

Consumer Goods

Strategic Resilience: Sailing Through Business Disruptions

After the currency-induced plunge in the bottom line of Nigerian FMCG companies, the sector may be set for a slight recovery in 2024 despite projected tamer revenue growth and elevated borrowings. Our optimism is supported by debt restructuring campaigns, aggressive cost optimisation, and capacity expansion, all of which bode well for earnings.

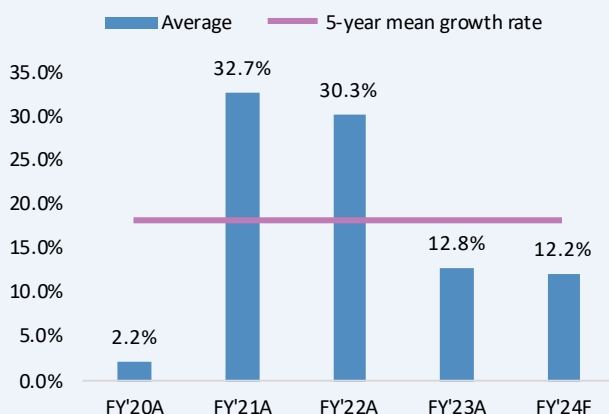
CardinalStone Research
research@Cardinalstone.com

All reference prices in this report are as at Jan 5, 2024.

Revenue growth could taper in 2024.

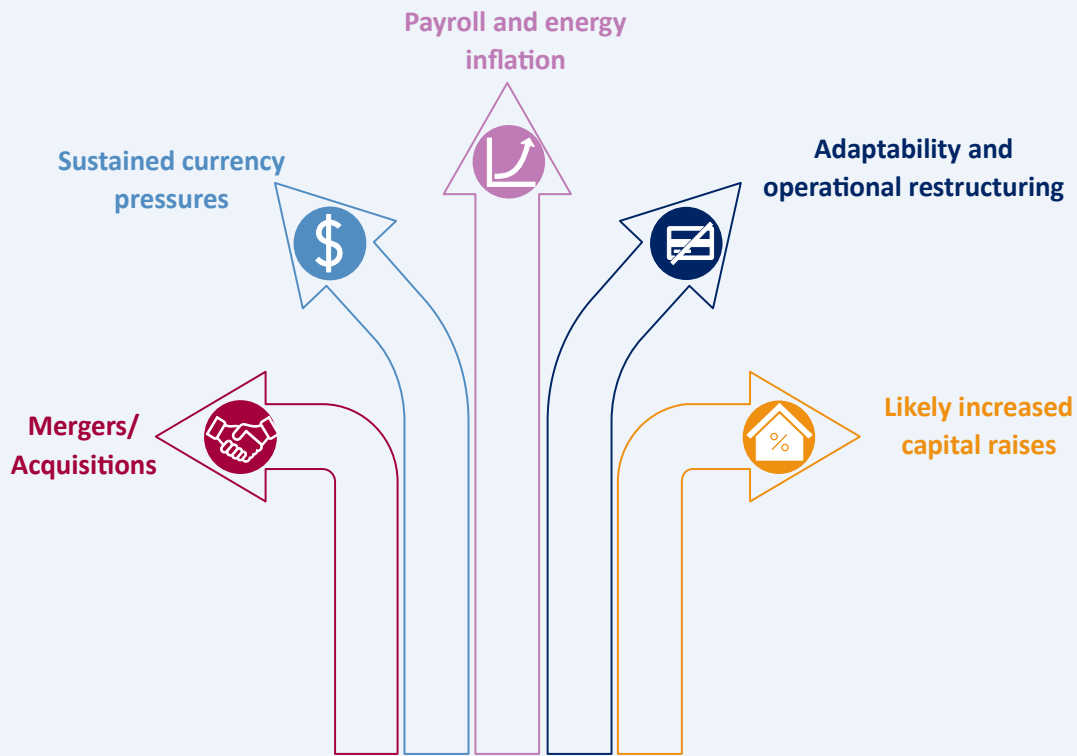
We anticipate an average sales growth of 12.1% across our coverage in FY'24 (vs mean of 12.8% YoY in FY'23E) owing to the negative passthrough of naira depreciation on household purchasing power pressures and discontinuation of product segments by some players due to volatile input cost and FX environment. The former suggests that an average consumer may place needs over wants and gravitate more towards cheaper value brands, while the latter (FX concerns) implies that it may be difficult to drive sufficient volumes of products that require a lot of imported raw materials. On the bright side, we are unlikely to see the level of distortion that occurred in Q1'23, with the CBN now confirming that old naira notes would remain legal tenders indefinitely in line with an earlier Supreme Court judgement.

Figure 1: Average revenue growth could be lower in FY'24



Source: Company financials, CardinalStone Research

Figure 2: FMCG Themes for 2024



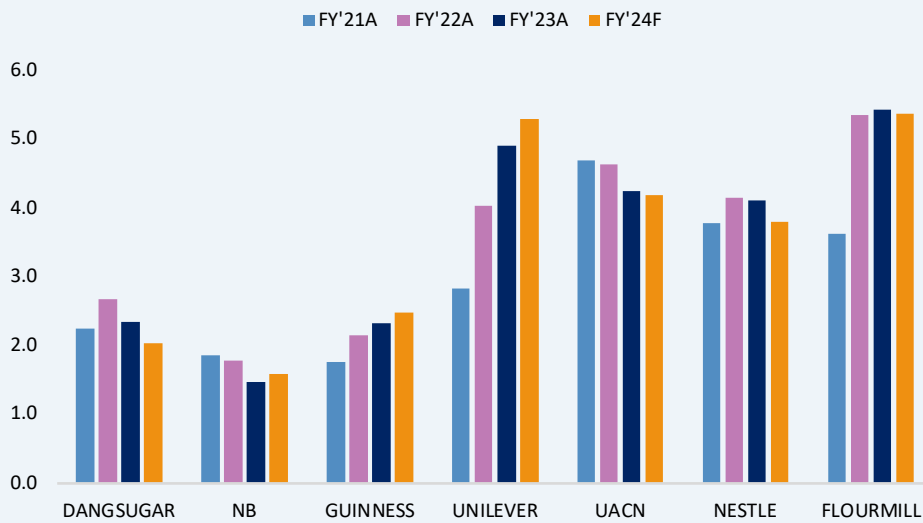
Source: Company financials, CardinalStone Research

Huge foreign exchange losses flattered sector asset turnover

Despite the expected moderation in topline growth, we envisage an unchanged average asset turnover across our coverage, mainly driven by higher ratios for brewers, which could mask lower ones across wheat users and sweeteners. The flat asset turnover ratio primarily reflects the plunge in the value of assets driven by the contraction of shareholder funds occasioned by the huge FX losses in 2023. The erosion in shareholders' equity may have flattered the asset turnover ratio of our coverage.

