Unilever (UL)

Updated November 25th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	5.8%	**Volatility Percentile:**	12.0%
Fair Value Price:	$52	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	45.7%
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Growth Percentile:**	40.1%
Dividend Yield:	3.1%	**5 Year Price Target**	$67	**Valuation Percentile:**	49.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	42.0%

Overview & Current Events

Unilever is one of the largest consumer goods companies in the world, producing and marketing ~400 brands in nearly 200 countries. Its products are used by more than 2 billion people every day. It has a market capitalization of $153 billion at current prices.

In mid-October, Unilever reported (10/17/19) financial results for the third quarter of fiscal 2019. The company generated underlying sales growth of 2.9%. This growth resulted from 1.4% volume growth and 1.5% price hikes. The home care division remained the fastest-growing segment, with 5.4% sales growth, while the foods and refreshment division remained the slowest segment, with 1.7% sales growth. Unfortunately for the company, the home care division generates only 20% of the total sales whereas foods and refreshments generate 38% of the total sales. The strong performance was driven primarily from the emerging markets, which grew sales by 5.1%, mostly thanks to strong momentum in South East Asia.

The trends witnessed in the quarter were very similar to those witnessed in the last several quarters. The volume growth amid price hikes in all the categories is a testament to the strength of the brands of the company. Moreover, Unilever reiterated its previous guidance; it expects underlying sales growth in the lower half of the 3%-5% range this year and the operating margin to reach 20% next year.

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	***$1.81***	***$2.20***
Shares[1]	2890	2905	1283	1283	1278	2883	2855	2854	2814	2695	***2600***	***2500***

Unilever recently stated that it will pursue growth aggressively in some emerging markets in Asia, such as Vietnam, Bangladesh, Pakistan and Myanmar. These markets are characterized by rapidly growing populations and an emerging middle class and thus they are very promising.

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. Moving forward management has provided guidance for 3%-5% adjusted revenue growth in the long run. As the company will also boost 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.

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	***20.0***	***18.0***
Avg. Yld.	4.0%	3.8%	3.9%	3.5%	3.4%	3.5%	3.1%	3.1%	2.9%	3.3%	***3.1%***	***3.3%***

[1] In millions.

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Unilever is trading at an earnings multiple of 20.0, which is higher than its historical average of 18.0. If the stock reverts to its average valuation level over the next five years, it will incur a -2.1% annualized drag due to the contraction of its price-to-earnings ratio. As we have noted in previous reports, investors should not expect to find this stock at a much cheaper valuation, as it almost always trades at a premium valuation thanks to the strength of its brands and its resilience to recessions.

Safety, Quality, Competitive Advantage, & Recession Resiliency

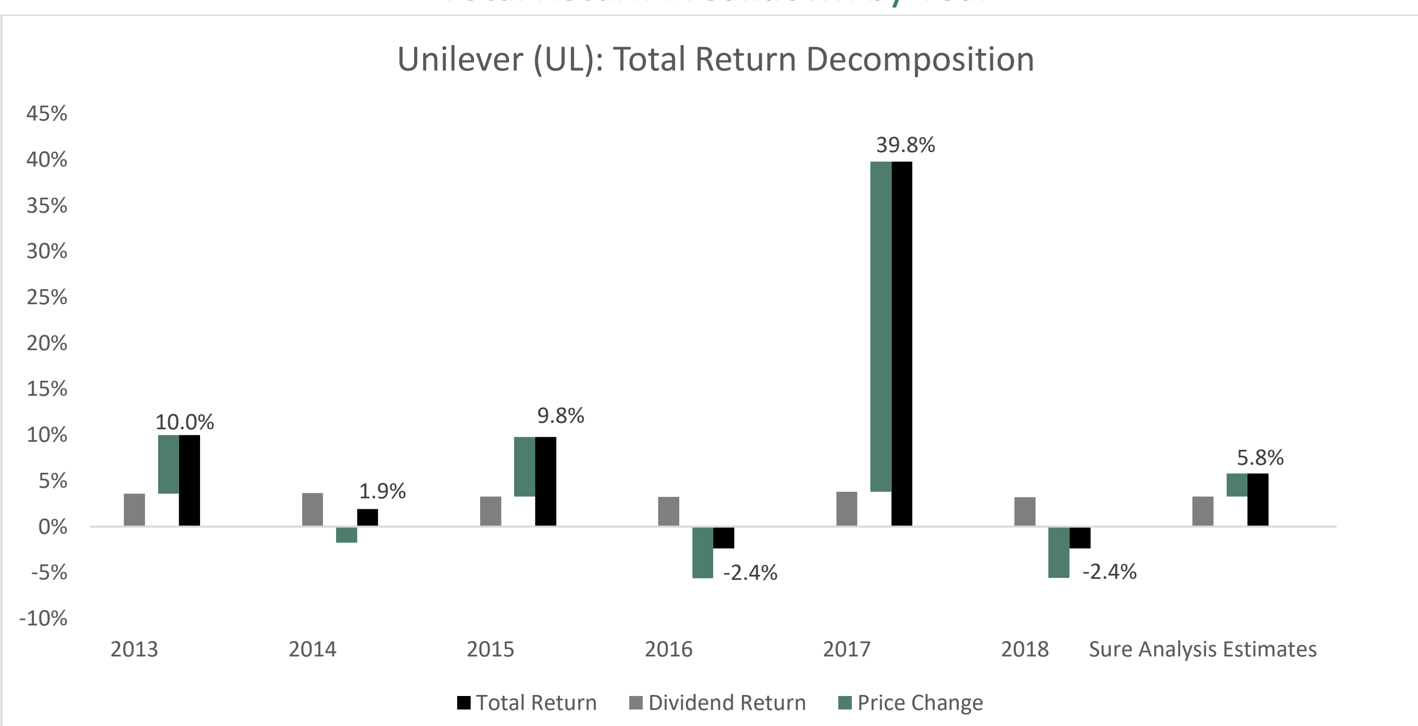
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	60.1%	57.7%	65.6%	60.3%	63.8%	69.6%	70.2%	72.9%	59.8%	63.8%	***62.4%***	***59.5%***

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 39 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

Thanks to its strong performance and improved broad market sentiment, Unilever recently rallied to an all-time high, though it has corrected -10% since then. An additional item of consideration is that the EUR vs. USD rate is near historical lows. If this reverts to a more normalized level, U.S. investors who purchase Unilever could enjoy a significant currency tailwind in the long run. However, we view the stock as somewhat richly valued. As a result, it may offer just a 5.8% average annual return over the next five years and hence it maintains its hold rating. While shares could continue trading at an elevated valuation, and thus offer higher returns than our forecast, it is not a sound long-term strategy to rely on the sustained rich valuation of a stock.

Total Return Breakdown by Year



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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.