Unilever (UL)

Updated April 28th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$130.5 B
Fair Value Price:	$45	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	5/14/2020
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	6/5/2020
Dividend Yield:	3.6%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**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 $130.5 billion at current prices.

In late April, Unilever provided (4/23/20) performance highlights for the first quarter of fiscal 2020. The company generated flat underlying sales, as volume growth of 0.2% was offset by a -0.2% decrease in prices. It was the first quarter in years that Unilever failed to grow its sales. The reason was the outbreak of the coronavirus, which has caused a severe global recession. Unilever benefited from strong growth in the demand for hygiene products and in-home food thanks to the lock-down in many countries, but its food service and ice-cream businesses were adversely affected.

On the bright side, the company maintained its dividend. However, due to the high uncertainty that has resulted from the pandemic, management withdrew its guidance for this year. Due to the impact of the pandemic, we have lowered our earnings-per-share forecast for the full year from $3.00 to $2.50.

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	***$2.50***	***$3.35***
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	***2620***	***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. It is also expected to post lower earnings this year due to the global recession that has resulted from the coronavirus. However, we view this headwind as temporary and expect the company to return to its multi-year growth trajectory from next year. Management has provided guidance for 3%-5% adjusted annual revenue growth in the long run. As the company will also boost earnings-per-share via expansion of the operating margin and share repurchases and given the low comparison base due to the dip in earnings this year, we are forecasting ~6.0% 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	***20.4***	***18.0***
Avg. Yld.	3.8%	3.9%	3.5%	3.4%	3.5%	3.1%	3.1%	2.9%	3.3%	3.1%	***3.6%***	***3.6%***

[1] In millions.

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Unilever is trading at an earnings multiple of 20.4, 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 -2.5% 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

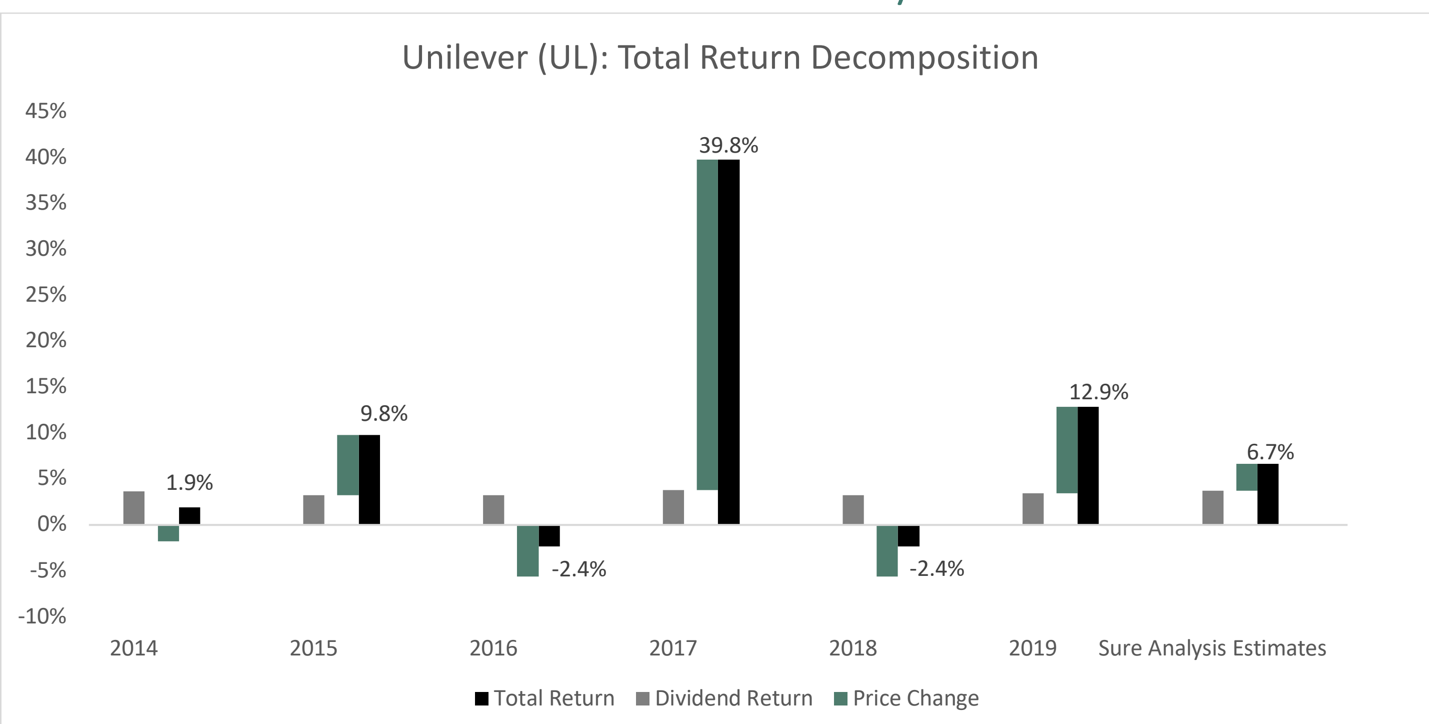
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	57.7%	65.6%	60.3%	63.8%	69.6%	70.2%	72.9%	59.8%	63.8%	63.3%	***73.6%***	***65.6%***