However, it is interesting to note the revenue growth resilience of some companies despite the pressures of the Q1'23 cash crunch (e.g. NESTLE, UNILEVER, FLOURMILL, and GUINNESS). These companies benefited from market leadership, the launch of new products, increased focus on digital sales primarily via supermarkets (i.e. less cash transactions), and price increases.

Figure 3: Asset turnover increases could be significant in GUINNESS, UNILEVER, and FLOURMILL

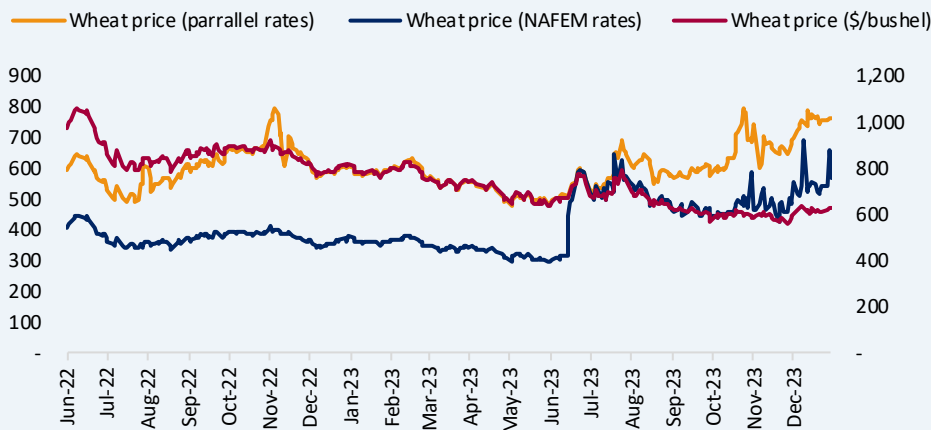


Source: Company financials, CardinalStone Research

Operating cost to remain elevated on sustained FX pressures

Our coverage of FMCGs mostly relies on the importation of raw materials, with Nigeria a net consumer of most of the materials. FLOURMILL and DANGSUGAR import about 100.0% of wheat and sugar, respectively, while our other coverage names do an average of c.50.0%. Thus, we re-emphasize that the sector remains heavily exposed to changes in commodity prices, exchange rates, import and clearing duties, and freight costs. In particular, we note that the exchange rate for computing import duty was systematically adjusted from N422.00/\$ in June 2023 to N951.94/\$ in December 2023, consistent with the changes in the FX market. This change, even in isolation, suggests that FMCGs are unlikely to benefit from the moderation in global commodity prices. For instance, wheat, which was down 24.8% YoY in dollar terms as at December 2023, was 18.7% higher YoY in local currency. The situation is the same for other commodities our coverage companies import.

Figure 4: Wheat prices are higher in Naira terms, but lower in dollar terms



Source: Bloomberg, CardinalStone Research

Figure 5: Changes in commodity prices (USD and NGN)

	Change in the wheat price in USD/bushel	Change in the wheat price in Naira (using Parallel)	Change in the wheat price in Naira (using NAFEM)
Year-to-date	↓ -23.9%	↑ 24.7%	↑ 49.5%

On other fronts, weaker currency could spike diesel costs, as was the case in H1'23, wherein average OPEX-to-sales expanded to 16.1% from 15.9% from H1'22. The pressures from diesel cost became pronounced in H2'23, following a rally in the commodity price to an all-time high at N1,004.98 per litre. We expect the drag from higher energy costs to extend into 2024, barring a shock in naira appreciation. Similarly, borrowings could be elevated on the combined impact of 1) dollar-denominated debts that could spike when translated to naira and 2) the surge in naira values of operating and machinery costs that are targeted to be funded with foreign currencies. The knock-on effect of these changes could translate to an increase in effective interest rates.

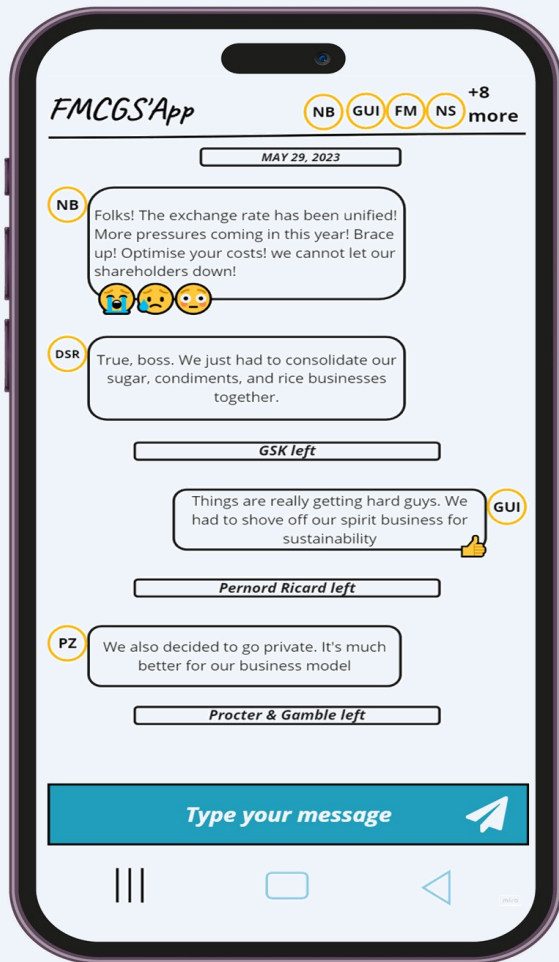
Figure 6: Save for DANGSUGAR and UNILEVER, most FMCG companies possess high debt ratios vs their historicals

