Unilever (UL)

Updated July 20th, 2018 by Nick McCullum

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	5.2%	**Volatility Percentile:**	29.5%
Fair Value Price:	$50	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	40.0%
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Valuation Percentile:**	37.5%
Dividend Yield:	3.1%	**5 Year Price Target**	$63	**Valuation Percentile:**	33.8%

Overview & Current Events

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

On July 19th, Unilever reported financial results for the second quarter and first half of fiscal 2018. In the quarter, the company generated underlying sales growth of 2.7%, composed of 2.5% growth from volume and a 0.2% tailwind from pricing increases. On a geographic basis, Unilever's emerging markets businesses were the strongest performers, generating 4.1% sales growth (composed of 3.3% from volume growth and 0.8% from price increases). In addition, investors should note that Unilever's sales growth was negatively impacted by a truckers' strike in Brazil (one of its biggest markets), which the company estimates cost it around 60 basis points of sales growth. If it weren't for this one-time operational issue, Unilever would have achieved its goal of 3%-5% annualized sales growth in the quarter.

Moving down the income statement, Unilever was able to improve its margins noticeably during the three-month reporting period. More specifically, the company expanded its operating margin by 80 basis points, driven by improved gross margins and lower selling, general, and administrative expenses. On the bottom line, Unilever generated adjusted earnings-per-share growth of 7.8%, which includes a remarkable 10.8% negative impact from foreign exchange fluctuations. Excluding these forex fluctuations, the company generated impressive earnings-per-share growth of 18.6% over the same period a year ago.

Unilever also made strategic progress on a number of initiatives in the three-month reporting period. On July 2nd, the company completed the disposal of its spreads business, and has already returned €3 billion (or approximately $3.5 billion) of a significant €6 billion (or $7 billion) share repurchase program in anticipation of the proceeds. Unilever expects to complete this share repurchase program by the end of the year. Separately, Unilever signed an agreement to acquire a 75% stake in the Italian personal care company Equilibra. All said, Unilever's earnings release was well-received by the financial markets and shares rose by more then 4% in the two days following the announcement.

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, we 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	***20.8***	***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 years, particularly for a mature stock. As a result, the stock is now trading at a P/E of 20.8, which is higher than its 10-year average P/E of 18.0. We believe that Unilever's price-to-earnings ratio will revert to its long-term historical average. If this occurred over a 5-year period, this will introduce a -2.9% headwind to its total returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

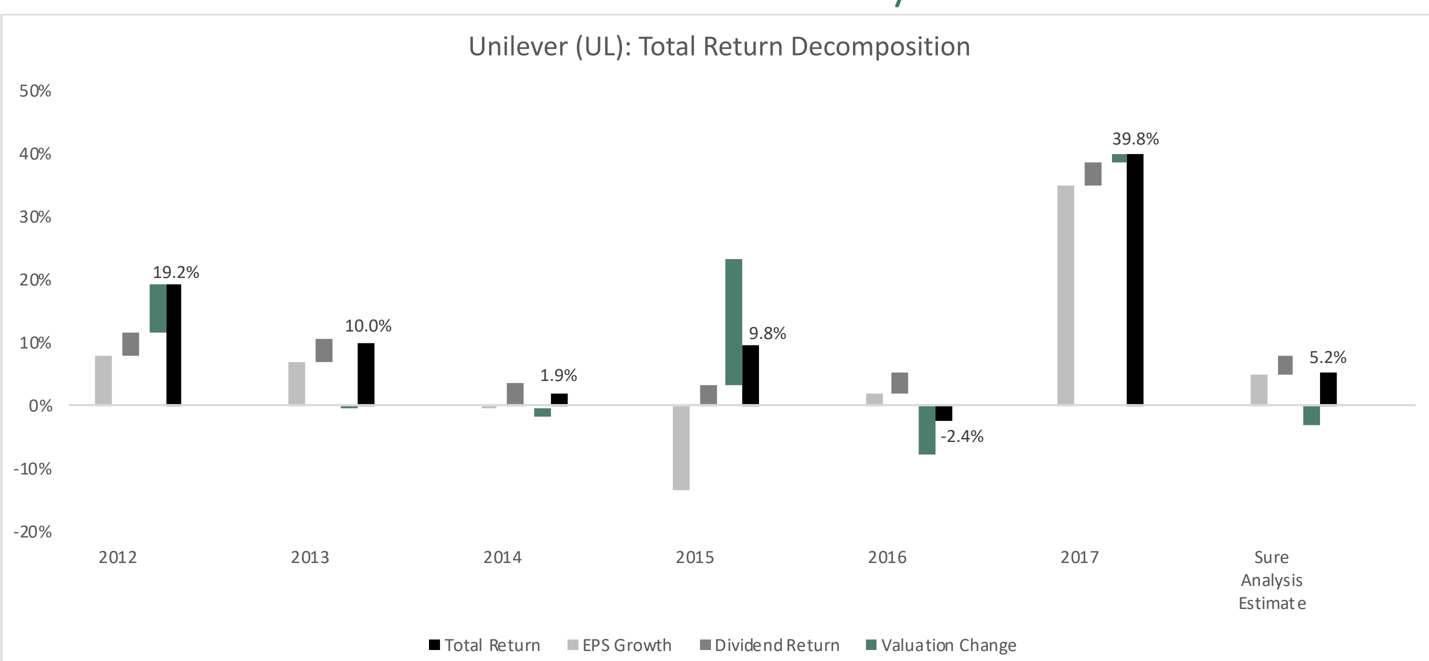
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	55.7%	----	----	30.1%	33.6%	32.6%	45.7%	43.6%	41.7%	36.3%	***38.0%***	***40.0%***
Debt/A	71.3%	66.1%	63.4%	68.6%	65.5%	67.4%	70.3%	69.2%	69.9%	76.1%	***75.0%***	***73.0%***
Int. Cov.	19.1	12.6	23.4	14.7	17.8	125.4	16.9	15.7	17.6	11.0	***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 for 38 consecutive years. Note that this dividend history reflects the company's dividend payments *in Euros*. U.S. investors may experience year-to-year fluctuations in passive income due to foreign exchange fluctuations.

Final Thoughts & Recommendation

Unilever has enjoyed a 50% rally in the last one and a half years. Because of this, we expect the stock to generate average annual returns of just 5.2% over the next five years. We expect 5.0% EPS growth, 3.1% annually from the dividend yield, and a 2.9% annualized drag due to P/E contraction. Unilever would be a buy if it were trading below its fair value; however, this is not the case today. There are better consumer staples stock investments available elsewhere, which prevents Unilever from earning a buy recommendation from Sure Dividend at this time.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.