

## Unilever

Price EUR41.78

## Solid fundamentals in a challenging environment

Fair Value EUR43 (+3%)

NEUTRAL

The group confirmed its guidance yesterday. But it said it expects a deceleration in organic sales growth in H2 due to tough comps and a deterioration in the business environment. It also indicated the margin improvement in H2 should be below H1 due to an increase in marketing expenditure and restructuring charges. We maintain our full-year estimates for 4% organic sales growth and 40bps margin increase. Unilever's strong fundamentals appear to be pretty well valued. Neutral recommendation unchanged. Fair Value of EUR43 for NV and 3,590p for PLC (adjusted to take into account the decrease in GBP).

## ANALYSIS

- **A good set of H1 results. Q2 organic sales were up 4.7% in Q2, in line with Q1. This is a satisfactory performance given the unfavourable weather conditions in Europe and the fact that Easter was in Q1 in 2016 vs in Q2 in 2015. Pricing picked up in Q2 to +2.8% after +2% in Q1.** This was driven by less deflation in Europe, an acceleration of inflation in Asia. Pricing in LATAM remained very strong. The company indicated that Argentina alone contributed around 100bps to the group's pricing growth. Management still expects the pricing effect to grow around 2% in 2016. **The margin of Home care improved by a further 250bps to 9.8% and is now close to the medium term target of double digit.** This impressive performance is driven by margin-accretive innovations.
- **4% organic sales growth expected in 2016.** The group confirmed its guidance of 2016 organic sales growth between 3% and 5%. But **it expects a deceleration in the second half of the year due to tough comps (+5.3% in H2 2015 after +2.9% in H1) and a deterioration in the business environment.** It is due to the political uncertainty (Brexit referendum, presidential impeachment in Brazil, coup attempt in Turkey) and the economic slowdown. LATAM proves to be particularly difficult, especially Brazil and Argentina. The group's volumes were down in Q2, though by less than the market. Management sees low to mid single digit decline in volumes in H2 in the region. Europe could also deteriorate slightly.
- **EBIT margin to increase between 20-40bps.** This is the guidance of the management and is globally unchanged vs the previous objective. **Our estimate calls for +40bps.** The group confirmed that ZBB and Connected 4 Growth (formerly called New Functional Models) should generate savings of EUR1bn by 2018. They will be partly reinvested to stimulate growth. Management said that ZBB is now in the implementation phase. **The margin improvement in H2 should be below H1 as Unilever should step up its marketing expenditures and restructuring charges.**
- **There is still a drag from spreads.** Foods posted accelerated growth in Q2, with organic sales up +2.7% in Q2 after +1.9% in Q1. **Management said that the rate of decline has slowed down in North America but not in Europe.** Unilever previously indicated that if spreads organic sales decline in 2016 was not better than in 2015, it would think about other alternatives (JV, disposal...). The spreads activities have already been separated from the rest of the business within the Baking, Cooking and Spreads unit.
- **Acquisition of Dollar Shave Club.** On July 20<sup>th</sup>, the group has announced that it has signed an agreement to acquire Dollar Shave Club for an undisclosed sum. This company specializes in the male grooming segment (razors, hairstyling, skin care, skin cleansing) and had a turnover of USD152m in 2015 which is expected to exceed USD200m in 2016. During the conference call, Unilever said that the male grooming category is a USD42bn market, growing faster than Personal Care. This acquisition brings expertise in direct to consumer sales.

## VALUATION/ NEXT CATALYSTS

- Fair Value of EUR43 for NV and 3,590p for PLC (adjusted to take into account the decrease in GBP). At yesterday's share price, the stock is trading at 22.4x P/E 2016e vs 21.8x for Danone and 23.1x for Nestlé / H1 2016 results: Danone on July 28<sup>th</sup> and Nestlé on August 18<sup>th</sup>

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Bloomberg	UNA NA
Reuters	UNC.AS
12-month High / Low (EUR)	42.5 / 33.9
Market Cap (EURm)	102,989
Ev (BG Estimates) (EURm)	91,919
Avg. 6m daily volume (000)	4 534
3y EPS CAGR	6.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.0%	3.1%	8.8%	4.2%
Food & Bev.	3.1%	2.4%	7.2%	0.7%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	53,272	52,919	55,876	58,781
% change		-0.7%	5.6%	5.2%
EBITDA	9,235	9,418	10,227	11,055
EBIT	7,865	8,042	8,718	9,409
% change		2.3%	8.4%	7.9%
Net income	5,210	5,320	5,827	6,329
% change		2.1%	9.5%	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	20.8	22.5
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	1.82	1.86	2.04	2.22
% change	-	2.1%	9.5%	8.6%
P/E	22.9x	22.4x	20.5x	18.8x
FCF yield (%)	4.0%	3.7%	4.2%	4.3%
Dividends (EUR)	1.21	1.30	1.41	1.52
Div yield (%)	2.9%	3.1%	3.4%	3.6%
EV/Sales	1.7x	1.7x	1.7x	1.6x
EV/EBITDA	9.9x	9.8x	9.1x	8.5x
EV/EBIT	11.6x	11.4x	10.7x	10.0x



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