	724,004	1,105,258	1,526,754	2,655,983	1,987,042
Current Asset	5,489,363	6,243,911	10,571,724	9,454,494	16,818,583
Total Asset	9,087,398	10,742,119	15,394,585	15,634,147	24,463,769
Current Liability	3,993,489	5,351,758	9,775,992	9,590,532	15,965,594
Long Term (LT) Debt	0	0	0	0	0
Common Equity	4,109,065	4,167,664	3,905,550	3,954,154	5,570,611
Capital Expenditure	1,301,819	1,328,274	1,072,987	2,141,560	2,141,801
Working Capital	1,495,874	892,153	795,732	- 136,038	852,989
Short Term Borrowings	2,693	403,187	7,015,475	1,898,406	8,632,993

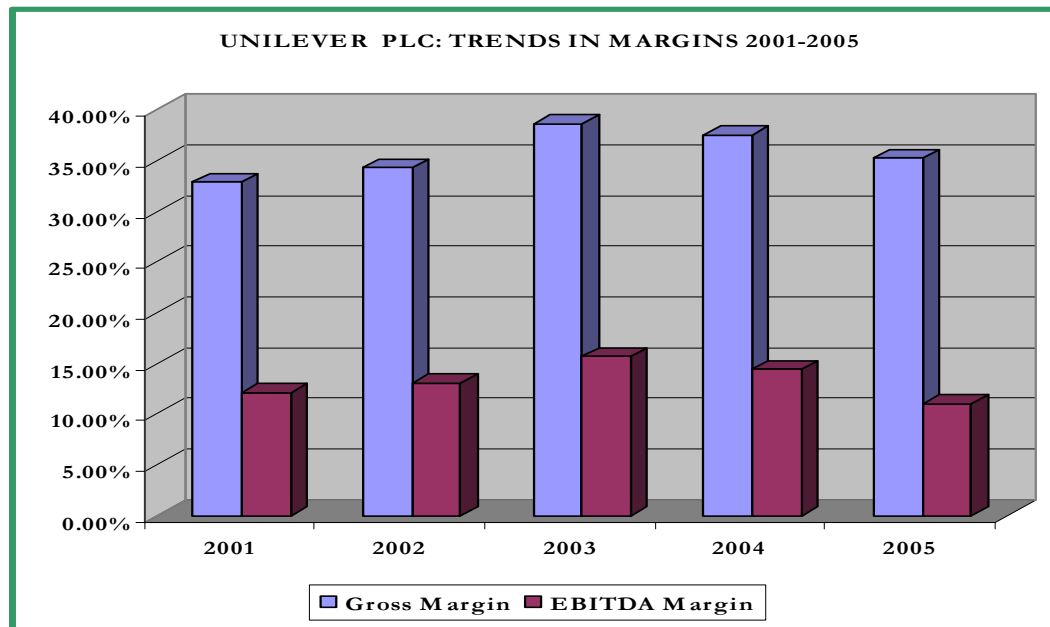
Table III : Key Financial Ratios	2001	2002	2003	2004	2005
Current Ratio	1.37	1.17	1.08	0.99	1.05
Capitalisation return	11.50%	15.43%	14.27%	17.15%	8.98%
Return on Asset	19%	17%	20%	21%	23%
Return on Equity (ROE)	25%	38%	48%	56%	29%
Gross Margin	33%	34%	39%	37%	35%
Interest Covered ratio	840.92	19.41	6.72	5.87	3.79
Total Leverage ratio	0.55	0.61	0.75	0.75	0.77
Debt to Equity ratio	1.21	1.58	2.94	2.95	3.39
Equity Turnover	2.21	2.58	3.94	3.95	4.39
Effective Interest rate	1.19	0.55	0.13	0.19	0.15
Earnings Yield	12%	2%	4%	4%	3%
P/B ratio	1.94	3.07	1.22	1.43	1.01
Dividend Yield	7%	2%	4%	4%	0%
Total Asset turnover(times)	1.67	1.77	1.54	1.83	1.36
EBITDA Margin	12%	13%	16%	14%	11%
Z-Score	3.18	2.81	2.49	2.78	2.04

ANALYSIS OF FINANCIALS:

PROFITABILITY

The company's turnover has been growing at a declining rate since 2003 from 24.68% in 2003 to 20.61% in 2004 and 16.85% in 2005. The growth in Cost of Goods Sold (**COGS**) from 16.46% in 2003 to 22.77% in 2004 and 21.09% in 2005 has impacted negatively on the company's basic EBIT.

