Unilever (UL)

Updated February 2nd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	8.2%	**Volatility Percentile:**	15.1%
Fair Value Price:	$52	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	48.6%
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Growth Percentile:**	33.4%
Dividend Yield:	3.5%	**5 Year Price Target**	$67	**Valuation Percentile:**	40.7%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	33.6%

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.

In late January, Unilever reported (1/31/19) financial results for the fourth quarter of fiscal 2018. In the quarter, the company generated underlying sales growth of 3.1%, which resulted from 2.1% volume growth and 1% price hikes. The home care division remained the fastest-growing segment, with 5.3% sales growth, while the foods and refreshment division remained the slowest segment, with 1.3% sales growth. The trends witnessed in the fourth quarter were very similar to those witnessed in the full-year results. In the year, Unilever grew its sales by 2.9% thanks to 4.2% growth in home care, which was the fastest-growing segment. The volume growth amid price hikes in all the categories is a testament to the strength of the brands of the company.

Unilever was negatively affected by hyperinflation in Argentina and Venezuela. Due to these challenges, management lowered its guidance for this year's underlying sales growth from 3%-5% to 3%-4%. Also, Unilever enhanced its operating margin, from 17.5% in 2017 to 18.4% in 2018, thanks to its price hikes and a decrease in its overhead costs. The company is likely to continue expanding its margin in the upcoming years thanks to its cost-reduction initiatives. Furthermore, Unilever has almost achieved its previously-set goal to increase the share of sales from emerging markets to 60%. Sales from these markets, which grow at a much faster pace than developed markets, currently comprise 59% of the total sales of the company.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.68	$1.94	$1.89	$2.04	$2.18	$2.17	$1.88	$1.92	$2.59	$2.79	***$2.90***	***$3.70***
DPS	$1.01	$1.12	$1.24	$1.23	$1.39	$1.51	$1.32	$1.40	$1.55	$1.78	***$1.88***	***$2.40***
Shares	2890	2905	1283	1283	1278	2883	2855	2854	2814	2695	***2640***	***2500***

Due to the currency challenges in Latin America, we expect Unilever to grow its earnings-per-share by only 4% this year, from $2.79 to $2.90. The company has grown its earnings-per-share at a 5.1% average annual rate in the last five years. As management has provided guidance for 3%-5% adjusted revenue growth in the long run and it will also boost the earnings-per-share via expansion of the operating margin and share repurchases, it is reasonable to expect the company to continue growing its earnings-per-share by about 5.0% per year after this year.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.8	15.0	16.8	17.1	18.7	19.6	22.9	23.1	20.3	19.6	***18.3***	***18.0***
Avg. Yld.	4.0%	3.8%	3.9%	3.5%	3.4%	3.5%	3.1%	3.1%	2.9%	3.3%	***3.5%***	***3.6%***

In our last two research reports, in July and October, 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 the first report, this slow-moving stock has lost 7% while its earnings are growing so the stock has become much more reasonably valued. In fact, it is currently trading at a P/E ratio of 18.3, which is very close to its historical average of 18.0. If the stock reverts to its average valuation level over the next five years, it will incur a mild 0.3% annualized drag due to the contraction of its P/E ratio. Investors should not expect to find this stock at a much cheaper valuation level, as the stock has almost always traded at a premium valuation thanks to the strength of its brands and its resilience during recessions.

Safety, Quality, Competitive Advantage, & Recession Resiliency

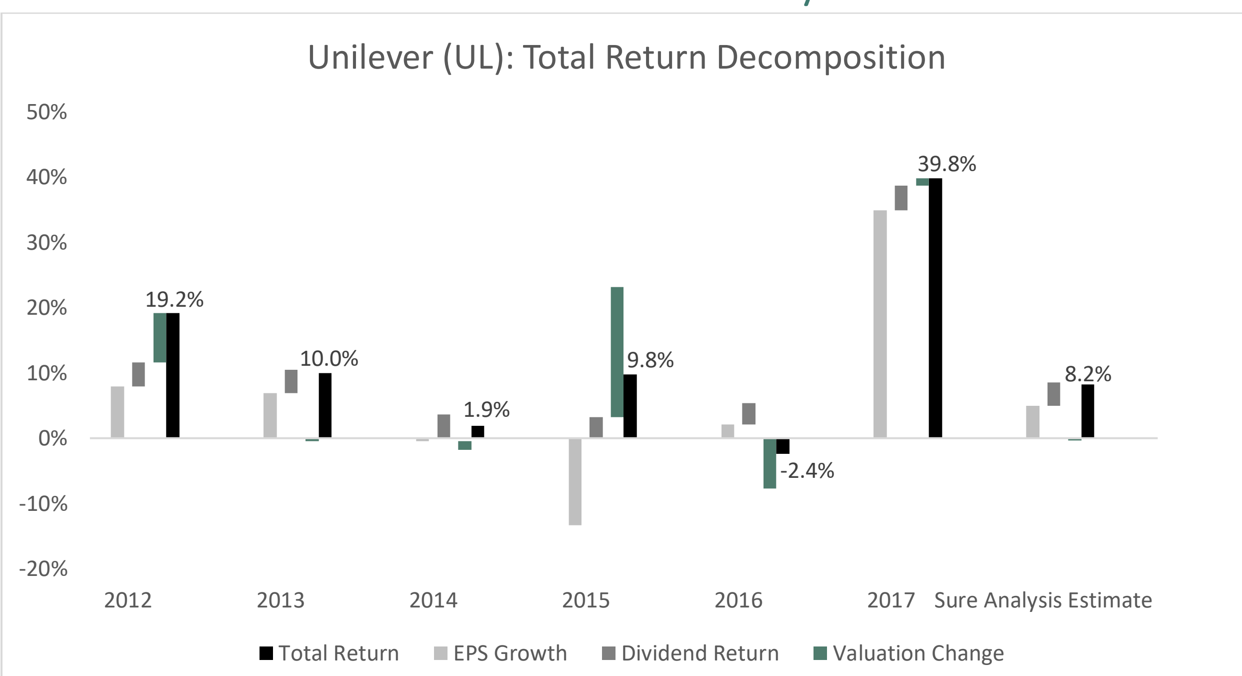
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	60.1%	57.7%	65.6%	60.3%	63.8%	69.6%	70.2%	72.9%	59.8%	63.8%	***64.8%***	***64.9%***

