Unilever (UL)

Updated February 4th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$151.1 B
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	2/20/2020
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	3/18/2020
Dividend Yield:	3.1%	**5 Year Price Target**	$69	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	1.7%

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 $151 billion at current prices.

In late January, Unilever reported (1/30/20) financial results for the fourth quarter of fiscal 2019. In the full year, the company generated underlying sales growth of 2.9%. This growth, which resulted from 1.2% volume growth and 1.6% price hikes, was slightly below the 3%-5% guidance of the company due to a slowdown in the fourth quarter. The home care division remained the fastest-growing segment, with 6.1% sales growth, while the foods and refreshment division remained the slowest segment, with 1.5% sales growth. Unfortunately for the company, the home care division generates only 21% of the total sales whereas foods and refreshments generate 37% of the total sales. The strong performance was driven primarily from the emerging markets, which grew sales by 5.0% thanks to strong momentum in South East Asia, China and Latin America.

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. Unilever provided decent guidance; it expects underlying sales growth in the lower half of its multi-year target range of 3%-5% this year, with stronger results expected in the second half of the year, mostly due to the impact of coronavirus in the first half.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.94	$1.89	$2.04	$2.18	$2.17	$1.88	$1.92	$2.59	$2.79	$2.86	***$3.00***	***$3.83***
DPS	$1.12	$1.24	$1.23	$1.39	$1.51	$1.32	$1.40	$1.55	$1.78	$1.81	***$1.84***	***$2.20***
Shares[1]	2905	1283	1283	1278	2883	2855	2854	2814	2652	2628	***2600***	***2500***

Unilever has 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.

Unilever has grown its earnings-per-share at a 4.4% average annual rate in the last decade. Due to the currency challenges in Latin America, the company grew its earnings-per-share only 2.5% last year. 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, we are forecasting ~5.0% growth per year.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.0	16.8	17.1	18.7	19.6	22.9	23.1	20.3	19.6	20.6	***20.0***	***18.0***
Avg. Yld.	3.8%	3.9%	3.5%	3.4%	3.5%	3.1%	3.1%	2.9%	3.3%	3.1%	***3.1%***	***3.2%***

[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 19.4 and our assumed fair earnings multiple of 18.0. If the stock reverts to our fair 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

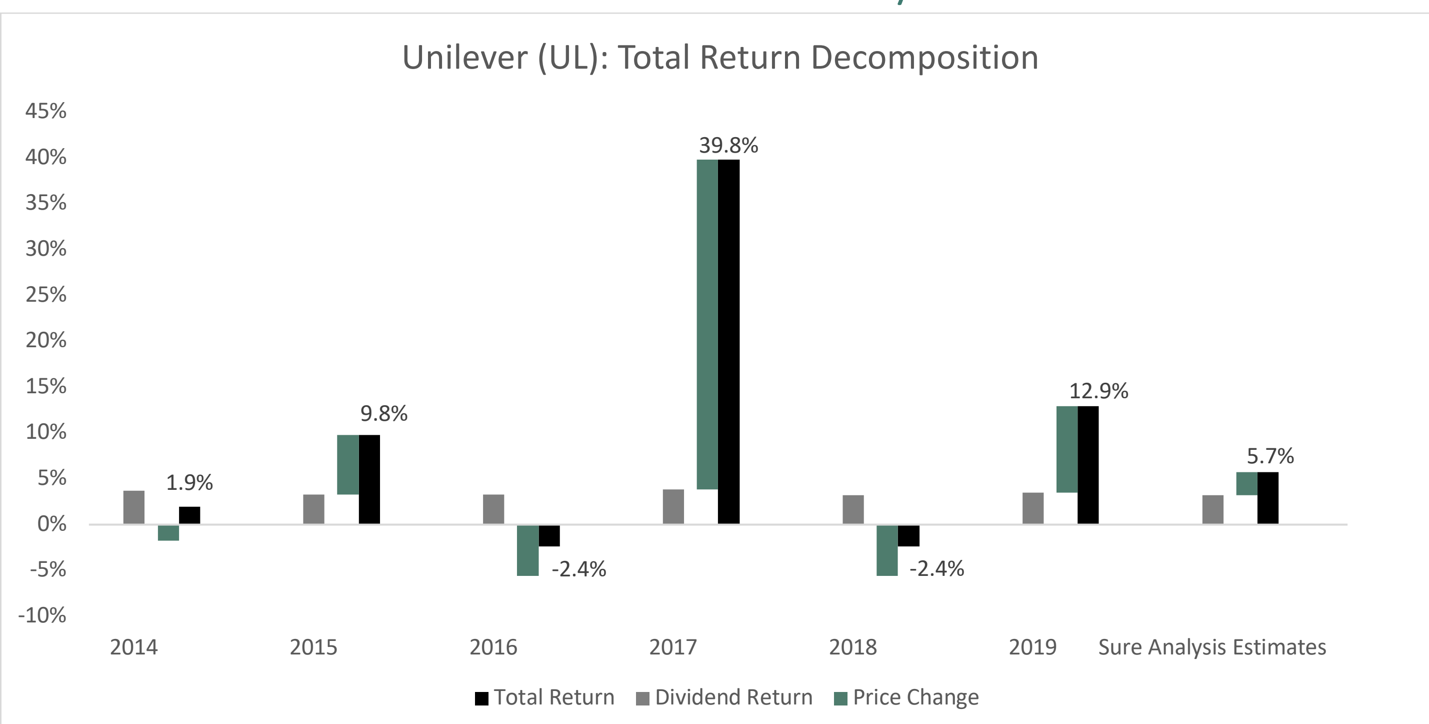
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	57.7%	65.6%	60.3%	63.8%	69.6%	70.2%	72.9%	59.8%	63.8%	63.3%	***61.3%***	***57.4%***

