

UNILEVER NIGERIA PLC:

In pursuit of aggressive growth strategy and product innovations for growing market share and creating superb value.

EXECUTIVE SUMMARY & INVESTMENT RATIONALE

- **Unilever** is a market leader and prominent producer and marketer of fast-moving consumer goods (FMCG) with three Strategic Business Units (SBUs) - **Foods, Home care and Personal care**. It has three manufacturing plants in key strategic locations in the country-Aba (Abia State), Oregun (Lagos State) and Agbara (Ogun State) and currently plans to invest about N5bn on aggressive plant expansion. **Unilever's** product brands are super brands amongst other competing brands. The company's foods division is the largest seller of packet tea with the Lipton brand leading the foods and beverages category. The company is also a leader in margarine production in the country with unrivalled product quality of Blue Band brand. The Home & Personal care divisions are highly visible in the consumer markets in the country. Notable amongst its product portfolio includes foods/food ingredients, cleansing and hygiene products such as **Key, Omo, Close up, Lux, Pears, Vaseline, Sunsilk Blue Band, Knorr, Lipton and Royco**.
- The Company's revenue has consistently been driven by the **Personal Care** business unit which accounts for over 40 per cent of annual sales revenue while the other units- Food and Home care share the remaining 60 per cent almost in equal proportion. However, the company changed its traditional business model in the fiscal year 2006 which saw the **food unit** accounting for 42 per cent of sales revenue while **Home and Personal Care divisions** account for 19 per cent and 39 per cent respectively.

- Owing to certain fundamental defects in its business models and operational structures, especially the supply chain, Unilever was faced with crisis-ridden fiscal years in 2005 and 2006. This was further compounded by harsh economic realities, banking reforms and other unfavourable legislations/government policies. All these resulted into marked declines in overall performance indices and ultimately, erosion of its Shareholders' funds. Turnover dropped by over 31 per cent, earnings per share (EPS) was negative 0.43k (**FYE 2006**) while owners' equity value diminished by almost 41 per cent.

- However, management efforts and paternal support from its sister company abroad- **Unilever global (which holds 50.4 per cent of its issued shares in the name of Unilever overseas Holdings B.V)** has brought about impressive structural and processes restructuring as well as operational revamping. The recent quarterly results bear credence to the efficacy of these concerted efforts and strategies. In its third quarter period ended September 30, 2008, underlying sales revenue grew by 56.5 per cent to N26.51bn while Profit Before Tax (PBT) was N2.29bn compared to a loss of N2.03bn reported in the corresponding quarter of prior year. Similarly, after tax profit and exceptional items (due to impairments) (PAT&EI) was N1.12bn against a loss of N1.63bn in the similar period of previous year.

- Our forecasts put FYE December 31, 2007 turnover at N42.41bn and PBT at N3.32bn. PAT & Extraordinary Items is estimated at N1.82bn, translating to EPS of N0.48k up from (N0.43k) posted in 2006FYE. This is premised on the estimated turnover growth of 66 per cent while PBT and PAT are projected to grow by 235 per cent and 213 per cent respectively over the prior year's.

- There are strong convictions that **Unilever Nigeria Plc** is back on the path of recovery to profitability and growth. However, there is a thin likelihood of dividend expectation from the company for the year ended December 31, 2007. Renowned for its significantly high pay-out which averaged 88 in 4 years, a moderate dividend payment is projected out of its expected earnings of about N1.82bn in December 31, 2007 FYE. A repeat of its

dividend pay out culture suggests a dividend per share (DPS) of about N0.40k/share for 2007 FYE.

- We maintain a **Medium to Long term BUY** recommendation on the stock given its strong drive for growth and renewed sound performance.

Economic Outlook and fate of the FMCGs in the 2008 and beyond:

An average fast moving consumer group (FMCG) company in Nigeria is faced with the challenge of creating a strong brand/super brand identity, leveraging new products and growing the customer base for its products. Every firm in the industry looks to maximize profits and increase its market share for competitive advantage in the face of risk expansion, increasingly complex consumer taste as well as global challenges. However, the industry is the best beneficiary of a high rate of population expansion witnessed in the country today as there is a day-to-day demand for their products by virtually every segment of the income strata. The need to satisfy the volume and convolution of this growing demand poses additional challenges to the players in the industry.

