Unilever (UL)

Updated October 24th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	6.6%	**Volatility Percentile:**	19.0%
Fair Value Price:	$50	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	54.5%
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Growth Percentile:**	30.1%
Dividend Yield:	3.3%	**5 Year Price Target**	$63	**Valuation Percentile:**	36.1%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	29.2%

Overview & Current Events

Unilever is one of the largest consumer goods company in the world, producing and marketing ~400 brands in nearly 200 countries. Its products are used by more than 2 billion people every day.

On October 18th, Unilever reported financial results for the third quarter of fiscal 2018. In the quarter, the company generated underlying sales growth of 3.8% thanks to significant growth in all its segments. The home care segment grew at the fastest pace (4.5%) while the foods and refreshment division grew at the slowest pace (3.2%). Overall, it was a very strong quarter, as the company achieved 2.4% volume growth despite its 1.4% average price hikes. The volume growth amid price hikes is a testament to the strength of the brands of the company.

Moreover, Unilever exhibited remarkable 5.6% currency-adjusted sales growth in emerging regions. It thus seems to be in the right path to achieve its goal to increase the share of its sales in emerging markets from the current 48% to 60% in the future. Overall, the company is on track to achieve 3%-5% underlying sales growth this year and improve its operating margin. In addition, Unilever continues its holistic savings program in order to increase its efficiency and thus enhance its operating margin from the current level around 18.0% to 21%. Finally, the company expects to complete its ongoing $6 billion share repurchase program until the end of the year.

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***
Shares	2906	2890	2905	1283	1283	1278	2883	2855	2854	2814	***2800***	***2600***

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

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	***19.6***	***18.0***
Avg. Yld.	3.4%	4.0%	3.8%	3.9%	3.5%	3.4%	3.5%	3.1%	3.1%	2.9%	***3.3%***	***3.8%***

In our last research report, in July, we mentioned that Unilever was trading at a significantly richer valuation than its historical average level. As a result, we expected contraction of its P/E ratio. Since then, the stock has lost 5% and thus its P/E ratio has decreased from 20.8 to 19.6. While the stock is more reasonably valued now, it still has a P/E ratio that is 9% higher than its historical average of 18.0. Consequently, if the stock reverts to its average valuation level over the next five years, it will incur a 1.7% annualized drag due to the contraction of its P/E ratio.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

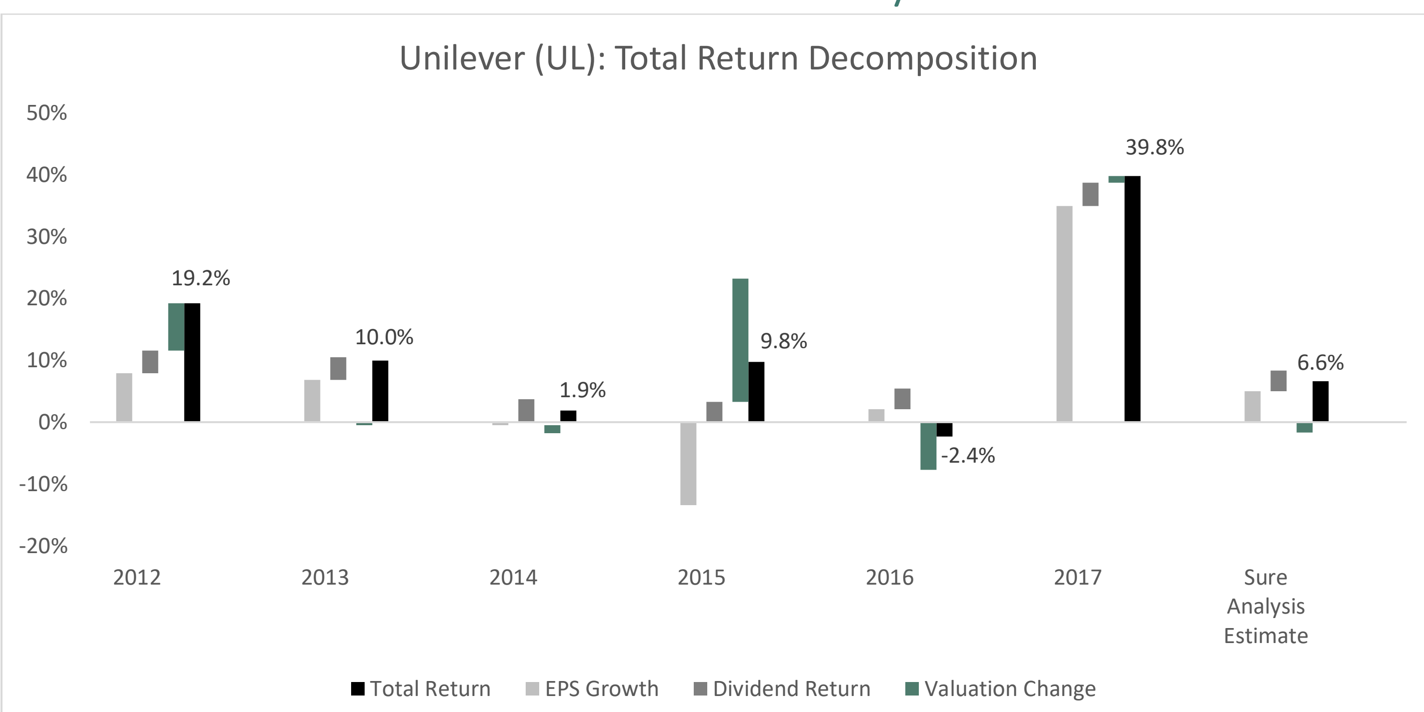
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	55.7%	----	----	30.1%	33.6%	32.6%	45.7%	43.6%	41.7%	36.3%	***38.0%***	***40.0%***
Debt/A	71.3%	66.1%	63.4%	68.6%	65.5%	67.4%	70.3%	69.2%	69.9%	76.1%	***75.0%***	***73.0%***
Int. Cov.	19.1	12.6	23.4	14.7	17.8	125.4	16.9	15.7	17.6	11.0	***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. Overall, Unilever earns C ratings for both Dividend Safety and Retirement Suitability.