Companies	D/E			Equity Multiplier			Debt/ Total Capital			Rationale
	FY'23E	5-year average	Premium/discount (ppts)	FY'23E	5-year average	Premium/discount (ppts)	FY'23E	5-year average	Premium/discount (ppts)	
DANGSUGAR	0.6%	1.4%	↓ -0.86	496.1%	229.2%	↑ 266.93	0.6%	1.4%	↓ (0.9)	DANGSUGAR has little to no debt in its books, with a c.1.0% D/E ratio over the last five years.
NB	319.2%	40.0%	↑ 279.20	693.1%	272.9%	↑ 420.20	319.2%	40.0%	↑ 279.2	NB has elevated borrowings used to finance its working capital and expansion. Additionally, there were conversations about obtaining a Euro-denominated loan from its parent company to clear its backlog of payables. The currency depreciation may have ballooned the resultant debt
GUINNESS	113.0%	44.7%	↑ 68.30	428.4%	204.1%	↑ 224.30	113.0%	44.7%	↑ 68.3	GUINNESS' borrowings are c.100% foreign-denominated, comprising of letters of credit, and intercompany loan from its parent company.
UNILEVER	0.0%	0.3%	↓ -0.30	238.9%	162.4%	↑ 76.50	0.0%	0.3%	↑ 0.3	UNILEVER has the lowest debt in the FMCG space. Also, its trade payables are the lowest among its peers
UACN	55.0%	26.3%	↑ 28.70	230.7%	181.3%	↑ 49.40	55.0%	26.3%	↑ 28.8	UACN's debt has elevated due to its financing of its Animal Feed segment, and expansion plans.
NESTLE	NM	211.0%	NM	13985.6%	881.9%	↑ 13103.70	NM	211.0%	NM	NESTLE's loans are 89.2% foreign-denominated which primarily consists of the dollar loan obtained from its parent company, Nestle S.A
FLOURMILL	222.0%	96.3%	↑ 125.70	627.1%	338.7%	↑ 288.50	222.0%	96.3%	↑ 125.7	FLOURMILL's debt was mainly inflated by the acquisition of HONYFLOUR, alongside more capital required for its working capital and expansion plans

Source: Company financials, CardinalStone Research

Our expectations on strategy in the mid to long term – M&A, business divestment, consolidation.

Figure 7: Summary of activities and challenges faced by FMCG companies in 2023



Source: CardinalStone Research

In 2024, we expect companies to continue to re-imagine their operational strategies to achieve cost efficiency. We also see legroom for more collaboration between FMCGs to boost economies of scale, product portfolio diversification, revenue and cost synergies, technological innovations, and financial power of the resultant entity. The alternative path may eventually degenerate to exits from the operating environment or high-cost segments, similar to the cases with Procter and Gamble, GSK, Pernord Ricord, and Unilever.

Our analysis of FMCG-listed companies revealed that as of September 2023, GSK's revenue has the least contribution to the parent company's topline at 0.1%. This low contribution to the parent compares to 2.2%, 1.6%, and 0.7% for NB, GUINNESS, and NESTLE, respectively. Despite the concerns over other potential exits (particularly for firms with high FX exposures), we don't anticipate any exit across our coverage names in 2024 on the back of the following factors:

1. The average importation across these companies is about 50%. Also, the companies' commitment to earnings sustainability bolsters our standpoint. Specifically, UNILEVER proactively discontinued the skin cleansing and home segments and avoided material losses that would have been linked to the businesses upon the plunge in the naira in 2023. Our other coverage names are also exploiting initiatives such as partial hedging and deliberate timing of raw material purchases to coincide with periods of harvest when prices are likely to be less under pressure.

2. Nigerian revenue across our coverage still accounts for a greater proportion of their respective parent companies' sales vs other similar African markets. For example, Guinness Nigeria contributes 1.6% to parent revenue, while Guinness Ghana contributes only 0.7% .

DANGOTE SUGAR PLC

BLOOMBERG: DANGSUGAR NL

Recovery on the cards

HOLD

Target Price: N65.99

Ref Price: N65.00

Upside/(Downside): 1.5%

Investment Thesis

DANGSUGAR is expected to recover from the depreciation-induced slump in FY'23 (FY'24E EPS of N2.36 vs –N1.72 in FY'23E). The company's rebound is mainly linked to a continuous increase in product prices (particularly in the 50kg sugar segment), which could likely offset volume decline to bring about an FY'24 revenue improvement of 8.0% YoY. On the price front, our analysis of the sugar price movement revealed a 92.6% YoY surge in 50 kg sugar as of December 2023, which is expected to persist in the coming year.

However, the company is likely to experience some cost restraints owing to the increase (+14.9% YoY) in global raw sugar prices, higher salaries, energy expenses, and the weaker Naira. Consequently, the EBIT margin could taper by 0.5ppts YoY. On the bright side, the storms may have subsided in terms of exchange loss, given the milder currency depreciation expected in 2024.

We note that the company is in the process of merging with NASCON and Dangote Rice Limited in August 2023. The eventual release of the scheme document is likely to provide information that could drive a higher valuation for the emergent entity.

Valuation

The announcement of the proposed merger has inspired a re-rating of the company's PE ratio due to intense speculative activities. Comparing the company to historical PE, which is now bloated due to the rally in the stock, suggests a relative value-driven TP of N65.99 per share. However, management is expected to provide more information on the transaction that will provide the basis for the review of this TP. The stock is currently trading at a market price of N65.00/per share.

Key risks to expectations: Upside

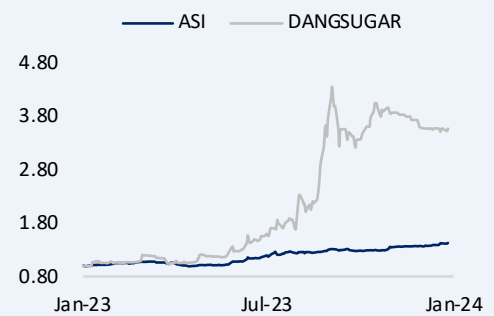
Synergies: Upon the merger, we see legroom for improved cost optimization and market reach in the mid-to-long term.

Key risks to expectations: Downside

Smuggling, Competition and Alternatives: In reaction to higher product prices, we worry that certain consumers could consider the use of imported sugar or other alternatives such as Acesulfame potassium.