Producers and consumers of consumable goods face a combination of micro and macroeconomic challenges that have a direct bearing on effective demand (on the part of consumers) as well as profitability and quality product delivery on the part of the manufacturers. Usually, broad government macroeconomic policies as they affect the level of inflation, interest rates, exchange rates, taxes and tariffs, income distribution, and employment usually go a long way in influencing consumer demand for this category of products. For example, the implication of an unfavourable fiscal policy of the government such as a rise in company tax is to trigger off cost-push inflation as consumables generally take a large chunk of the Composite Consumer Price Index (CCPI). The resultant rise in prices adversely affects the purchasing power of the masses. Similarly, a rise in value-added and personal income tax automatically translates to reduction in economic power of a vast majority of consumers.

One might be right to say that producers are at an advantage in cases where prices have to be inadvertently adjusted upwards as most of their products show inelastic demand patterns; government trade policies and exchange rate management have a strong effect on producers. As a result of unfavourable trade policy, imported consumer goods are usually dumped (sold at prices lower than their production cost in exporting countries). Consumers then profit from a fall in prices of foreign products compared with local substitutes. It then becomes a case of robbing 'Peter to pay Paul'. Moreover, input materials of most FMCG products are sourced abroad, thus underscoring the need to evolve liberal external trade policy and port reforms that keep input prices as low as possible and fizzle out avoidable delays at port terminals.

From the foregoing, we opine that prudential macroeconomic management using a combination of monetary and fiscal policies and exchange rate policy that help lower production cost for firms in the industry, control the level of inflation, enhance disposable incomes, are extremely beneficial to all stakeholders as well as consumers. Most importantly, fixing the current infrastructural deficit especially in the area of electricity is critical to raising manufacturing capacity utilization in the FMCG.

Unilever Nigeria Plc: State of Affairs & Future Outlook

A close look at the product range and its brand names places **Unilever Nigeria Plc** as one of the key players in the FMCG together with others strong brands such as **PZ, UACN, Flour Mills, Dangote, Nestle**, etc.. Unilever's products portfolio reveals a mix of uniquely branded consumer goods ranging from **Lux, Lipton tea, Blue Band, Close-up, Vaseline, Knorr** and others. Hence, the high competitive strength of the firm within the FMCG sector can not be over-emphasized. However, the company was beset with unfriendly government policies/legislations with its attendant consequences on structural and operational

frameworks which began late 2004. This hampered operations and snowballed into acute performance challenges in the succeeding years- 2005 and 2006.

Unilever underwent a comprehensive strategic restructuring to realign its operations, processes and policies in the fiscal year 2006 with a view to addressing these key fundamental challenges. This, the management identified as the antidote for fixing short term structural loopholes while at the same time crafting formidable strategies for long term sustainable organic growth and value creation. The year 2007 gave strong assurances of hope for the company's swift recovery to profitability and long term growth. Unilever effected a change in top management to steer the affairs of the company. The company appointed another technocrat as the Managing Director to champion the restructuring programme. Prior to his appointment, he was Vice-President, **Unilever Food solutions, China**, where he built a consumer foods business with annual turnover of over US\$130m.

The company has since shown a strong resurgence in profitability and value creation. It achieved significant and consistent growth in underlying sales and net margin from first to third quarter in 2007. Part of the company's new strategies is to grow market share. Similarly, **Unilever Group** has also re-affirmed its commitment to grow and sustain the future of its brands and company in Nigeria. The international group is planning to support Unilever Nigeria with fresh investments of about N5bn over the next two years in new manufacturing facilities and production upgrades.

Even in the face of harsh Nigerian economic and business environments, changing government regulations, it is hoped that **Unilever Nigeria Plc** will continue to defend its share of the market and probably surpass it via formidable and robust business models and refined operational structures/processes which guarantee sustainable growth and long term value creation to all stakeholders.