Final Thoughts & Recommendation

Unilever has traded in a markedly tight range, between $50 and $60, in the last one and a half years. As it has grown its earnings during this period, it has become more reasonably valued. However, it is still somewhat overvalued. As a result, we expect the stock to offer a 6.6% average annual return over the next five years thanks to 5.0% annual earnings-per-share growth and its 3.3% dividend, which will be partly offset by a 1.7% 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 rating from Sure Dividend at this time.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	59478	55533	58670	64790	65984	66135	64412	59116	58341	60833
Gross Profit	28153	26834	24352	N/A	N/A	N/A	26662	24928	24884	26238
Gross Margin	47.3%	48.3%	41.5%	N/A	N/A	N/A	41.4%	42.2%	42.7%	43.1%
SG&A Exp.	13663	13203	15950	N/A	N/A	N/A	14780	15474	15168	15188
D&A Exp.	1472	1439	1316	N/A	N/A	N/A	1904	1520	1620	1742
Operating Profit	10519	6772	8429	N/A	N/A	N/A	10487	8339	8530	9922
Op. Margin	17.7%	12.2%	14.4%	N/A	N/A	N/A	16.3%	14.1%	14.6%	16.3%
Net Profit	7378	4699	5625	5745	5616	6431	6877	5448	5737	6855
Net Margin	12.4%	8.5%	9.6%	8.9%	8.5%	9.7%	10.7%	9.2%	9.8%	11.3%
Free Cash Flow	3790	6143	4871	4849	8789	8359	4376	5692	5546	6370
Income Tax	2707	1753	2033	2196	2182	2458	2834	2176	2127	1888

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	50505	52933	54757	61542	61085	62848	58402	57177	59654	72324
Cash & Equivalents	3579	2708	1899	4513	3260	N/A	N/A	1801	1976	2380
Acc. Receivable	5342	3309	3379	5846	5867	6671	6115	3189	3519	4126
Inventories	5434	5117	5728	5960	5867	N/A	N/A	4739	4523	4753
Goodwill & Int.	22486	24377	24249	28384	28722	28866	26964	27397	29001	34073
Total Liabilities	36011	35006	34704	42215	39992	42390	41058	39595	41704	55064
Accounts Payable	10933	5694	8020	14211	15431	16205	15329	9070	9082	9858
Long-Term Debt	15658	14259	11881	17769	13517	15881	15470	15051	17125	28434
Total Equity	13901	17253	19264	18514	20356	19807	16600	16879	17289	16351
D/E Ratio	1.13	0.83	0.62	0.96	0.66	0.80	0.93	0.89	0.99	1.74

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	14.1%	9.1%	10.4%	9.9%	9.2%	10.4%	11.3%	9.4%	9.8%	10.4%
Return on Equity	46.1%	30.2%	30.8%	30.4%	28.9%	32.0%	37.8%	32.5%	33.6%	40.8%
ROIC	23.4%	15.1%	17.5%	16.6%	15.7%	18.1%	19.9%	16.6%	16.9%	17.0%
Shares Out.	2906	2890	2905	1283	1283	1278	2883	2855	2854	2814
Revenue/Share	20.47	19.22	20.20	50.48	51.41	51.74	22.35	20.70	20.44	21.62
FCF/Share	1.30	2.13	1.68	3.78	6.85	6.54	1.52	1.99	1.94	2.26

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.