

Unilever Earnings Review 9M 2019

Disappointing Q3 2019 Spooks Fresh Concerns

Revenues plunge on weak demand from distributors

In its recently published 9M numbers, Unilever Nigeria PLC announced a 28.6% y/y decline in Revenue to N51.6bn in 9M 2019 from N72.3bn in 9M 2018 following an underwhelming Q3 2019. In Q3, Revenue plunged 61.7% q/q and 62.9% y/y to N9.0bn. Our findings show that the steep Revenue decline in Q3 may be partly due to the company's decision to stop offering its trade partners liberal trade terms in a bid to reduce exposure to receivables. Consequently, this led to a reduced demand from distributors. A 33.7% q/q decline in Trade Receivables supports this assumption. The company last recorded this magnitude of decline in Receivables in Q4 2018, where it was down 31.8% q/q and Revenue declined in tandem by 14.8%.

Margins plunge on elevated per unit cost

Cost of Sales declined by 15.1% y/y to N42.0bn in 9M 2019 from N49.5bn in 9M 2018 on the back of lower volumes. On a q/q basis, Cost of Sales fell by 33.0% q/q to N10.7bn in Q3. The faster decline in Revenue, as well as per unit cost pressures, saw Gross Profit decline 57.8% y/y to N9.6bn while the company recorded a Gross loss of N1.7bn in Q3 2019. Input cost, particularly in the HPC business, remains a key drag for Unilever particularly imported Linear Alkyl Benzene (LAB). Overall business Gross margin dipped 12.9ppts y/y to 18.7% for 9M 2019.

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 34.2% y/y and 18.4% y/y to N7.6bn and N2.5bn respectively, for 9M 2019. Despite the decline in Operating Expenses, EBITDA declined 89.2% y/y to N1.4bn in 9M 2019 from N12.7bn in 9M 2018 while EBITDA margin fell 14.9ppts y/y to 2.6%. Despite lower Depreciation Charge (down 3.1% y/y to N2.1bn), the company recorded an Operating loss of N0.8bn in 9M 2019 compared to an Operating Profit of N10.5bn in 9M 2018.

Strong leverage papers the crack

The company recorded Profit before Tax of N0.6bn in 9M 2019 despite the Operating Loss recorded, as the company booked Net Finance Income, which was down 35.6% y/y to N1.4bn. The decline in Net Finance Income was driven by decline in Cash & Cash Equivalents (down 47.5% y/y to N30.0bn) for the period. Overall, Net Income was down 94.3% y/y to N0.5bn from N9.6bn in 9M 2019 while the company recorded a loss of N3.0bn in Q3 2019 which compares with a Net Profit of N2.0bn in Q2 2019 and N3.8bn in Q3 2018.

Poor Q3 raises fresh long-term concerns

Unilever continues to struggle with growing Revenues in an intensely competitive environment. The company has lost significant market share to unlisted competitors with discounted alternatives to their products. It has relied on giving products on credit to its channel distributors in a bid to support sales, however that is now unsustainable given piling Receivables which the company is not willing to accommodate. Thus, Q3 performance renews our concerns on the business, but we look to Q4 2019 results to understand if this would be the new reality for the company or a one-off quarter.

Unilever PLC Earnings Highlight 9M 2019

N'm	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Revenue	51,628	72,305	-28.6%	8,970	23,421	-61.7%
Cost of Sales	(41,993)	(49,450)	-15.1%	(10,682)	(15,944)	-33.0%
Gross Profit	9,634	22,855	-57.8%	(1,712)	7,477	-122.9%
Marketing & Administrative Expenses	(7,657)	(11,495)	-34.2%	(2,171)	3,878	-44.0%
Selling and Distribution Expenses	(2,552)	(3,129)	-18.4%	(645)	(1,049)	-38.5%
Other Income/(Expenses)	44	2,239	-98.0%	(15)	3	-612.3%
Impairment (Loss) / Writeback	(317)	-	n/a	(99)	-	n/a
Result from Operating Activities	(758)	10,470	-107.2%	(4,641)	2,533	-281.8%
Finance Income	1,848	2,457	-24.8%	646	398	62.3%
Finance Costs	(443)	(274)	61.5%	(85)	(263)	-67.6%
Net Finance Income / (Cost)	(1405)	2,182	-35.6%	561	135	316.5%
Profit before Tax	647	12,652	-94.9%	(4,080)	2,688	-251.8%
Income Tax (Expense) / Credit	(106)	(3,206)	-96.7%	1,077	(676)	-259.2%
Profit from Continuing Operations	541	9,446	-94.3%	(3,004)	2,012	-249.3%
Profit from Discontinued Operations	-	120	-100.0%	-	-	n/a
Profit for the Period	541	9,565	-94.3%	(3,004)	2,012	-249.3%

Profit for the period attributable to:

Owners of the Company	541	9,565	-94.3%	(3,004)	163	-1940.8%
Non-Controlling Interests	-	-	n/a	-	-	n/a
	541	9,565	-94.3%	(3,004)	163	-1940.8%

Other Key Inputs	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Earnings Per Share	0.29	5.09	-94.3%	(1.60)	0.09	-1940.8
EBITDA	1,363	12,658	-89.2%	(4,280)	2,311	-285.2%

Margins	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Gross Margin	18.7%	31.6%	-12.9ppts	-19.1%	31.9%	-51.0ppts
EBITDA Margin	2.6%	17.5%	-14.9ppts	-47.7%	9.9%	-57.6ppts
Operating Margin	-1.5%	14.5%	-15.9ppts	-51.7%	10.9%	-62.2ppts
Net Margin	1.0%	13.2%	-12.2ppts	-33.5%	8.6%	-42.1ppts
No of Outstanding Shares	1,878	1,878		1,878	1,878	
Depreciation & Amortisation	2,121	2,189	-3.1%	361	(242)	-249.3%

Source: Company Financials, FSDH Research

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