Highlights of Recent Performance:

Operational & Financial Highlights

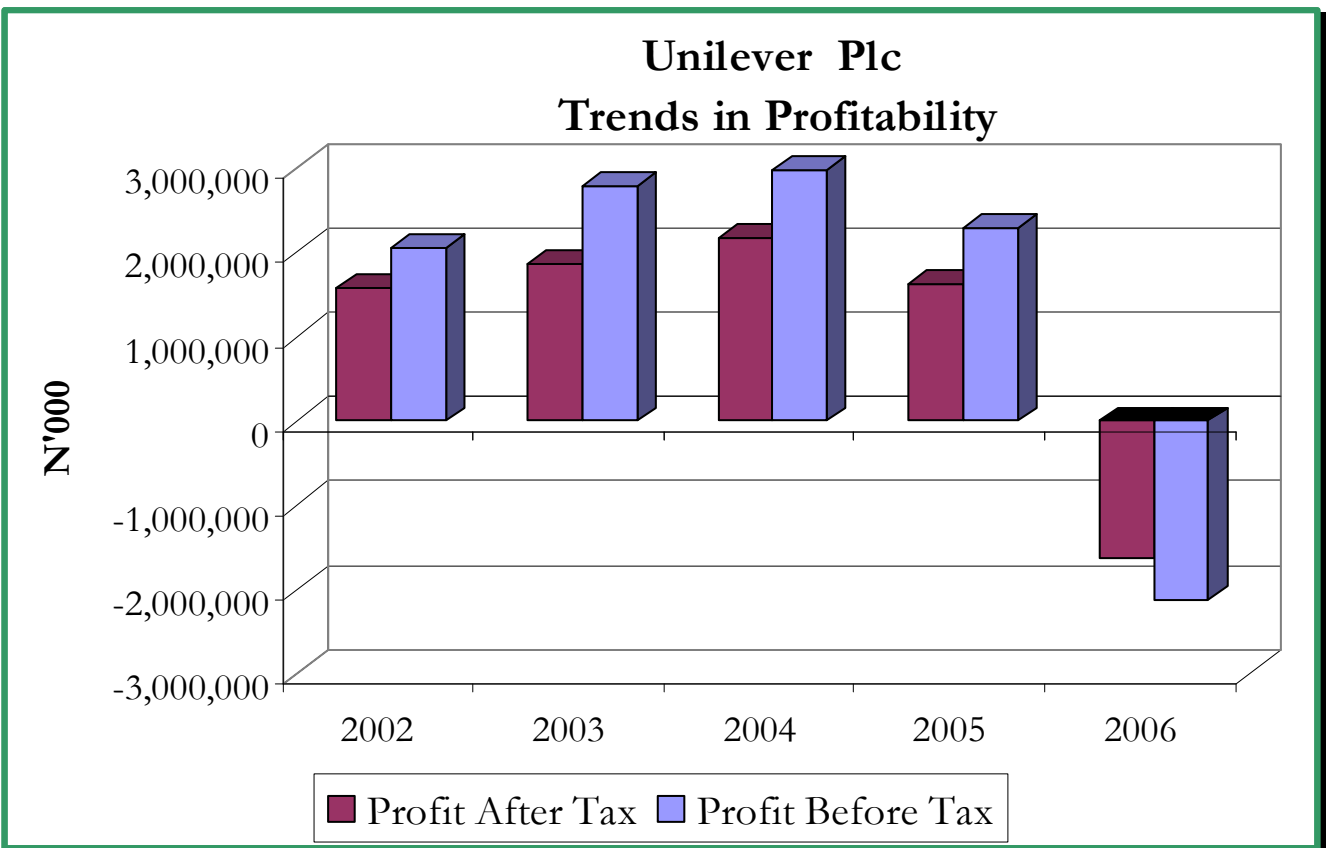
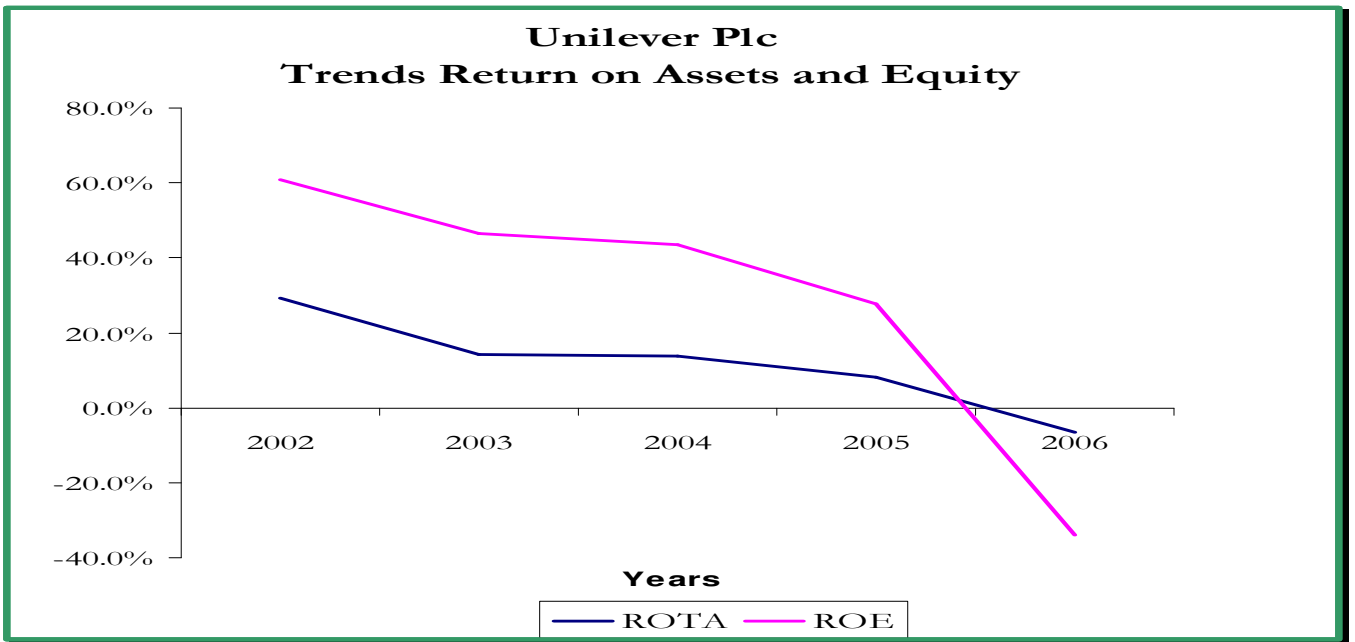
Following the restructuring exercise embarked on in 2006, Unilever's underlying sales shrank by 23.5 per cent to N25.55bn in the FYE December 31, 2006. This was a direct result of the review of the company's inventory management policy with its Key Distributors (KDs). The company had hitherto implemented a trade sales push policy which was one of the major causative factors of its predicament sequel to the banking reforms that ended December 31, 2005. The management has since adopted a new policy that is demand-based and replacement model with its Key Distributors. This is designed as short run measure to make healthy, the inventory flow and improve its working capital situation. Operating Margin was 28 per cent down from 35 per cent achieved in 2005 while Earnings per share (EPS) dipped from N0.43k to negative N0.43k due as the firm made a net loss of N1.62bn.

