

10th June 2016

Food & Beverages

Unilever

Price EUR40.56

Well priced quality (full report released today)

Fair Value EUR43 (+6%) UNILEVER PLC (3350p)

NEUTRAL

While Unilever's organic sales growth remains modest, there is substantial room for margin improvement and its very healthy financial position enables the group to undertake acquisitions. However, we derive a Fair Value of EUR43, implying a limited upside of 5%. We are initiating coverage with a Neutral recommendation.

ANALYSIS

- **Organic sales growth of 4% in 2016.** The group's organic sales growth should remain modest this year. Like its peers, it is impacted by the weak pricing environment, resulting from low commodity prices and deflationary pressures in Europe. **The economic slowdown and geopolitical problems in the emerging countries** are also holding back sales. We expect organic sales to grow 4% this year, i.e. a performance identical to last year and in the middle of the company's guidance (3%-5%).
- **Unilever, a margin story.** The potential room for margin improvement is substantial, coming from a combination of several factors. The group is working on **improving the mix** of its Home Care and Refreshment divisions. It also has two programmes, the New Functional Models and Zero Based Budgeting, which should enable the achievement of **EUR1bn of cost savings by 2018**. Our estimate is for **the operating margin to increase by 40bps in 2016 and in 2017, beating last year's performance and in the high end of the group's model (+30/40bps)**.
- **An impending change in profile.** Its very healthy financial position should enable the group to undertake acquisitions and, in 2020, achieve its informal target of 70% of sales in HPC. The group's growth potential thus looks set to progress. Between 2010 and 2015, the growth in Personal Care and Home Care products was more than twice that of Foods/Refreshments.

VALUATION

- Unilever is trading at a 2016e P/E of 21.9x vs 21.1x for Danone and 21.2x for Nestlé. We have chosen to value the company using the DCF (50%) and sum of the parts (50%) methods, from which we derive a Fair Value of EUR43 per share (3,350p for PLC), implying a limited upside of 5%. We initiate the coverage with a Buy recommendation.

NEXT CATALYSTS

- The group should release its H1 results on July 21st.

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Bloomberg	UNA NA
Reuters	UNC.AS
12-month High / Low (EUR)	42.5 / 33.9
Market Cap (EURm)	116,009
Ev (BG Estimates) (EURm)	126,011
Avg. 6m daily volume (000)	4,474
3y EPS CAGR	6.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.4%	1.6%	2.2%	1.1%
Food & Bev.	1.9%	1.7%	-2.7%	-2.1%
DJ Stoxx 600	2.4%	0.6%	-6.3%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	53,272	52,966	55,431	58,309
% change		-0.6%	4.7%	5.2%
EBITDA	9,235	9,433	10,165	10,988
EBIT	7,865	8,056	8,668	9,355
% change		2.4%	7.6%	7.9%
Net income	5,210	5,330	5,790	6,289
% change		2.3%	8.6%	8.6%

	2015	2016e	2017e	2018e
Operating margin	14.8	15.2	15.6	16.0
Net margin	9.8	10.1	10.4	10.8
ROE	NM	NM	NM	NM
ROCE	18.9	19.0	20.7	22.3
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	1.82	1.87	2.03	2.20
% change	-	2.3%	8.6%	8.6%
P/E	22.2x	21.7x	20.0x	18.4x
FCF yield (%)	4.1%	4.0%	4.2%	4.4%
Dividends (EUR)	1.21	1.30	1.41	1.52
Div yield (%)	3.0%	3.2%	3.5%	3.8%
EV/Sales	2.4x	2.4x	2.3x	2.1x
EV/EBITDA	13.8x	13.4x	12.3x	11.3x
EV/EBIT	16.2x	15.6x	14.4x	13.2x



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Distribution of stock ratings

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SELL ratings 9.6%

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