



Unilever (UL)

Updated July 23rd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	8.1%	Market Cap:	\$145.0 B
Fair Value Price:	\$56	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	8/5/2021
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date:	9/8/2021
Dividend Yield:	3.7%	5 Year Price Target	\$71	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	6.1%

Overview & Current Events

Unilever is one of the largest consumer goods companies in the world, producing and marketing ~400 brands in nearly 200 countries. Well-known brands include Ben & Jerry's, Q-tips, Suave, Vaseline, Axe, Dove, Hellmann's, Knorr and many more. Its products are used by more than 2 billion people every day. It has a market capitalization of \$145 billion.

In late July, Unilever reported (7/22/21) financial results for the second quarter of fiscal year 2021. The company grew its underlying sales 5.4% over last year's quarter, with 4.0% volume growth and 1.3% price hikes. Food & refreshment was the leader again, with 6.8% sales growth thanks to sustained demand for at-home food amid the pandemic. Sales grew 8.3% in emerging markets thanks to the continued recovery of China, while they grew only 1.5% in developed markets. Due to cost inflation, operating margin shrank from 19.8% to 18.8%. Given also a -6.3% currency headwind, earnings-per-share decreased -2% over last year's quarter.

Despite the effect of the pandemic, cost inflation and increased marketing expenses, management still expects 3%-5% underlying sales growth in the full year. Nevertheless, due to cost inflation and disappointing operating margin, the market the stock fell -5% on the day of the earnings release.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.89	\$2.04	\$2.18	\$2.17	\$1.88	\$1.92	\$2.59	\$2.79	\$2.86	\$2.88	\$3.10	\$3.96
DPS	\$1.24	\$1.23	\$1.39	\$1.51	\$1.32	\$1.40	\$1.55	\$1.78	\$1.81	\$1.85	\$2.05	\$2.40
Shares¹	1283	1283	1278	2883	2855	2854	2814	2652	2628	2627	2590	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 4.8% average annual rate in the last decade. Due to the currency challenges in Latin America and the pandemic, growth has stalled in the last two years. However, we view these headwinds as temporary and expect the company to return to its multi-year growth trajectory this 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, we are forecasting ~5.0% growth over the intermediate term.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.8	17.1	18.7	19.6	22.9	23.1	20.3	19.6	20.6	19.8	18.1	18.0
Avg. Yld.	3.9%	3.5%	3.4%	3.5%	3.1%	3.1%	2.9%	3.3%	3.1%	3.2%	3.7%	3.4%

¹ In millions.

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Unilever is trading at a price-to-earnings ratio of 18.1, which is lower than its historical average of 19.9 but marginally higher than our assumed fair earnings multiple of 18.0. If the stock trades at our fair valuation level in five years, it would incur a marginal -0.1% 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

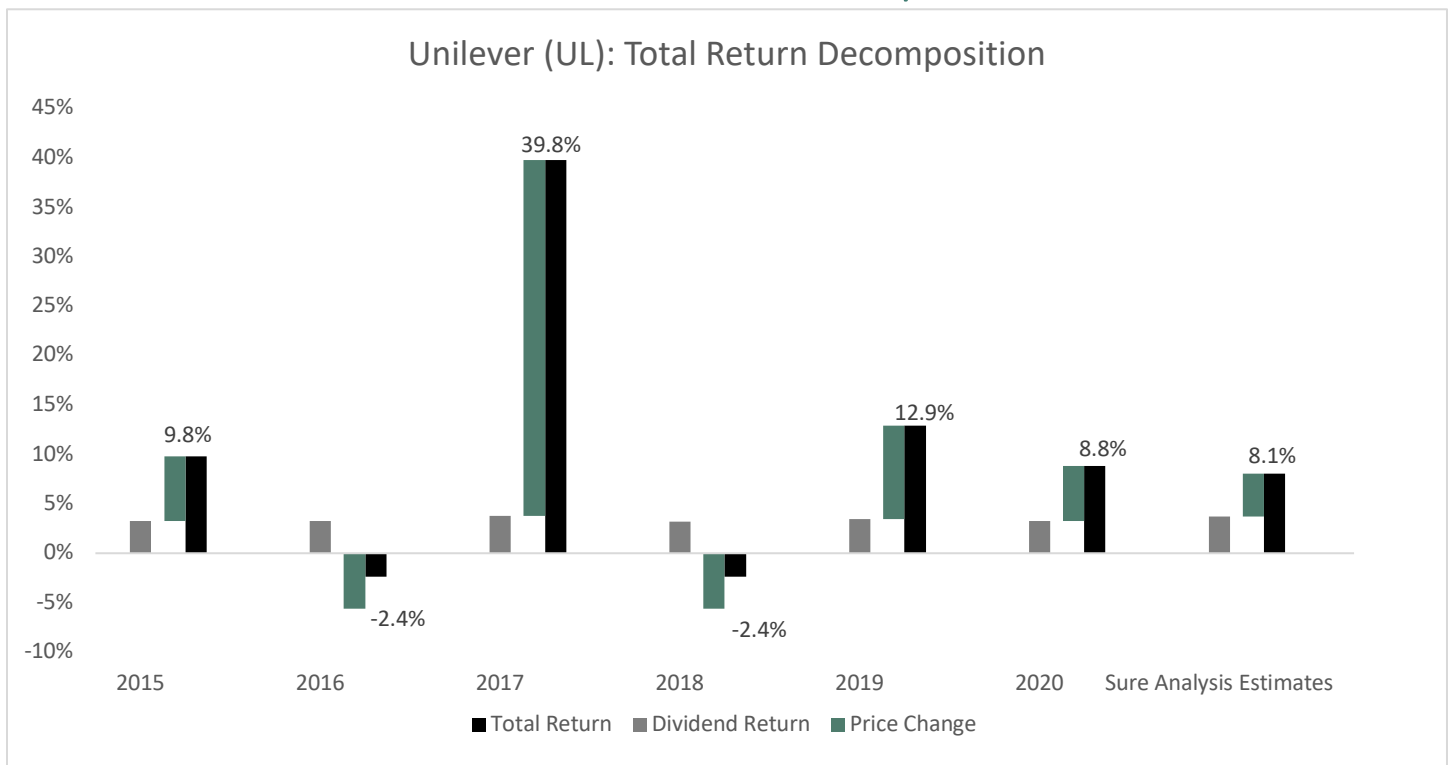
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	65.6%	60.3%	63.8%	69.6%	70.2%	72.9%	59.8%	63.8%	63.3%	64.2%	66.1%	60.7%