Market Data	DANGSUGAR
Market Cap (N'bn)	789.55
Last close price (N)	65.00
52-week high-low price (N)	65.00/ 60.00
Avg 3M daily volume (N'mn)	2.62

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Figure 8: Dangote Sugar's summary of financials

Income Statement (Nm)	2021A	2022A	2023E	2024F	Cash Flow Statement (Nm)	2021A	2022A	2023E	2024F
Revenue	276,055	403,246	417,763	451,184	Cash flow from operating activities	129,246	105,387	156,616	118,257
COGS	(225,846)	(311,283)	(332,121)	(360,045)	o/w Depreciation & amortization	9,732	12,081	14,734	17,303
Gross profit	50,209	91,963	85,641	91,139	o/w Changes in working capital	87,443	32,773	90,143	18,127
Other Income	333	1,435	1,148	1,292	Cash flow from investing activities	(51,292)	(19,569)	(45,833)	(51,829)
OPEX and impairment	(11,522)	(10,988)	(12,951)	(14,889)	o/w Capital expenditure	(51,347)	(26,152)	(54,309)	(58,654)
EBIT	39,020	82,410	73,839	77,542	as % of sales	6.1%	5.7%	5.7%	5.7%
Net Interest	(5,211)	(3,423)	(109,379)	(38,041)	Cash flow from financing activities	(19,806)	(13,969)	(136,357)	(45,088)
PBT	33,809	78,987	(35,540)	39,501	o/w Dividends paid	(18,220)	(12,147)	(18,220)	-
Fair value adjustments	212	3,315	4,807	2,688	o/w Debt issued/(repaid)	(268)	(274)	(67)	(55)
Tax	(11,969)	(27,561)	9,835	(13,500)	Net change in cash	58,149	71,848	(25,574)	21,340
PAT	22,052	54,742	(20,898)	28,688	Cash & cash equivalents at beginning of year (incl FX diff)	44,861	103,010	174,858	149,284
EPS	1.82	4.51	(1.72)	2.36	Cash & cash equivalents at end of the year	103,010	174,858	149,284	170,624
DPS (NGN)	1.00	1.50	0.00	1.18					
Payout ratio	55.1%	33.3%	0.0%	49.9%					
Shares outstanding (million)	12,147	12,147	12,147	12,147					

Balance Sheet (Nm)	2021A	2022A	2023E	2024F	Ratio Analysis	2021A	2022A	2023E	2024F
Cash and cash equivalents	103,010	174,858	149,284	170,624	Gross Margin	18.2%	22.8%	20.5%	20.2%
Accounts receivable	50,156	107,435	171,683	185,418	EBITDA Margin	17.7%	23.4%	21.2%	21.0%
Inventories	56,000	44,264	109,191	118,371	EBIT Margin	14.1%	20.4%	17.7%	17.2%
Other current assets	5,663	8,115	6,506	6,884	Net Profit Margin	8.0%	13.6%	-5.0%	6.4%
Current assets	214,828	334,673	436,664	481,297	OPEX/Sales	4.2%	2.7%	3.1%	3.3%
PP&E	144,678	157,762	199,990	243,910	ROE	17.4%	36.5%	-13.8%	19.6%
Non-current assets	144,678	157,762	199,990	243,910	ROA	6.9%	12.9%	-3.7%	4.2%
Total assets	359,506	492,434	636,654	725,207	ROIC	17.0%	31.8%	-15.7%	17.8%
Short-term borrowings	220	244	82	81	Net debt/Equity (x)	-0.8	-1.0	-1.1	-1.1
Payables	201,382	273,747	491,358	532,669	Net debt/EBITDA (x)	-2.1	-1.8	-1.7	-1.8
Other short-term liabilities	16,941	33,448	121	20,613	Sales/Assets (x)	0.8	0.8	0.7	0.6
Current liabilities	218,543	307,438	491,561	553,363	Assets/Equity (x)	2.8	2.9	4.8	4.5
Long-term debt	765	532	626	573	Interest cover (x)	7.5	24.1	0.7	2.0
Deferred tax liabilities	10,432	13,238	11,914	10,127	Tax Rate	35.4%	34.9%	27.7%	34.2%
Other long-term liabilities	1,135	-	445	348	Revenue y/y Growth	28.8%	46.1%	3.6%	8.0%
Non-current liabilities	12,331	13,770	12,985	11,048	EPS y/y Growth	-25.9%	148.2%	NM	NM
Total liabilities	230,875	321,208	504,546	564,411					
Shareholders' equity	128,631	171,226	132,108	160,796	Valuation	2021A	2022A	2023E	2024F
Total liabilities & equity	359,506	492,434	636,654	725,207	P/E (x)	35.8	14.4	NM	27.5
BVPS	29.60	40.54	52.41	59.70	P/BV (x)	2.2	1.6	1.2	1.1
Net debt/(cash)	(102,025)	(174,083)	(148,576)	(169,970)	EV/EBITDA (x)	13.1	6.8	7.2	6.8
					Dividend Yield	1.5%	2.3%	0.0%	1.8%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

FLOUR MILLS OF NIGERIA PLC

BLOOMBERG: FLOURMILL NL

Strategy looks reassuring for the mid to long term

HOLD

Investment Thesis

We have a 5-year revenue CAGR of 10.3% for FLOURMILL for the next five years. This optimism is driven by the relatively inelastic nature of its major product segments (agro and food products) and innovation. On the product innovation front, the company released two new products (Golden Penny Choco Oh Spread and Golden Bites Chin-Chin) in June 2023, which are currently well-received in the market. In addition, we see scope for sustained accretive benefits from the new feed milling facility and the Eagle plant in Kaduna.

However, the company could record a 95.9% plunge in its bottom line in FY23/24 on the back of 1) the increase in OPEX and 2) the material FX devaluation, which could drive net operating loss to its highest level in over five years. On the former, payroll cost, which accounts for c.40.0% of OPEX, and higher energy cost are likely to be the key pressure areas.

Valuation

- FLOURMILL appears to be cheap, trading at an EV/EBITDA of 2.8x, an 13.3% discount to its five-year mean. Our new 12-month TP of N36.65 implies a potential capital appreciation of 9.4%. We have a HOLD recommendation on the counter.

Key risks to expectations: Upside

- Optimisation of debt profile:** FLOURMILL's short-term debt now accounts for 50.3% of total borrowings (vs a four-year average of 24.9%) following its increased commercial paper issuances at relatively decent interest rates.
- Possible payable reduction:** Per its last conference call, management alluded to a gradual reduction of their payables as a strategic move to reduce exposure to currency volatility.
- Power company:** FLOURMILL envisions the incorporation of a new subsidiary called Golden Penny Power Limited. This division will serve as a power generation company and is expected to support sales in the mid to long term. Management is currently undergoing licensing and registration.

Key risks to expectations: Downside

- FX volatilities:** Significant depreciation and continued scarcity of foreign exchange could pose a significant downside risk for operations.