EBITDA which represents the company's core earnings grew from 12% in 2001 to 16% in 2003 and nosedived to 14% in 2004 with a further decline by 3% to 11% in 2005 (**fig. III**). In 2005, Net Income dropped by 27% resulting from a decline in the company's EBIT by 15% and an increase by 32% in interest cost. This is a result of increase in short term financing option embarked on by the Company. Whereas Unilever's absolute tax figure declined by 17%, the company's effective tax rates increased to 29.15% from 26.52% in 2004. *In the same vein, though the operating expenses are relatively stable and just 1% above the historical annual average of 24.66%, the company's operating income is on the decline.*



EFFICIENCY:

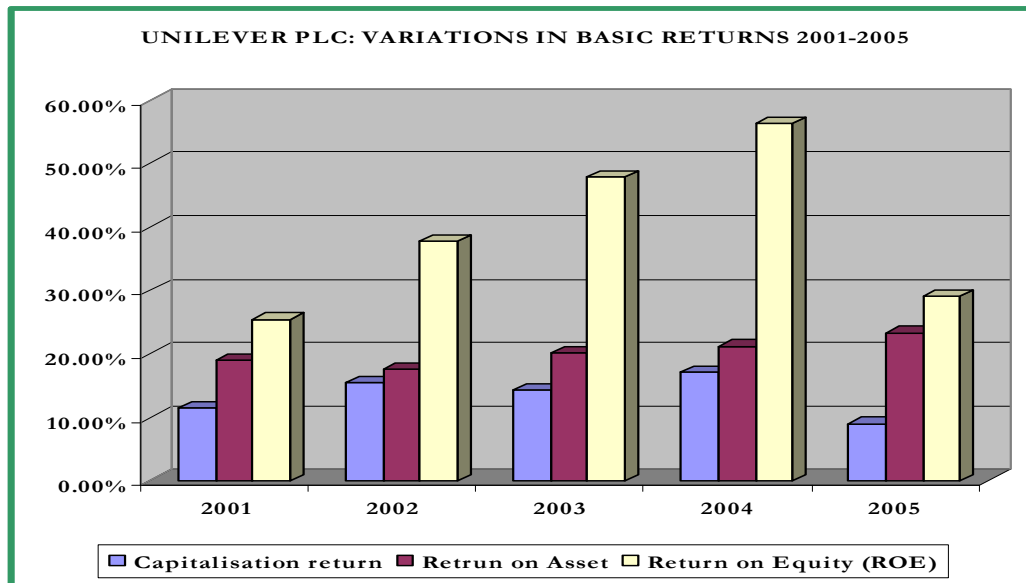
The company's efficiency measured in terms of current and non-current assets performance has been below the company's potentials and also falls short of industry standard. From the financial review, Return on Operating Assets (ROA) inched up from 21% in 2004 to 23% in 2005 and exceeded effective interest rate of 14% and 16% in 2004 and 2005 respectively. There is however a reasonable basis for apprehension as the company's ROE declined by not less than 48% from 56% in 2004 to 29% in 2005. **This decline in ROE constitutes a serious risk to ordinary shareholders.**

Further prognosis into the company's financials revealed that though inventory turnover increased from 3.3 times to 4.6 times and also days in inventory reduced from 112 days to 79 days, average receivables increased significantly from 30 days in 2004 to 66 days in 2005, signifying possibility of exceptional items from provisions for bad receivables. **Information gathered from the company revealed that the credit facilities hitherto advanced to distributors was withdrawn by the banks due to consolidation exercise in 2005, and that this has limited their ability to warehouse output from the company.** The company was thereby compelled to increase its short term exposure in order to finance the consequential huge receivables. **As expected, receivables jumped up and margin declined due to increasing operating costs.**

The company, from recent results, seems to have adopted a basic production to sales approach (i.e. only producing to fulfill orders). This has impacted negatively on its turnover as revenue dropped in the first and second quarters by 44% and 37% respectively.

Average payable has however been on the increase and this is a negative signal to the company's ability to fully pay its creditors. It also shows that apart from borrowing, the company had to delay credit to benefit from a cheap financing source. This however is not good for the company's image and may affect products quality and delay in production as suppliers prefer other competitors with reasonable settlement period.