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 40 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 exhibited enviable resilience amid the pandemic. We view the recent -10% correction of the stock, which has resulted from temporary headwinds, as an opportunity. We expect Unilever to offer an 8.1% average annual return over the next five years thanks to 5.0% earnings-per-share growth and its 3.7% dividend. As this stock almost always trades with a premium valuation, we view its current valuation as attractive and rate the stock as a buy. Unilever may not offer the upside potential of high-growth stocks but its reliable 3.7% dividend and its resilience to downturns could offer attractive risk-adjusted returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	64,790	65,984	66,135	64,412	59,116	58,341	60,833	60,200	58,192	57,928
Gross Profit	25,847	26,511	27,534	26,662	24,928	24,884	26,309	26,307	25,612	25,170
Gross Margin	39.9%	40.2%	41.6%	41.4%	42.2%	42.7%	43.2%	43.7%	44.0%	43.5%
SG&A Exp.	16,877	17,541	16,169	14,780	15,474	15,168	15,146	10,320	14,923	8,098
D&A Exp.	1,435	1,541	1,529	1,904	1,520	1,620	2,293	2,617	2,219	2,305
Operating Profit	9,069	8,783	9,807	10,487	8,205	8,530	10,035	14,895	9,715	10,697
Op. Margin	14.0%	13.3%	14.8%	16.3%	13.9%	14.6%	16.5%	24.7%	16.7%	18.5%
Net Profit	5,929	5,616	6,431	6,877	5,448	5,737	6,821	11,063	6,297	6,374
Net Margin	9.2%	8.5%	9.7%	10.7%	9.2%	9.8%	11.2%	18.4%	10.8%	11.0%
Free Cash Flow	4,675	5,729	5,480	4,376	5,692	5,546	7,035	6,832	7,370	9,178
Income Tax	2,262	2,182	2,458	2,834	2,176	2,127	1,891	3,037	2,533	2,196

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	61,542	61,085	62,848	58,402	57,177	59,654	74,451	69,905	72,594	83,218
Cash & Equivalents	1,607	1,283	1,277	1,959	1,801	1,976	3,979	3,695	4,688	6,824
Acc. Receivable	3,752	3,694	3,938	3,438	3,189	3,519	6,261	4,976	5,507	4,222
Inventories	5,960	5,867	5,436	5,068	4,739	4,523	4,753	4,920	4,664	5,488
Goodwill & Int.	28,384	28,722	28,866	26,964	27,397	29,001	34,073	33,737	34,758	42,976
Total Liabilities	42,215	39,992	42,390	41,058	39,595	41,704	57,418	56,044	57,039	61,503
Accounts Payable	8,765	9,369	9,659	9,286	9,070	9,082	16,107	10,434	10,294	10,301
Long-Term Debt	17,408	12,994	14,721	14,212	15,051	17,125	31,692	27,688	28,996	30,744
Total Equity	18,514	20,356	19,807	16,600	16,879	17,289	16,124	13,037	14,777	18,777
D/E Ratio	0.94	0.64	0.74	0.86	0.89	0.99	1.97	2.12	1.96	1.64

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.2%	9.2%	10.4%	11.3%	9.4%	9.8%	10.2%	15.3%	8.8%	8.2%
Return on Equity	31.4%	28.9%	32.0%	37.8%	32.5%	33.6%	40.8%	75.9%	45.3%	38.0%
ROIC	17.3%	15.9%	18.6%	20.6%	17.0%	16.9%	16.3%	24.5%	14.6%	13.1%
Shares Out.	1283	1283	1278	2883	2855	2854	2814	2652	2628	2627
Revenue/Share	22.28	22.63	22.62	22.35	20.70	20.44	21.62	22.34	22.15	22.03
FCF/Share	1.61	1.96	1.87	1.52	1.99	1.94	2.50	2.54	2.81	3.49

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

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