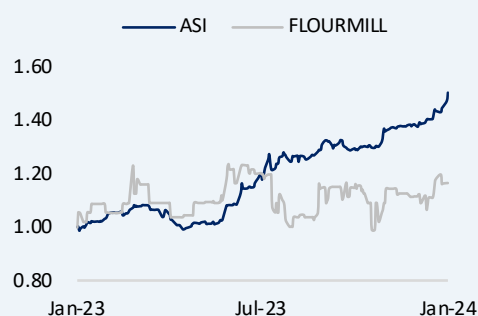
Target Price: N36.65

Ref Price: N33.50

Upside/(Downside): 9.4%

Market Data	FLOURMILL
Market Cap (N'bn)	137.36
Last close price (N)	33.50
52-week high-low price (N)	36.20/28.20
Avg 3M daily volume (N'mn)	1.58

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Figure 9: Flour Mills' summary of financials

Income Statement (Nm)	2022A	2023A	2024E	2025F
Revenue	1,163,803	1,539,655	1,894,545	2,068,464
COGS	(1,055,713)	(1,362,552)	(1,676,673)	(1,826,868)
Gross profit	108,090	177,103	217,873	241,597
OPEX	(42,856)	(56,011)	(73,990)	(82,851)
Net operating (loss)/gain	(136)	(21,822)	(85,049)	(44,654)
Write back/ (impairment loss) on trade & intercompany receivables	415	(1,510)	(383)	-
EBIT	65,513	97,760	58,451	114,092
Net Interest	(24,395)	(55,008)	(63,621)	(61,119)
PBT	41,118	42,752	(5,170)	52,973
Tax	(13,103)	(13,248)	1,654	(16,951)
PAT	28,015	29,504	(3,515)	36,021
EPS	6.26	7.25	(0.86)	8.78
DPS (NGN)	2.15	2.25	0.00	3.02
Payout ratio	34.3%	31.0%	0.0%	34.3%
Shares outstanding (million)	4,100	4,100	4,100	4,100

Balance Sheet (Nm)	2022A	2023A	2024E	2025F
Cash and cash equivalents	31,621	97,702	258,903	322,211
Accounts receivable	39,901	47,470	51,905	56,670
Inventories	284,463	336,375	399,645	410,420
Other current assets	56,131	228,739	281,438	306,624
Current assets	412,116	710,286	991,892	1,095,925
PP&E	226,840	340,804	364,628	421,606
Intangible Assets	369	13,705	13,743	13,824
Other non-current assets	27,686	32,601	31,653	32,855
Non-current assets	254,895	387,111	410,024	468,285
Total assets	667,012	1,097,396	1,401,916	1,564,209
Short-term borrowings	43,955	172,257	247,042	281,147
Payables	194,592	320,649	551,235	600,614
Other short-term liabilities	55,040	91,185	55,166	59,364
Current liabilities	293,586	584,091	853,443	941,125
Long-term debt	114,811	210,241	244,095	289,131
Other long-term liabilities	62,710	77,839	83,145	88,144
Non-current liabilities	177,521	288,080	327,240	377,275
Total liabilities	471,107	872,172	1,180,683	1,318,400
Shareholders' equity	195,905	225,225	221,233	245,809
Total liabilities & equity	667,012	1,097,396	1,401,916	1,564,209
BVPS	47.78	54.93	53.95	59.95
YoY Growth	12.2%	15.0%	-1.8%	11.1%
Net debt/(cash)	127,144	284,796	232,235	248,067

Cash Flow Statement (Nm)	2022A	2023A	2024E	2025F
Cash flow from operating activities	44,037	98,929	174,007	152,346
o/w Depreciation & amortization	22,470	25,222	33,354	38,504
o/w Changes in working capital	(45,245)	(45,782)	86,514	7,671
Cash flow from investing activities	(44,848)	(185,128)	(55,447)	(94,003)
o/w Capital expenditure	(40,653)	(147,584)	(56,836)	(95,149)
as % of sales	3.5%	9.6%	3.0%	4.6%
Cash flow from financing activities	(11,378)	129,229	42,640	4,964
o/w Dividends paid	(8,094)	(11,097)	(476)	(11,445)
o/w Debt issued/(repaid)	23,322	197,291	108,640	79,140
Net change in cash	(12,189)	43,031	161,201	63,308
Cash & cash equivalents at beginning of year (incl exchange diff & O/D)	43,811	54,671	97,702	258,903
Cash & cash equivalents at end of the year	31,621	97,702	258,903	322,211

Ratio Analysis	2022A	2023A	2024E	2025F
Gross Margin	9.3%	11.5%	11.5%	11.7%
EBITDA Margin	7.6%	8.0%	4.8%	7.4%
EBIT Margin	5.6%	6.3%	3.1%	5.5%
Net Profit Margin	2.4%	1.9%	-0.2%	1.7%
ROE	15.1%	14.0%	-1.6%	16.1%
ROA	4.6%	3.3%	-0.3%	2.9%
ROCE	17.5%	19.0%	10.7%	18.3%
OPEX/Sales	3.7%	3.6%	3.9%	4.0%
Net debt/Equity (x)	0.6	1.3	1.0	1.0
Net debt/EBITDA (x)	1.4	2.3	2.5	1.6
Sales/Assets (x)	1.7	1.4	1.4	1.3
Assets/Equity (x)	3.4	4.9	6.3	6.4
Interest cover (x)	2.6	1.8	0.9	1.8
Tax Rate	31.9%	31.0%	32.0%	32.0%
Revenue YoY Growth	50.8%	32.3%	23.1%	9.2%
EPS YoY Growth	-0.2%	15.8%	NM	NM

Valuation	2022A	2023A	2024E	2025F
P/E (x)	5.3	4.6	NM	3.8
P/B (x)	0.7	0.6	0.6	0.6
EV/EBITDA (x)	4.8	3.4	4.6	2.8
Dividend Yield	6.4%	6.7%	0.0%	9.0%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

GUINNESS NIGERIA PLC

BLOOMBERG: GUINNESS NL

After the storm, comes the rainbow

BUY

Target Price: N73.56

Ref Price: N61.00

Upside/(Downside): +20.7%

Investment Thesis

We expect GUINNESS to return to profitability in FY'24 due to projected moderation in the degree of currency depreciation vs last year. Price increases, milder competition, and brand strength were the key drivers of revenue growth in the last three years. Importantly, price increases have been the strongest driver in recent times, given that they masked the effect of the 4.0% contraction in organic volumes in the first half of the current financial year. Guinness and Orijin were the key contributors to this revenue traction, and the business has leveraged opportunities in digital trends and B2B platforms to support them.