In general, the company's Total Asset turnover is on the decline and the gross margin is falling eating deep into the company's upshot and performance.

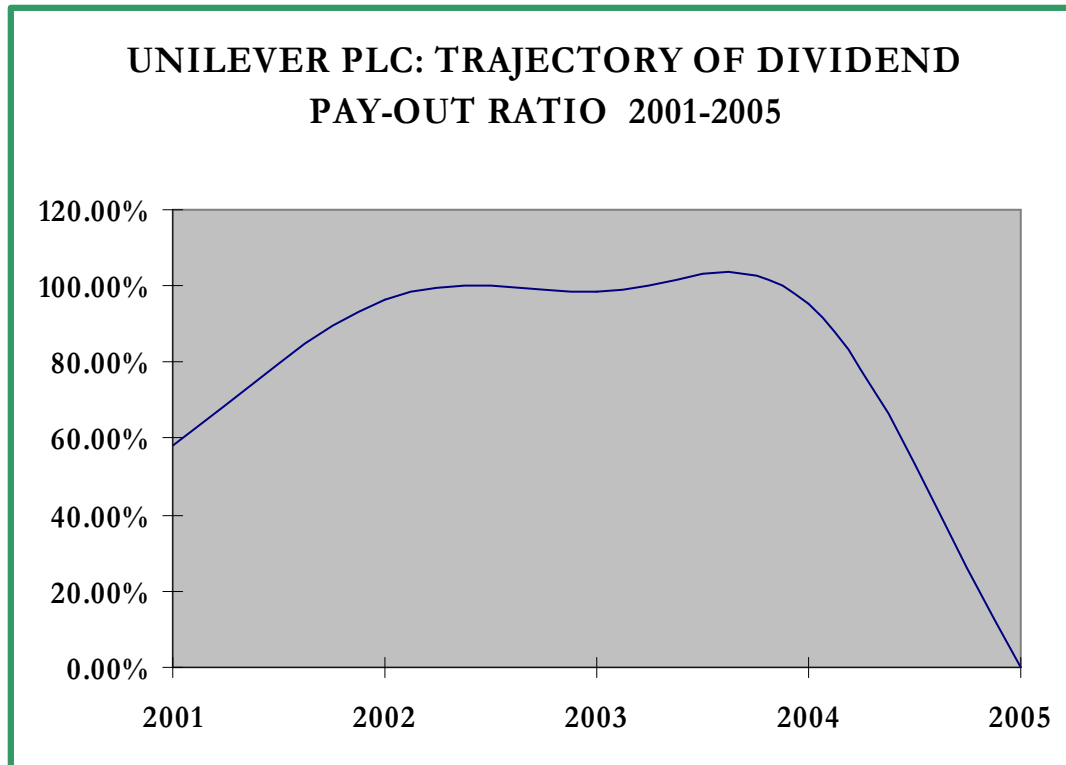


SOLVENCY/FINANCIAL HEALTH:

We have employed Z-score as an overall indicator of the company's risk of failing due to financial weakness.

A Z-score of 1.8 and below is regarded as a high risk zone (put differently, financially unhealthy), while Z-Score in the range of 1.8 to 2.99 implies an indecision zone and a value in the region of 3.0 and above is considered a very low risk zone and high financial sounding.