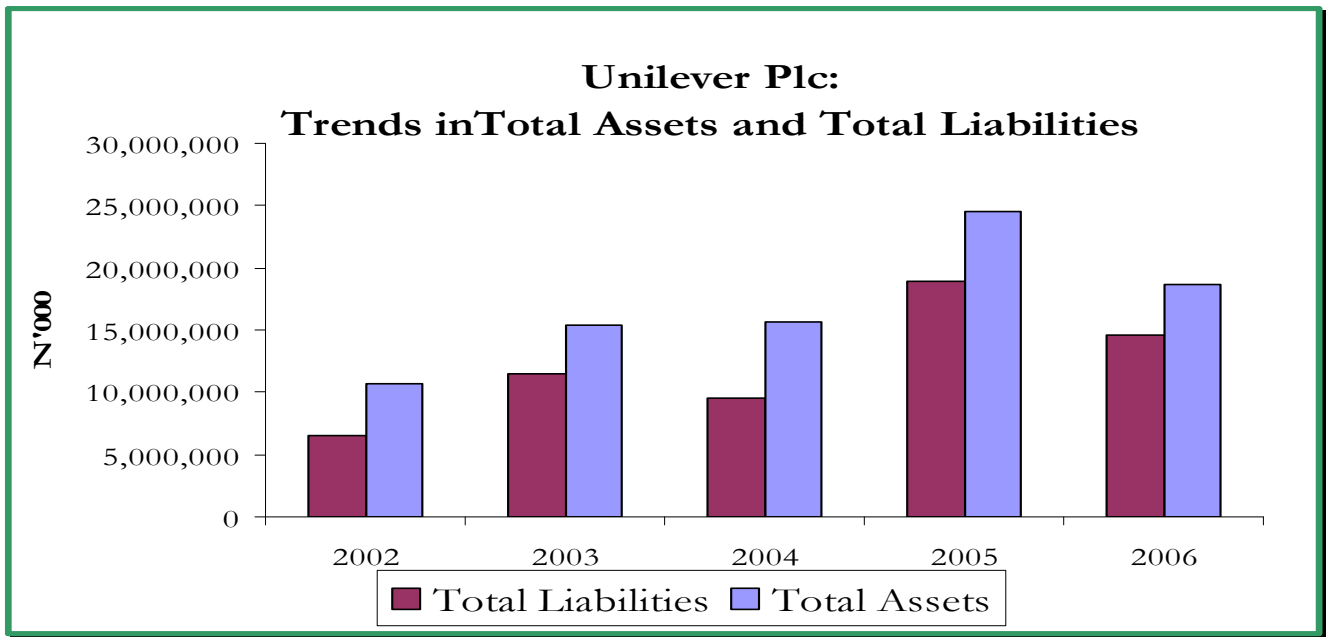
In 2007, Unilever's recorded a sales revenue (turnover) was N26.51bn, representing a growth of 3.7 per cent in the first nine months compared to N25.55bn posted in the 2006 FYE. Meanwhile, the third quarter turnover record implies a significant leap by 220 per cent compared to N8.29bn recorded in the first quarter 2007. Moreover, net margin (after extra ordinary items of N405m) has improved steadily over the three quarters in 2007. This stands at 4.22% up from 3.62% in the first quarter. The company's trailing Earnings per share (EPS) is N0.30k.