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 and has proven much more resilient to recessions than the vast majority of stocks. As a result, Unilever 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

Unilever has incurred a -20% correction off its all-time high, primarily due to the global recession caused by the pandemic. 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 6.7% 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	58,670	64,790	65,984	66,135	64,412	59,116	58,341	60,833	60,200	58,192
Gross Profit	24,352	25,847	26,511	27,534	26,662	24,928	24,884	26,309	26,307	25,612
Gross Margin	41.5%	39.9%	40.2%	41.6%	41.4%	42.2%	42.7%	43.2%	43.7%	44.0%
SG&A Exp.	15,950	16,877	17,541	16,169	14,780	15,474	15,168	15,146	10,320	14,923
D&A Exp.	1,316	1,435	1,541	1,529	1,904	1,520	1,620	2,293	2,617	2,219
Operating Profit	8,429	9,069	8,783	9,807	10,487	8,205	8,530	10,035	14,895	9,715
Op. Margin	14.4%	14.0%	13.3%	14.8%	16.3%	13.9%	14.6%	16.5%	24.7%	16.7%
Net Profit	5,625	5,929	5,616	6,431	6,877	5,448	5,737	6,821	11,063	6,297
Net Margin	9.6%	9.2%	8.5%	9.7%	10.7%	9.2%	9.8%	11.2%	18.4%	10.8%
Free Cash Flow	4,871	4,675	5,729	5,480	4,376	5,692	5,546	7,035	6,832	7,370
Income Tax	2,033	2,262	2,182	2,458	2,834	2,176	2,127	1,891	3,037	2,533

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	54,757	61,542	61,085	62,848	58,402	57,177	59,654	74,451	69,905	72,594
Cash & Equivalents	1,899	1,607	1,283	1,277	1,959	1,801	1,976	3,979	3,695	4,688
Acc. Receivable	3,379	3,752	3,694	3,938	3,438	3,189	3,519	6,261	4,976	5,507
Inventories	5,728	5,960	5,867	5,436	5,068	4,739	4,523	4,753	4,920	4,664
Goodwill & Int.	24,249	28,384	28,722	28,866	26,964	27,397	29,001	34,073	33,737	34,758
Total Liabilities	34,704	42,215	39,992	42,390	41,058	39,595	41,704	57,418	56,044	57,039
Accounts Payable	8,020	8,765	9,369	9,659	9,286	9,070	9,082	16,107	10,434	10,294
Long-Term Debt	11,881	17,408	12,994	14,721	14,212	15,051	17,125	31,692	27,688	28,996
Total Equity	19,264	18,514	20,356	19,807	16,600	16,879	17,289	16,124	13,037	14,777
D/E Ratio	0.62	0.94	0.64	0.74	0.86	0.89	0.99	1.97	2.12	1.96

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%	10.2%	15.3%	8.8%
Return on Equity	30.8%	31.4%	28.9%	32.0%	37.8%	32.5%	33.6%	40.8%	75.9%	45.3%
ROIC	17.5%	17.3%	15.9%	18.6%	20.6%	17.0%	16.9%	16.3%	24.5%	14.6%
Shares Out.	2905	1283	1283	1278	2883	2855	2854	2814	2652	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	2.50	2.54	2.81

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