

14th October 2016

Food & Beverages

Unilever

Price EUR39.47

A mixed bag

Fair Value EUR43 (+9%)

NEUTRAL

Bloomberg	UNA NA
Reuters	UNC.AS
12-month High / Low (EUR)	42.9 / 36.7
Market Cap (EURm)	112,658
Ev (BG Estimates) (EURm)	100,856
Avg. 6m daily volume (000)	3,893
3y EPS CAGR	6.3%

The negative share price reaction appears to be excessive. The market reacted very negatively to the slowdown in volumes and the Tesco news. But there were some positives. The rate of decline of spreads in North America slowed down over the quarter and the pricing environment is expected to become more favourable as commodity prices are now stable/slightly up. The release has a roughly neutral impact on figures. Unilever confirmed that the underlying growth rate remains around 4%, in the middle of the sales guidance for 2016 (3-5%) and in line with our estimate. It also reiterated that the EBIT margin should increase 30-40bps this year, in line with the historical performance.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.5%	-5.6%	-2.3%	-1.6%
Food & Bev.	-1.1%	-3.4%	0.6%	-3.0%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

ANALYSIS

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	53,272	52,877	55,625	58,288
% change		-0.7%	5.2%	4.8%
EBITDA	9,235	9,340	10,092	10,863
EBIT	7,865	7,965	8,590	9,231
% change		1.3%	7.8%	7.5%
Net income	5,210	5,320	5,785	6,261
% change		2.1%	8.7%	8.2%

	2015	2016e	2017e	2018e
Operating margin	14.8	15.1	15.4	15.8
Net margin	9.8	10.1	10.4	10.7
ROE	NM	NM	NM	NM
ROCE	18.9	18.8	20.5	22.1
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	1.82	1.86	2.03	2.19
% change	-	2.1%	8.7%	8.2%
P/E	21.6x	21.2x	19.5x	18.0x
FCF yield (%)	4.3%	3.8%	4.3%	4.4%
Dividends (EUR)	1.21	1.30	1.41	1.52
Div yield (%)	3.1%	3.3%	3.6%	3.9%
EV/Sales	1.9x	1.9x	1.8x	1.8x
EV/EBITDA	11.0x	10.8x	10.1x	9.5x
EV/EBIT	12.9x	12.7x	11.9x	11.2x

- Unilever reported Q3 sales of EUR13.4bn, globally stable YoY. The organic sales growth came out at +3.2%, ahead of expectations (consensus: +2.8% vs our estimate: +3.2%). Pricing was up 3.6% but volumes decreased 0.4%, slowing down vs H1 (+2.2%). This is the worst performance since Q4 2014 and is mainly due to LATAM (16% of total sales) where the volumes trend decelerated from -0.4% in H1 to -5% in Q3 as a result of lower consumer disposable income. Market volumes were down by 10% in Brazil and 7% in Argentina in the quarter. Asia/AMET/RUB (42% of total sales) also deteriorated. Volumes in Q3 increased 0.6% while they were up 4% in H1. The region was penalized by 1/ India (8% of total sales) where volumes of skin cleansing products suffered from prices that were increased to recover rising commodity costs and 2/ China, impacted by the rapid shift to e-commerce (now 10% of the group's sales vs 3% two years ago) which is causing destocking and intense price competition from local players (not sustainable according to the group). Finally, in Europe (25% of total sales), volumes were stable in Q3, decelerating vs H1 (+1.8%) because of the UK where tea and laundry suffered from tough price competition and spreads continued to drop.
- Market has been greatly disappointed by the slowdown in volumes. It also probably reacted negatively to the Tesco news. Yesterday morning the press reported that Unilever's products including Marmite, Ben & Jerry's and Pot Noodles have been disappearing from Tesco shelves amid a dispute between the supermarket and the company. The row developed when Unilever, which faces higher costs after the fall in value of the pound, attempted to pass them on in higher wholesale prices. Yesterday evening, Unilever said that this disagreement has ended.
- The negative share price reaction appears to be excessive. The rate of decline of spreads in North America slowed down over the quarter. Additional good news is that the pricing environment is expected to become more favourable as commodities prices are now stable/slightly up. Yesterday's release was broadly neutral for figures. Unilever confirmed that the underlying growth rate remains around 4%, in the middle of the sales guidance for 2016 (3-5%) and in line with our estimate. The Q4 sales trend should remain weak because of tough market conditions in LATAM and destocking in China. The group has also reiterated that the EBIT margin should increase 30-40bps this year, in line with the historical performance. Our estimate now calls for +30bps to 15.1% (15.2% previously). It expects FX to impact sales by >5% and EPS by 3-4%.



VALUATION

- Our DCF points to a Fair Value of EUR43 for Unilever NV and 3890p for Unilever PLC (3590p previously).

NEXT CATALYSTS

- Q3 2016 sales: Danone on October 18th and Nestlé on October 20th

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Analyst :
 Virginie Roumage
 33(0) 1.56.68.75.22
vroumage@bryangarnier.com

Sector Team :
 Nikolaas Faes
 Loïc Morvan
 Antoine Parison
 Cédric Rossi

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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