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 rallied to an all-time high in September, though it has corrected -8% 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 5.7% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	58670	64790	65984	66135	64412	59116	58341	60833	60,200	58,192
Gross Profit	24352	25847	26511	27534	26662	24928	24884	26238	26,229	
Gross Margin	41.5%	39.9%	40.2%	41.6%	41.4%	42.2%	42.7%	43.1%	43.6%	
SG&A Exp.	15950	16877	17541	16169	14780	15474	15168	15188	10,365	
D&A Exp.	1316	1435	1541	1529	1904	1520	1620	1742	2,063	2,219
Operating Profit	8429	9069	8783	9807	10487	8205	8530	9922	14,772	58,192
Op. Margin	14.4%	14.0%	13.3%	14.8%	16.3%	13.9%	14.6%	16.3%	24.5%	
Net Profit	5625	5929	5616	6431	6877	5448	5737	6855	11,087	6,297
Net Margin	9.6%	9.2%	8.5%	9.7%	10.7%	9.2%	9.8%	11.3%	18.4%	10.8%
Free Cash Flow	4871	4675	5729	5480	4376	5692	5546	6370	6,165	7,478
Income Tax	2033	2262	2182	2458	2834	2176	2127	1888	3,041	2,533

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	54757	61542	61085	62848	58402	57177	59654	72324	68012	72,594
Cash & Equivalents	1899	1607	1283	1277	1959	1801	1976	2380	3695	4,688
Acc. Receivable	3379	3752	3694	3938	3438	3189	3519	4126	7418	7,500
Inventories	5728	5960	5867	5436	5068	4739	4523	4753	4920	4,664
Goodwill & Int.	24249	28384	28722	28866	26964	27397	29001	34073	33737	34,758
Total Liabilities	34704	42215	39992	42390	41058	39595	41704	55064	53951	57,039
Accounts Payable	8020	8765	9369	9659	9286	9070	9082	9858	16537	16,543
Long-Term Debt	11881	17408	12994	14721	14212	15051	17125	28434	28466	31,653
Total Equity	19264	18514	20356	19807	16600	16879	17289	16351	13237	14,777
D/E Ratio	0.62	0.94	0.64	0.74	0.86	0.89	0.99	1.74	2.15	2.14

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.4%	10.2%	9.2%	10.4%	11.3%	9.4%	9.8%	10.4%	15.8%	9.0%
Return on Equity	30.8%	31.4%	28.9%	32.0%	37.8%	32.5%	33.6%	40.8%	74.9%	45.0%
ROIC	17.5%	17.3%	15.9%	18.6%	20.6%	17.0%	16.9%	17.0%	25.1%	14.2%
Shares Out.	2905	1283	1283	1278	2883	2855	2854	2814	2695	2628
Revenue/Share	20.20	22.28	22.63	22.62	22.35	20.70	20.44	21.62	22.34	22.15
FCF/Share	1.68	1.61	1.96	1.87	1.52	1.99	1.94	2.26	2.34	2.85

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