Updates on Returns on Investments

Returns on investment have dwindled significantly since 2004. Return on Assets (ROA) declined drastically from 13.9 per cent in 2004 to -7.4 per cent in 2006 while Return on Equity (ROE) nose-dived from 54.9 per cent to -34.7 per cent over same years. Performance recorded in prior years, especially 2004 may not be unconnected with 'fictitious' earnings realised from pushed sales to the company's Key Distributors. Until recently, Unilever had been respected for its high pay-out of over 90 per cent. However, it was unable to give any

benefit in 2005 while it only declared a 1-for-4 scrip issue in 2006 FYE to pacify its shareholders.





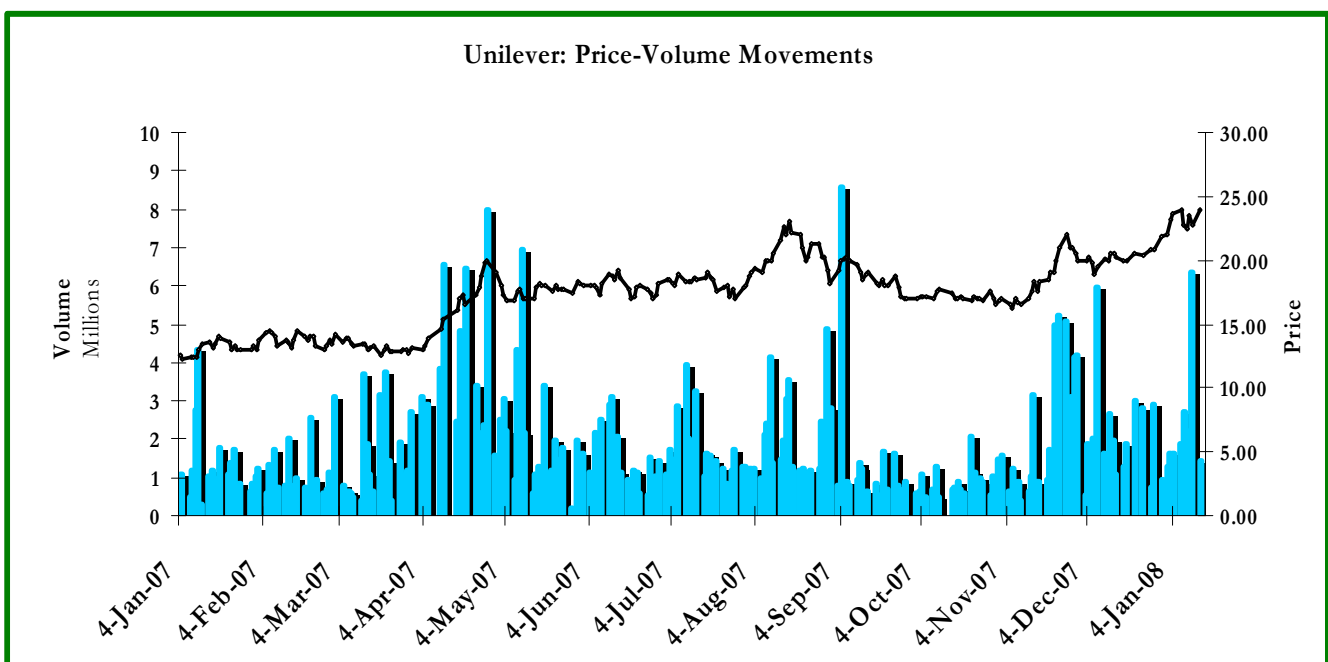
Unilever Nigeria Plc: PERFORMANCE HISTORY (2004-2007)								
TURNOVER(N'bn)	Quarter	2004	2005	2006	2007	Q-o-Q 2004-2005	Q-o-Q 2005-2006	Q-o-Q 2006-2007
	Q1	6.62	8.554	4.777	8.29	29.2%	-44.2%	73.5%
	Q2	13.55	16.25	10.20	15.80	19.9%	-37.3%	56.4%
	Q3	20.608	24.58	16.93	26.51	19.2%	-31.1%	56.5%
	Full Year	28.577	33.39	25.554	42.402e	16.8%	-23.5%	65.21%e
PBT(N'bn)	Quarter	2004	2005	2006	2007	Q-o-Q 2004-2005	Q-o-Q 2005-2006	Q-o-Q 2006-2007
	Q1	0.682	0.751	-0.980	0.63	10.1%	-230.5%	164.5%
	Q2	1.198	1.261	-1.832	1.45	5.3%	-245.3%	179.2%
	Q3	1.175	1.955	-2.373	2.29	66.4%	-221.4%	213.1%
	Full Year	2.97	2.281	-2.467	3.32e	-23.2%	-208.2%	234.6%e
PAT(N'bn)	Quarter	2004	2005	2006	2007	Q-o-Q 2004-2005	Q-o-Q 2005-2006	Q-o-Q 2006-2007
	Q1	0.61	0.518	-0.98	0.30	-15.1%	-289.2%	130.6%
	Q2	1.025	0.895	-1.832	0.59	-12.7%	-304.7%	132.2%
	Q3	1.203	1.455	-2.373	1.12	20.9%	-263.1%	168.6%
	Full Year	2.167	1.616	-1.617	1.82e	-25.4%	-200.1%	212.6%e