Unilever has a significant competitive advantage, namely the strength of its brands. 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 traded in a tight range, between $50 and $60 for almost two years. As it has grown its earnings during this period, it has become reasonably valued, in line with its historical valuation levels. Thanks to decent revenue growth and some margin expansion, the stock is likely to offer an 8.2% average annual return over the next five years. It thus maintains its hold rating and is on the verge of earning a buy rating. Investors should not expect to find this stock much cheaper, as it deserves to trade at a premium valuation thanks to its strong brands. Therefore, investors should be ready to purchase this slow-moving stock if it drops 5%-10% from its current price. Moreover, as the EUR vs. USD rate is near historical lows and seems to have found strong support around its current level, U.S. investors who purchase Unilever are likely to enjoy a significant currency tailwind in the long run.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	55533	58670	64790	65984	66135	64412	59116	58341	60833	60200
Gross Profit	26834	24352	25847	26511	27534	26662	24928	24884	26238	N/A
Gross Margin	48.3%	41.5%	39.9%	40.2%	41.6%	41.4%	42.2%	42.7%	43.1%	N/A
SG&A Exp.	13203	15950	16877	17541	16169	14780	15474	15168	15188	N/A
D&A Exp.	1439	1316	1435	1541	1529	1904	1520	1620	1742	2063
Operating Profit	6772	8429	9069	8783	9807	10487	8205	8530	9922	N/A
Op. Margin	12.2%	14.4%	14.0%	13.3%	14.8%	16.3%	13.9%	14.6%	16.3%	N/A
Net Profit	4699	5625	5929	5616	6431	6877	5448	5737	6855	11087
Net Margin	8.5%	9.6%	9.2%	8.5%	9.7%	10.7%	9.2%	9.8%	11.3%	18.4%
Free Cash Flow	6143	4871	4675	5729	5480	4376	5692	5546	6370	6293
Income Tax	1753	2033	2262	2182	2458	2834	2176	2127	1888	3041

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	52933	54757	61542	61085	62848	58402	57177	59654	72324	68012
Cash & Equivalents	2708	1899	1607	1283	1277	1959	1801	1976	2380	3695
Acc. Receivable	3309	3379	3752	3694	3938	3438	3189	3519	4126	7418
Inventories	5117	5728	5960	5867	5436	5068	4739	4523	4753	4920
Goodwill & Int.	24377	24249	28384	28722	28866	26964	27397	29001	34073	33737
Total Liabilities	35006	34704	42215	39992	42390	41058	39595	41704	55064	53951
Accounts Payable	5694	8020	8765	9369	9659	9286	9070	9082	9858	16537
Long-Term Debt	14259	11881	17408	12994	14721	14212	15051	17125	28434	28466
Total Equity	17253	19264	18514	20356	19807	16600	16879	17289	16351	13237
D/E Ratio	0.83	0.62	0.94	0.64	0.74	0.86	0.89	0.99	1.74	2.15

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	9.1%	10.4%	10.2%	9.2%	10.4%	11.3%	9.4%	9.8%	10.4%	15.8%
Return on Equity	30.2%	30.8%	31.4%	28.9%	32.0%	37.8%	32.5%	33.6%	40.8%	74.9%
ROIC	15.1%	17.5%	17.3%	15.9%	18.6%	20.6%	17.0%	16.9%	17.0%	25.1%
Shares Out.	2890	2905	1283	1283	1278	2883	2855	2854	2814	2695
Revenue/Share	19.22	20.20	22.28	22.63	22.62	22.35	20.70	20.44	21.62	22.34
FCF/Share	2.13	1.68	1.61	1.96	1.87	1.52	1.99	1.94	2.26	2.34

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