Elsewhere, management, in its last conference call, highlighted that local suppliers of essential raw materials are feeling the inflation heat. This position is corroborated by FEWSNET data, which suggests wholesale sorghum prices have been on the rise since February 2023, with notable spikes after the subsidy removal and exchange rate unification. As of October 2023, sorghum prices had surged 169.6% YTD. Given the importance of this raw material to the company, gross margin may contract 0.3ppts to 32.7% for FY'23/24. The importation of spirits (expected to be stopped between February and March) is also likely to create some exposure to FX volatility in the early part of the year.

Valuation

GUINNESS is trading at a 6.9% discount to its four-year mean EV/EBITDA multiple of 3.8x, indicating that the stock is relatively cheap. We have a 12-month TP of N73.56 (vs N70.10 previously) for the company, mostly reflecting the positive impact of the discontinuation of products, requiring huge importation. Our TP translates to an 20.6% premium on our reference price and a BUY recommendation. We have a forward ROAE of 9.5%, which is superior to the 5-year average of negative 2.6%.

Key risks to expectations: Upside

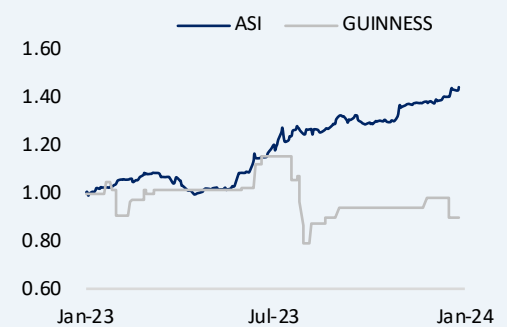
Removal of spirit segments: While the stoppage of international premium spirits distribution could lower sales, we envisage a net positive impact on margins, as the company will no longer bear currency pressures and excise duties.

Key risks to expectations: Downside

Volume declines: Volumes may further contract given the spike in product prices (c. 35.0%) in line with what played out in FY'23 (-4.0% YoY contraction).

Market Data	GUINNESS
Market Cap (N'bn)	133.61
Last close price (N)	61.00
52-week high-low price (N)	80.00/ 55.00
Avg 3M daily volume (N'mn)	0.19

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Figure 10: Guinness' summary of financials

Income Statement (Nm)	2022A	2023E	2024E	2025F
Revenue	206,822	229,441	248,599	247,008
COGS	(134,159)	(151,308)	(166,561)	(166,236)
Gross profit	72,663	78,133	82,038	80,772
Other Income	2,740	3,531	4,188	2,398
OPEX	(51,503)	(58,306)	(57,178)	(57,800)
EBIT	23,900	23,358	29,048	25,370
Net Interest	(226)	(45,496)	(20,776)	(12,706)
PBT	23,674	(22,139)	8,272	12,664
Tax	(8,023)	3,971	(2,647)	(4,053)
PAT	15,651	(18,168)	5,625	8,612
EPS	7.15	(8.29)	2.57	3.93
DPS (NGN)	7.14	0.00	2.37	3.49
Payout ratio	99.9%	0.0%	92.5%	88.7%
Shares outstanding (million)	2,190	2,190	2,190	2,190

Balance Sheet (Nm)	2022A	2023E	2024E	2025F
Cash and cash equivalents	69,104	92,125	103,273	107,918
Accounts receivable	14,079	13,213	12,260	10,151
Inventories	32,001	34,470	37,419	36,435
Other current assets	2,418	1,995	2,179	2,107
Current assets	117,601	141,803	155,131	156,611
PP&E	97,686	99,178	100,804	102,233
Other non-current assets	374	768	773	773
Non-current assets	98,059	99,945	101,578	103,006
Total assets	215,660	241,748	256,708	259,617
Short-term borrowings	31,309	63,756	70,112	73,965
Payables	69,683	111,236	113,262	106,391
Other short-term liabilities	12,740	8,679	7,269	8,352
Current liabilities	113,733	183,671	190,642	188,709
Deferred tax liabilities	10,443	479	2,844	4,275
Other long-term liabilities	1,505	1,173	1,173	1,173
Non-current liabilities	11,948	1,652	4,016	5,448
Total liabilities	125,681	185,324	194,659	194,157
Shareholders' equity	89,979	56,425	62,050	65,460
Total liabilities & equity	215,660	241,748	256,708	259,617
BVPS	41.08	25.76	28.33	29.89
Net debt/(cash)	(37,794)	(28,369)	(33,161)	(33,953)

Cash Flow Statement (Nm)	2022A	2023E	2024E	2025F
Cash flow from operating activities	28,119	34,380	36,312	29,375
o/w Depreciation & amortization	8,608	9,482	9,118	9,247
o/w Changes in working capital	6,706	22,225	(160)	(3,705)
Cash flow from investing activities	(6,844)	(6,317)	(8,796)	(8,491)
o/w Capital expenditure	(9,533)	(9,917)	(10,745)	(10,676)
as % of sales	4.6%	4.3%	4.3%	4.3%
Cash flow from financing activities	12,052	(8,885)	(16,368)	(16,239)
o/w Dividends paid	(1,008)	(6,565)	-	(5,202)
o/w Debt issued/(repaid)	15,190	2,537	6,356	3,853
Net change in cash	33,326	19,178	11,148	4,645
Cash & cash equivalents at beginning of year (incl FX diff)	35,777	72,947	92,125	103,273
Cash & cash equivalents at end of the year	69,104	92,125	103,273	107,918

Ratio Analysis	2022A	2023E	2024E	2025F
Gross Margin	35.1%	34.1%	33.0%	32.7%
EBITDA Margin	15.7%	14.3%	15.4%	14.0%
EBIT Margin	11.6%	10.2%	11.7%	10.3%
Net Profit Margin	7.6%	NM	2.3%	3.5%
ROE	19.1%	-24.8%	9.5%	13.5%
ROA	8.1%	-7.9%	2.3%	3.3%
ROIC	51.9%	24.9%	28.2%	23.3%
ROCE	17.4%	-32.2%	9.1%	13.2%
OPEX/Sales	24.9%	25.4%	23.0%	23.4%
Net debt/Equity (x)	-0.4	-0.5	-0.5	-0.5
Net debt/EBITDA (x)	-1.2	-0.9	-0.9	-1.0
Sales/Assets (x)	1.0	0.9	1.0	1.0
Assets/Equity (x)	2.4	4.3	4.1	4.0
Interest cover (x)	11.2	0.4	1.3	1.7
Tax Rate	33.9%	NM	32.0%	32.0%
Revenue YoY growth	28.9%	10.9%	8.4%	-0.6%
EPS YoY growth	989.1%	NM	NM	53.1%

