

Unilever Earnings Review FY 2019

Disappointing Q4 2019 affirms concerns

- Revenue plunged 34.0% y/y to N60.8bn
- Gross profit fell 75.7% y/y to N6.7bn
- Attractive trade credit terms to distributors unsustainable
- Target price: N16.90

Revenues plunge as Unilever cuts credit extension

Last week, Unilever published its unaudited FY 2019 results. The company announced another disappointing quarter which compounds an already poor 2019. Revenue for FY 2019 plunged 34.0% y/y to N60.8bn from N92.0bn in FY 2018. We highlight that Revenue grew 1.8% q/q to N9.1bn in Q4 albeit coming from a very low Q3 base where the company's troubles became more pronounced. Based on our findings, the company has restructured its route to market while cutting trade credit access to its distributors. Consequently, the cut in credit extension has forced distributors to cut demand. We note that the company has consistently held up Revenue by extending attractive trade credit terms. FY 2019 numbers revealed a 26.9% q/q decline in Trade Receivables in Q4 2019 which further confirms our findings.

Margins plummet on elevated per unit cost

On a q/q basis, Cost of Sales climbed 13.2% q/q to N10.7bn in Q4 2019 which saw the company record a Gross loss for the second consecutive quarter. We note that the company is facing increasing cost per unit pressures which saw Gross Margin fall 18.8ppts to 11.0% in FY 2019 from 29.8% in FY 2018. Overall, Gross Profit fell 75.7% y/y to N6.7bn in FY 2019 from N27.4bn.

Management reins in on Opex

With revenues under severe pressure, management maintained its strategy of reining in on operating costs. Thus, marketing & administrative expenses as well as selling & distribution expenses declined 10.2% y/y and 25.6% y/y, to N13.2bn and N14.7bn respectively for FY 2019. The company also recorded a 97.1% plunge in other income to N0.7bn in FY 2019 from N2.3bn in FY 2018. Consequently, the decline in operating expenses could not lift operating performance, as the company recorded an operating loss of N10.4bn against an operating profit of N10.4bn in FY 2018.

Healthy leverage provides marginal respite for earnings

The company's heavy cash position continues to support interest income albeit declining. Net finance income fell 35.2% y/y to N2.0bn in FY 2019, from N3.1bn in FY 2018, on account of a decline in interest income (down 20.4% y/y to N2.9bn) and an increase in interest expense (up 82.1% y/y to N0.8bn). The decline in net finance income was driven by the decline in cash and cash equivalents (down 37.5% y/y to N35.7bn) for the period. The positive interest income provided marginal respite with loss before tax printing at N8.3bn for FY 2019, compared to profit before tax of N13.6bn in FY 2018. Overall, a tax credit of N4.1bn helped reduce loss after tax to N4.2bn in FY 2019 compared to a net income of N10.1bn in FY 2018.

Poor Q4 affirms long-term operating concerns

Unilever has relied on giving products on credit to its channel distributors in bid to support sales, however that is now unsustainable given piling Receivables which the company is not willing to accommodate. This has forced it to focus on recouping Receivables rather than increasing them through new credit sales. Thus, we believe with the distribution channels stuffed, the company may struggle to see a way back from here and may be in for long term operating weakness.

Target Price: N16.90

Stock rating: NEUTRAL

Unilever Plc Earnings Highlight FY 2019

N'm	FY 2019	FY 2018	y/y	Q4 2019	Q3 2019	q/q
Revenue	60,758	92,025	-34.0%	9,130	8,970	1.8%
Cost of Sales	(54,086)	(64,598)	-16.3%	(12,093)	(10,682)	13.2%
Gross Profit	6,672	27,427	-75.7%	(2,963)	(1,712)	73.1%
Marketing and Administrative expenses	(13,218)	(14,722)	-10.2%	(5,151)	(2,171)	137.3%
Selling and Distribution Expenses	(3,152)	(4,234)	-25.6%	(1,099)	(645)	70.5%
Other Income/(Expenses)	65	2,267	-97.1%	22	(15)	-244.8%
Impairment (Loss)/Writeback	(722)	(311)	131.8%	(405)	(99)	309.1%
Results from Operating Activities	(10,354)	10,427	-199.3%	(9,596)	(4,641)	106.8%
Finance Income	2,857	3,590	-20.4%	1,009	646	56.2%
Finance Costs	(824)	(453)	82.1%	(381)	(85)	346.6%
Net Finance Income/(Cost)	2,033	3,137	-35.2%	627	561	11.9%
Profit before Tax	(8,322)	13,564	-161.4%	(8,969)	(4,080)	119.8%
Income Tax (Expense)/Credit	4,098	(3,535)	-215.9%	4,204	1,077	290.6%
Profit from Continuing Operations	(4,224)	10,029	-142.1%	(4,764)	(3,004)	58.6%
Profit from Discontinued Operations	-	120	-100.0%	-	120	-100.0%
Profit for the Period	(4,224)	10,148	-141.6%	(4,764)	(2,884)	65.2%

Profit for the period attributable to:

Owners of the Company	(4,224)	10,148	-141.6%	(4,764)	(2,884)	65.2%
Non-Controlling Interests	-	-	n/a	-	-	n/a
	(4,224)	10,148	-141.6%	(4,764)	(2,884)	65.2%

Other Key Inputs	FY 2019	FY 2018	y/y	Q4 2019	Q3 2019	q/q
Earnings Per Share	(0.74)	1.77	-141.6%	(0.83)	(0.50)	65.2%
EBITDA	(7,557)	13,356	-156.6%	(8,921)	(3,946)	126.1%

Margins	FY 2019	FY 2018	y/y	Q4 2019	Q3 2019	q/q
Gross Margin	11.0%	29.8%	-18.8ppts	-32.5%	-19.1%	-13.4ppts
EBITDA Margin	-12.4%	14.5%	-27.0ppts	-97.7%	-44.0%	-53.7ppts
Operating Margin	-17.0%	11.3%	-28.4ppts	-105.1%	-51.7%	-53.4ppts
Net Margin	-7.0%	11.0%	-18.0ppts	-52.2%	-32.1%	-20.0ppts
No of Outstanding Shares	5,745	5,745		5,745	5,745	
Depreciation & Amortisation	2,797	2,930	-4.5%	676	695	-2.8%

Source: Company Financials, FSDH

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