

Unilever

Price EUR36.80

Back from Port Sunlight

Fair Value EUR44 (+20%) UNILEVER PLC FV (3990p)

NEUTRAL

On 30th November, Unilever held its Investor seminar in Port Sunlight in the UK. This provided a great opportunity to deepen our knowledge of one of the group's historical sites. The company announced an upgrade to mid-term EBIT margin guidance: it now targets an expansion of +40-80bps a year vs +20-40bps previously. Nevertheless we maintain our Neutral recommendation. We think demonetisation in India could penalise the company's performance in the short term. Our Fair Value of EUR44 remains unchanged.

Bloomberg	UNA NA
Reuters	UNC.AS
12-month High / Low (EUR)	42.9 / 36.4
Market Cap (EURm)	90,891
Ev (BG Estimates) (EURm)	79,072
Avg. 6m daily volume (000)	4 086
3y EPS CAGR	6.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.9%	-10.9%	-9.1%	-8.3%
Food & Bev.	-5.5%	-11.1%	-9.7%	-11.2%
DJ Stoxx 600	1.6%	-0.8%	-0.9%	-6.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	53,272	52,653	55,211	57,693
% change		-1.2%	4.9%	4.5%
EBITDA	9,235	9,334	10,081	10,943
EBIT	7,865	7,965	8,591	9,327
% change		1.3%	7.8%	8.6%
Net income	5,210	5,320	5,785	6,332
% change		2.1%	8.7%	9.5%

	2015	2016e	2017e	2018e
Operating margin	14.8	15.1	15.6	16.2
Net margin	9.8	10.1	10.5	11.0
ROCE	18.9	18.8	20.5	22.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.82	1.86	2.03	2.22
% change	-	2.1%	8.7%	9.5%
P/E	20.2x	19.8x	18.2x	16.6x
FCF yield (%)	4.6%	4.1%	4.6%	4.8%
Dividends (EUR)	1.21	1.30	1.41	1.52
Div yield (%)	3.3%	3.5%	3.8%	4.1%
EV/Sales	1.5x	1.5x	1.5x	1.4x
EV/EBITDA	8.6x	8.5x	8.0x	7.4x
EV/EBIT	10.1x	9.9x	9.3x	8.7x

ANALYSIS

- **Mid-term (2017-2019) guidance for EBIT margin growth has been upgraded. The company now aims to grow the margin by +40-80bps a year, vs +20-40bps previously.** This shows its confidence in cost savings. Management said this will be at the low end in 2017 due to restructuring costs. Most of the margin expansion should be driven by homecare and refreshment by category and North America by geography. We have changed our forecasts slightly and now expect the group's margin to rise 40bps in 2017 (in line with 2016) before accelerating in 2018 and 2019 with a +60bps improvement a year. **Note also that Unilever indicated that cash conversion should increase to 90% from 80%.**
- **Mid-term top-line guidance remains unchanged. The group still expects to outperform the market in what appears to be a much more difficult environment.** Competition from local competitors in emerging markets is tougher than before. This has triggered organisational changes at Unilever which aim to get closer to consumers, better understand their needs and deliver a stronger performance in the mid term. **In the short term, we think the company will suffer from the demonetisation in India (8% of total sales).** The sales slowdown in the group's number two market is significant and is driven by: 1/ lower consumer spending due to limited cash availability and some downtrading and 2/ trade disruption, particularly in wholesale where lack of cash may lead to defaults on payments. **We have cut our forecast from +4% to +3.6% (assuming a 20% decline in sales in India in Q4). This is still within the 2016 guidance range (3-5%),** which was reiterated by the company during the Investor Day.

VALUATION

- **Over the past three months, Unilever has underperformed the market by 10%, in line with the food and beverage sector.** Nevertheless, at yesterday's share price, the stock is still at a 6% premium vs its 10-year historical average in terms of P/E. **We maintain our Neutral recommendation (Fair Value unchanged at EUR44).** The group has very strong fundamentals and the upgrade to mid-term guidance for EBIT is good news but the demonetisation in India should drag its performance in the short term.

NEXT CATALYST

- The group will release its 2016 results on 26th January
- Danone and Nestlé will publish their earnings on 15th February and 16th February respectively

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