Valuation	2022A	2023E	2024E	2025F
P/E (x)	10.3	NM	28.6	18.7
EV/EBITDA (x)	3.3	3.3	2.8	3.1
Dividend Yield	11.5%	0.0%	3.8%	5.6%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

NESTLE NIGERIA PLC

BLOOMBERG: NESTLE NL

Dollar Dependency: NESTLE's Financial Tightrope

HOLD

Target Price: N1,275.64

Ref Price: N1,196.00

Upside/(Downside): +6.7%

Investment Thesis

NESTLE faces challenges of huge FX exposures and an unstable cost profile, with volatilities in commodity prices, energy, and payroll recent pressure points. In particular, the company has the highest foreign-currency-denominated borrowings across our FMCG coverage, with an average of 98.9% of its loans obtained from its parent company since 2020. Given the persistent scarcity of dollars in Nigeria and the structure of its debt (about 5-7 years tenor). Elsewhere, energy-induced increases in the prices of local raw materials are eroding the impact of high local sourcing (70-80% of raw materials).

Nonetheless, we forecast a rebound in the company's bottom line to N33.8 billion in FY'24 (vs a loss of N37.8 billion in FY'23E) on the impact of higher revenue growth and relatively more contained currency depreciation. The company also enjoys leadership, first mover advantage, and a broad distribution network that is likely to support market share capture upon implementation of the new minimum wage in Nigeria. The move on minimum wage is likely to grow the overall consumption bucket slightly, and NESTLE's distribution advantage should put it in a good position to capture some of this increase.

Valuation

NESTLE is cheap from a relative valuation standpoint, with its EV/EBITDA trading at a 31.4% discount to its five-year average. We have a 12-month TP of N1,275.64. This TP is at a 6.7% upside to our reference price. We have a HOLD recommendation on the stock.

Key risks to expectations: Upside

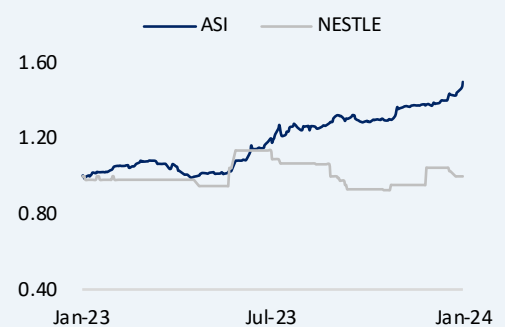
Local sourcing improvement: Local sourcing remains a good strategy for any Nigerian manufacturing firm. Hence, NESTLE's improved local sourcing could mitigate the impact of external factors such as currency fluctuations and commodity price increases.

Key risks to expectations: Downside

Significant currency devaluation: NESTLE's dependence on foreign-denominated loans leaves scope for material FX losses in the event of unfavourable currency movements.

Market Data	NESTLE
Market Cap (N'bn)	948.02
Last close price (N)	1,196.00
52-week high-low price (N)	1,250.0/ 1,020
Avg 3M daily volume (N'mn)	0.17

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Figure 11: Nestle Nigeria's summary of financials

Income Statement (Nm)					Cash Flow Statement (Nm)				
	2021A	2022A	2023E	2024F		2021A	2022A	2023E	2024F
Revenue	351,822	446,819	529,257	588,746	Cash flow from operating activities	65,927	(4,433)	159,952	109,086
COGS	(219,986)	(291,054)	(322,847)	(370,910)	o/w Depreciation & amortization	8,409	9,753	11,900	14,105
Gross profit	131,836	155,765	206,410	217,836	o/w Changes in working capital	4,761	(89,566)	30,997	(5,238)
OPEX and impairments	(59,870)	(68,899)	(91,562)	(104,797)	Cash flow from investing activities	(19,969)	(22,868)	(25,358)	(29,329)
EBIT	71,966	86,866	114,849	113,039	o/w Capital expenditure	(22,941)	(27,724)	(35,746)	(42,341)
Net Interest	(10,091)	(15,757)	(164,570)	(63,389)	as % of sales	6.5%	6.2%	8.0%	8.0%
PBT	61,875	71,109	(49,721)	49,650	Cash flow from financing activities	(4,449)	44,242	7,281	(21,086)
Tax	(21,838)	(22,144)	11,933	(15,888)	o/w Dividends paid	(30,729)	(14,027)	-	(33,613)
PAT	40,037	48,965	(37,788)	33,762	o/w Debt issued/(repaid)	28,534	59,092	182,238	88,927
EPS	50.51	61.77	(47.67)	42.59	Net change in cash	41,509	16,941	141,875	58,671
DPS (NGN)	50.50	61.50	-	42.40	Cash & cash equivalents at beginning of year (incl FX diff & O/D)	59,009	100,992	117,932	259,808
Payout ratio	100.0%	99.6%	NM	99.6%	Cash & cash equivalents at end of the year	100,518	117,932	259,808	318,478
Shares outstanding (million)	792.66	792.66	792.66	792.66					
Balance Sheet (Nm)					Ratio Analysis				
	2021A	2022A	2023E	2024F		2021A	2022A	2023E	2024F
Cash and cash equivalents	100,518	117,932	259,808	318,478	Gross Margin	37.5%	34.9%	39.0%	37.0%
Accounts receivable	43,303	82,237	73,951	75,811	EBITDA Margin	22.8%	21.6%	23.9%	21.6%
Inventories	58,964	88,341	88,451	96,538	EBIT Margin	20.5%	19.4%	21.7%	19.2%
Other current assets	1,139	2,002	2,873	3,363	Net Profit Margin	11.4%	11.0%	NM	5.7%
Current assets	203,924	290,512	425,083	494,191	ROE	158.0%	189.5%	-330.3%	-464.1%
PP&E	98,964	116,739	140,585	168,821	ROA	14.4%	13.5%	-7.6%	5.4%
Other non-current assets	7,350	7,793	7,523	7,364	ROIC	49.8%	31.8%	23.7%	18.3%
Non-current assets	106,314	124,532	148,108	176,185	OPEX/Sales	16.9%	15.4%	17.3%	17.8%
Total assets	310,239	415,044	573,191	670,375	Net debt/Equity (x)	3.6	5.1	NM	NM
Short-term borrowings	432	8,294	40,505	51,176	Net debt/EBITDA (x)	-0.3	0.4	0.6	0.8
Payables	148,384	166,162	194,593	198,157	Sales/Assets (x)	1.1	1.1	0.9	0.9
Other short-term liabilities	46,702	43,949	28,546	32,370	Assets/Equity (x)	14.5	13.7	-77.3	-93.9
Current liabilities	195,518	218,405	263,643	281,703	Interest cover (x)	6.0	4.2	0.7	1.5
Long-term debt	76,433	147,007	297,034	375,289	Tax Rate	35.3%	31.1%	NM	32.0%
Other long-term liabilities	16,909	19,342	19,927	20,519	Revenue YoY Growth	22.6%	27.0%	18.5%	11.2%
Non-current liabilities	93,342	166,348	316,960	395,809	EPS YoY Growth	2.1%	22.3%	NM	NM
Total liabilities	288,860	384,753	580,604	677,512					
Shareholders' equity	21,378	30,291	(7,413)	(7,136)	Valuation				
Total liabilities & equity	310,239	415,044	573,191	670,375	P/E (x)	23.7	19.4	NM	28.1
BVPS	26.97	38.21	NM	NM	EV/EBITDA (x)	12.3	10.2	7.8	7.8
YoY Growth	-27.0%	41.7%	NM	NM	Dividend Yield	4.2%	5.1%	0.0%	3.5%
Net debt/(cash)	(23,651)	37,368	77,731	107,987					