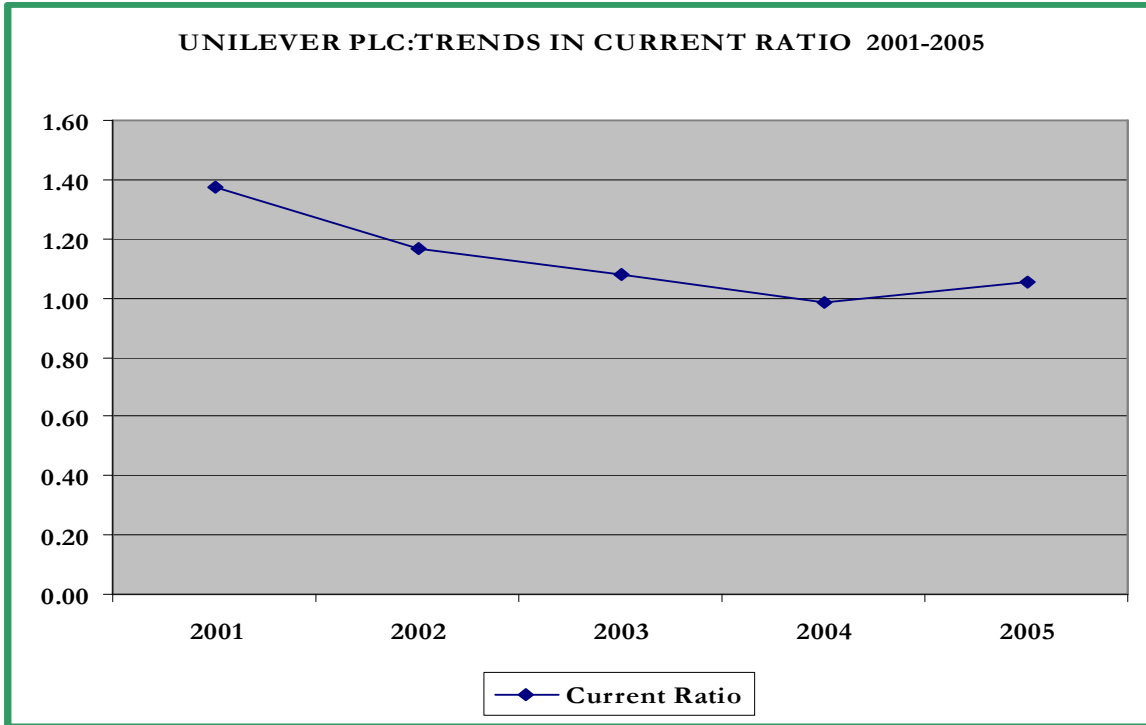
From our analysis of books of Unilever Plc, the company's Z- score (Fig:III) moved from 3.18 in 2001 to 2.81, 2.49, 2.78 and 2.04 in 2002, 2003, 2004 and 2005 respectively. This shows that the company transited from the zone of financial soundness to a region of financial dilemma. Put differently, our analysis revealed that Unilever's financial health status over the past four years (2002-2005) is fast weakening. The current year Z indicator, with a clue from the quarterly results, may conveniently put the company in a total dangerous zone of absolute financial weakness.



LIQUIDITY:

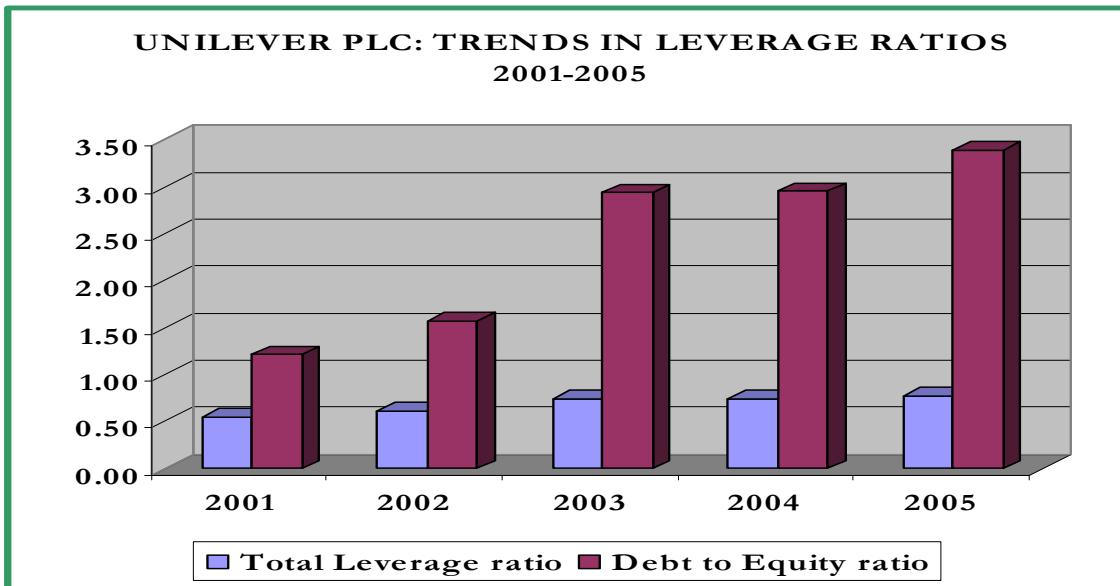
In terms of liquidity, the company has been recovering from an absolute low ebb performance for the past few years. This performance however is still grossly below the industry average. **The current ratio, which measures the number of times current assets cover current liabilities is just marginally over one (1) in 2005 and this, is worrisome for any firm operating in the consumables industry. The company needs enough liquidity to operate and save its market share. This financing gap is better covered with non-interest bearing source. The company may divest from some non-performing assets such as its plant in Aba or embark on an internal restructuring in order to return to a sound footing.**

