Unilever (UL)

Updated May 13th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	5.9%	**Quality Percentile:**	N/A
Fair Value Price:	$50	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	N/A
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Total Return Percentile:**	N/A
Dividend Yield:	3.4%	**5 Year Price Target**	$63	**Valuation Percentile:**	N/A

Overview & Current Events

Unilever is one of the largest consumer goods company in the world, producing and marketing about 400 brands in nearly 200 countries. It has 13 brands that generate more than $1 B in sales every year and its products are used by more than 2 billion people every day.

While the major segment of the company used to be the food & beverage segment, the company has been steadily shifting its focus to its personal care segment, which has the highest operating margin. More precisely, the contribution of the food & beverage segment to the total revenues has steadily decreased during the last decade, from 54% to 43% whereas the contribution of the personal care segment has climbed from 28% to 38%. A similar shift has been observed in the operating income as well. While the contribution of the food & beverage segment has dropped from 50% to 40%, the contribution of the personal care segment has increased from 34% to 48%. Notably these figures do not include the effect of the sale of the spreads business.

Unilever traded in a very narrow range for four years until Kraft Heinz attempted to acquire the company early last year. While Unilever rejected the takeover proposal, it has enjoyed an impressive rally since. The reason is that shareholders began to exert pressure on management to enhance shareholder value after the rejection of the takeover. As a result, Unilever initiated a $5 B share buyback program, it sold its low-margin spreads business to KKR for $8.3 B, and pledged to return the proceeds from the sale to its shareholders.

Thus in its latest earnings report, the company raised its dividend by 8% and announced a new $7 B share buyback program. In addition, it reported significant sales growth in all its segments and geographical regions. Unilever is ahead of many U.S. consumer staples companies in emerging markets, where it reports impressive growth rates. For instance, in Q1, the company enjoyed 5.1% sales growth in the emerging regions, which as much higher than the 1.1% sales growth it reported in the developed markets. As there are no signs of fatigue in the emerging markets, Unilever is likely to keep growing at high rates for years in these markets. Moreover, the company has achieved more than $1 B in annual savings in its supply chain and overhead costs and intends to reinvest 2/3 of these savings in growth initiatives.

Finally, Unilever has decided to move its headquarters from the U.K. to the Netherlands. The dividend withholding tax The Netherlands was recently reduced to 0% for US investors.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.54	$1.68	$1.94	$1.89	$2.04	$2.18	$2.17	$1.88	$1.92	$2.59	***$2.75***	***$3.50***
DPS	$0.99	$1.01	$1.12	$1.24	$1.23	$1.39	$1.51	$1.32	$1.40	$1.55	***$1.88***	***$2.40***

Thanks to the strong performance of Unilever in recent quarters, analysts expect its EPS to grow 6% this year, from $2.59 to $2.75. The company has grown its EPS at a 4.9% average annual rate in the last five years. Therefore, as the management has provided guidance for 3%-5% adjusted revenue growth and it will also boost the EPS via share repurchases, it is reasonable to expect the company to keep growing its EPS by about 5.0% per year over the next five years. If this growth rate materializes, the company will grow its EPS from $2.75 this year to $3.50 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	11.4	14.8	15.0	16.8	17.1	18.7	19.6	22.9	23.1	20.3	***20.4***	***18.0***
Avg. Yld.	3.4%	4.0%	3.8%	3.9%	3.5%	3.4%	3.5%	3.1%	3.1%	2.9%	***3.4%***	***3.8%***

Since Unilever bottomed in the aftermath of Brexit, it has rallied 50%. This is an extraordinary rally for a period of just one and a half year, particularly for a mature stock. As a result, the stock is now trading at a P/E of 20.4, which is higher than its 10-year average P/E of 18.0. Moreover, Unilever has enjoyed high P/E ratios in recent years thanks to the record-low prevailing interest rates, which rendered its dividend highly attractive for yield-starved investors. However, now that the Fed has begun to raise interest rates aggressively, its P/E has shrunk and is likely to shrink even further in the upcoming years. If the P/E ratio reverts to its average level within the next five years, the stock will incur a 2.5% annualized drag due to the contraction of its P/E ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	55.7%	----	----	30.1%	33.6%	32.6%	45.7%	43.6%	41.7%	36.3%	***38.0%***	***40.0%***
Debt/A	71.3%	66.1%	63.4%	68.6%	65.5%	67.4%	70.3%	69.2%	69.9%	76.1%	***75.0%***	***73.0%***
Int. Cov.	19.1	12.6	23.4	14.7	17.8	125.4	16.9	15.7	17.6	11.0	***11.0***	***10.0***
Payout	39.0%	60.1%	57.7%	65.6%	60.3%	63.8%	69.6%	70.2%	72.9%	59.8%	***68.4%***	***68.6%***
Std. Dev.	25.7%	32.8%	18.2%	14.8%	12.5%	12.2%	15.1%	19.4%	16.1%	17.6%	***17.0%***	***16.0%***

Thanks to the strength of its brands and its great execution in its growth initiatives, Unilever has always enjoyed strong and reliable free cash flows. As a result, it has been able to raise its dividend (in €) for 38 consecutive years. Moreover, as it has a strong balance sheet and a reasonable payout ratio, and will likely continue to raise its dividend over the long run. Therefore, given also its 3.4% current dividend yield, it is suitable for income-oriented investors.

Final Thoughts & Recommendation

Unilever is a consumer staples giant that can keep growing for years thanks to its brand strength and its high growth rate in emerging markets. However, the stock has enjoyed a 50% rally in the last one and a half years, which is extraordinary for a relatively mature stock. Therefore, the stock is likely to offer an average annual return of just 5.9% over the next five years, thanks to 5.0% EPS growth and its 3.4% dividend, which will be partly offset by a 2.5% annualized drag due to P/E contraction. Unilever would be a buy if it were trading below its fair value; there are better consumer staples stock investments available elsewhere.

Total Return Breakdown by Year