1. Q-o-Q means Quarter on Quarter

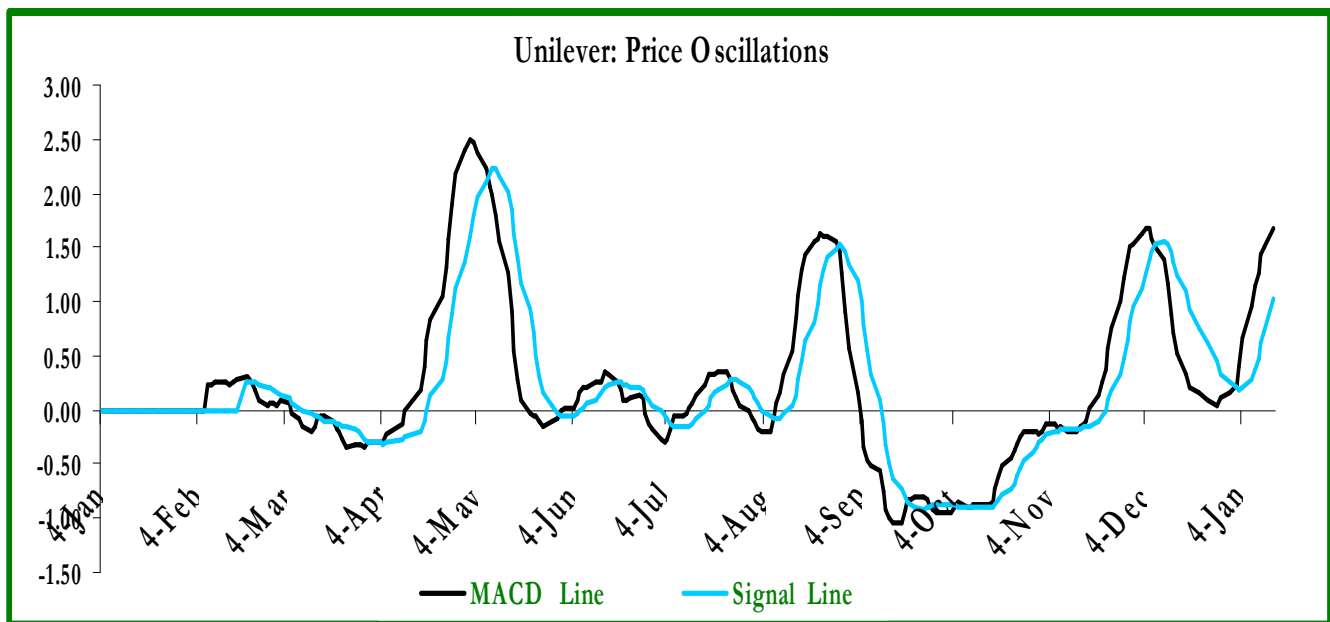
2. Full Year 2007 figures are Meristem Research estimates

Analysis of Technical Behaviour of Unilever:

Analysis of the past 52-week price behaviour of Unilever shows periods of rallying and range-trading that were unevenly distributed from when the stock opened at N12.50k early January 2007 till when it closed at N21.85k on December 31, 2007. The stock attained its support level of N13.05k early in the first week of February 2007 but afterwards; it was characterized by short periods of bullish and bearish trends until it was able to break its old resistance level of N14.24k after almost a month of bullish runs. This formed a new High of N19.99k late April, 2007. This pattern of movements was repeated up till the third quarter of the year as speculators took profit amidst anticipated bears' comeback.



A bearish reign was observed to have taken over a substantial part of the last quarter of 2007 as the impressive and promising third quarter results of the company might have *run up* the price to reach N22.00k on November 26, 2007 compared to the year's All-time High of N22.59k at the end of August. With trend similar to that observed in early part of 2007, the first two weeks of this year has seen **Unilever** attaining an All-time High of N24.74k.



RSI=52.26

Short run analysis of **Unilever’s** price trends using **Relative Strength Index (RSI)**, as a momentum oscillator gives a value of 52.26 for the stock. This is slightly higher than the centerline of 50 for the **RSI** meaning that from FYE 2007 till date, average gains are slightly higher than average losses for the stock, an indicator of a bullish tilt. This suggests a **BUY** signal for the stock. Another technical indicator which captures price oscillation, **the Moving Average Convergence Divergence (MACD)** also reveals a **BUY** signal as the **MACD line** crosses below the **Signal Line**.

Unilever Nigeria Plc: Year-on-Year (y-o-y) Price Performance Trend

	2007	2006	2005	2004	2003
Closing Price, on December 31(Ngn)	21.85	12.50	20.51	14.94	18.50
Annual change in Price	74.80%	-39.05%	37.28%	-19.24%	0.15
Closing Index on December 31(points)	57,990.22	33,189.30	24,085.76	23,844.45	20,128.94
Annual Change in All Share Index	74.73%	37.80%	1.01%	18.46%	0.66

All Time Price Bands					
High(Ngn)	22.59	22.47	24.60	24.25	19.19
Low(Ngn)	12.30	12.06	13.30	13.54	12.87

Valuation:

In our valuation of Unilever Nigeria Plc, we used two different methods in arriving at a fair value. The first method was based on trading multiples relative to industry averages of peer comparables in the FMCG group. The second valuation method was based on the present value of Unilever's future cash flows, measured by discounting the company's dividend payment projections into the future. We arrived at N23.60 as the fair value of the stock.

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