External liquidity of the stock is however still strong as measured by average daily trades on the floor of the Exchange compared to its total shares floats.



LEVERAGE:

The leverage ratio which measures the company’s debt to total assets increased from 65% in 2002 to 77% in 2006 and the contribution of equity to total capital utilization is just about 29.5% (**fig. III**). This indicates that the company is operating at about 70.5% debt financing for its operation. **As debt keeps on growing, financial risk increases and this accounted for the significant drop in ROE earlier explained.**



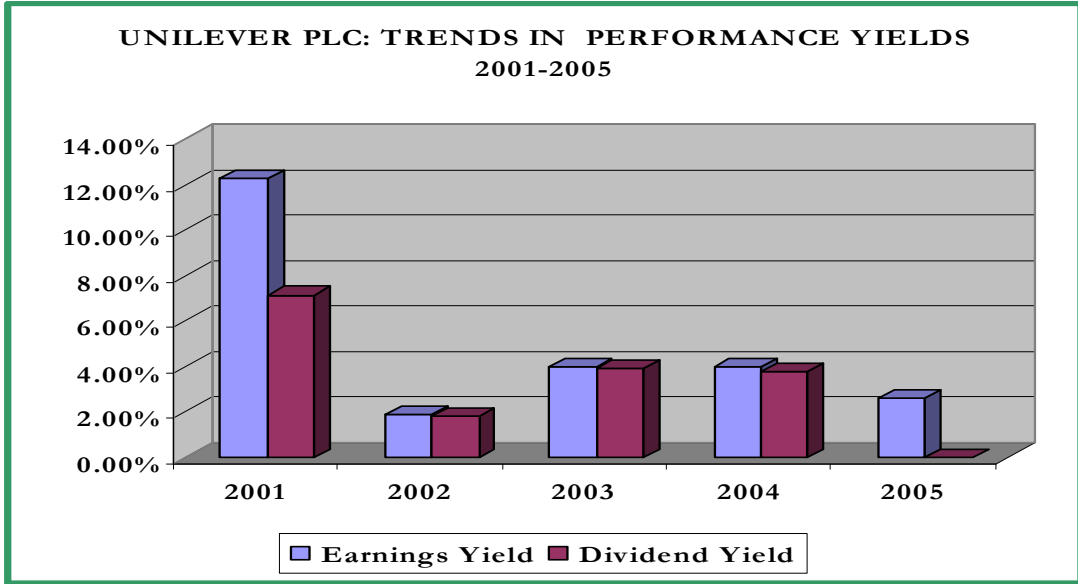
VALUATION:

Valuation of Unilever has been primarily on the relative basis using a combination of Price to Sales ratio, Price to Book Value ratio and Price to Earning (P/E) metrics. With 2005 Sales, the company's relative value may be high, but bringing to bear the reality of the current sales, we have a value of N7.39, while P/B gave us N3.30. We eventually de-emphasized the use of P/E since the trailing P/E is 0 due to negative trailing EPS and our target EPS is also negative. Based on the above and using an appropriate weight with more inclination to P/B basis, we arrived at a price of N4.93.

We are of the opinion that the company is not likely to grow significantly as the payout ratio has been relatively high in the last five years.

TECHNICAL CHARTS FOR STOCK MARKET INDICES





Meristem Securities Limited reports and its attendant recommendations are prepared based on publicly available information and are meant for general informative purposes. Meristem Securities Limited can neither guarantee the accuracy or completeness of the information as they are an expression of our analysts views and opinions. Meristem Securities Limited cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated is based on estimates and opinions and is meant for general information purposes and not as solicitation to buy securities and financial instrument. © Meristem Securities Limited .Web: www.meristemng.com; e-mail: info@meristemng.com