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

NIGERIAN BREWERIES PLC

BLOOMBERG: NB NL

Bottomline may be revived in FY'24

HOLD

Investment Thesis

NB could likely stage an earnings rebound in FY'24 after the FX and inflation-induced pullback in 2023. Our prognosis for a recovery in the bottom line is attributable to the following factors:

- Expansion initiatives, particularly in the Kudenda malting plant, which could support volumes
- Continuous product price increases
- The recent acquisition of Distell Nigeria Limited and Heineken Beverage importation business

On the acquisition, we are positive about its long-term accretive benefits, given that the relatively cheap products of Distell may appeal to price-sensitive Nigerians who prioritise affordability (average price of Distell spirits of N10,000 vs average Diageo spirit's price of N35,000). Hence, the demand reaction to these products may offset price-induced volume contraction from other segments.

However, we are wary of the company's high borrowings, with debt composition of total capital at 76.7% (vs a five-year average of 27.2%). There are also concerns over its FX exposures and that of its subsidiary, Distell. According to its last financial year-end data, Distell recorded a material plunge in its interest coverage ratio to 0.1x (vs a two-year average of 5.1x) following the spike in its finance cost provoked by currency devaluation impact on USD loan from Heineken Beverages. Nonetheless, associated losses on the loan are unlikely to trouble NB, given their small sizes relative to the balance sheet of NB.

Valuation

We have a 12-month TP of N37.80, representing a 2.0% upside vs our reference price. We expect the company to report an FY'24 ROE of 1.4% (vs the 4-year average of negative 4.3%) on a likely rebound in earnings. We have a HOLD recommendation on the counter.

Key risks to expectations: Upside

Market expansion: NB will likely possess a rich and diverse product portfolio on the introduction of new products from Distell. This diversity will likely support market share and improve penetration in the spirit market at a time when major competitors, GUINNESS and Pernod Ricard, are unwinding physical presence in the market.

Key risks to expectations: Downside

Excise duty rates: Following its 100.0% acquisition of Heineken Beverages import business, excise duties may likely spike.

Target Price: N37.80

Ref Price: N37.05

Upside/(Downside): +2.0%

Market Data	NB
Market Cap (N'bn)	370.36
Last close price (N)	37.05
52-week high-low price (N)	48.85/ 32.00
Avg 3M daily volume (N'mn)	2.74

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Figure 12: Nigerian Breweries' summary of financials

Income Statement (Nm)	2021A	2022A	2023E	2024F	Cash Flow Statement (Nm)	2021A	2022A	2023E	2024F
Revenue	437,285	550,638	557,158	635,080	Cash flow from operating activities	91,569	22,528	(46,244)	112,609
COGS	(276,872)	(337,310)	(345,438)	(406,541)	o/w Depreciation & amortization	41,300	39,601	39,327	50,028
Gross profit	160,413	213,328	211,720	228,539	o/w Changes in working capital	55,705	(8,681)	(58,073)	45,382
Other Income	4,627	2,987	2,351	3,201	Cash flow from investing activities	(61,013)	(99,259)	(77,780)	(56,428)
OPEX	(124,600)	(163,983)	(172,719)	(202,164)	o/w Capital expenditure	(59,407)	(97,861)	(78,002)	(57,157)
Credit loss	1,054	(575)	(646)	-	as % of sales	15.1%	11.2%	9.0%	11.0%
EBIT	41,494	51,756	40,706	29,575	Cash flow from financing activities	(44,195)	82,059	247,656	(90,022)
Net Interest	(17,793)	(34,415)	(117,644)	(27,085)	o/w Dividends paid	(4,979)	(7,587)	-	(1,592)
PBT	23,701	17,341	(76,938)	2,490	o/w Debt issued/(repaid)	(27,848)	94,266	273,559	(61,034)
Tax	(11,029)	(4,154)	20,370	(797)	Net change in cash	(13,640)	5,328	123,632	(33,841)
PAT	12,672	13,187	(56,568)	1,693	Cash & cash equivalents at beginning of year (incl FX diff)	30,370	16,853	22,181	145,812
EPS	1.58	1.59	(6.74)	0.20	Cash & cash equivalents at end of the year	16,730	22,181	145,812	111,971
DPS (NGN)	1.60	1.43	0.00	0.20					
Payout ratio	101.6%	90.0%	NM	100.0%					
Shares outstanding (million)	8,043	8,299	8,299	8,299					

Balance Sheet (Nm)	2021A	2022A	2023E	2024F	Ratio Analysis	2021A	2022A	2023E	2024F
Cash and cash equivalents	16,730	22,181	145,812	111,971	Gross Margin	36.7%	38.7%	38.0%	36.0%
Accounts receivable	26,501	40,710	76,323	69,598	EBITDA Margin	18.9%	16.6%	14.4%	12.5%
Inventories	62,192	83,517	94,640	100,243	EBIT Margin	9.5%	9.4%	7.3%	4.7%
Other current assets	14,744	9,014	12,627	13,407	Net Profit Margin	2.9%	2.4%	NM	0.3%
Current assets	120,166	155,422	329,403	295,218	OPEX/Sales	28.5%	29.8%	31.0%	31.8%
PP&E	257,217	358,968	397,642	404,772	ROE	7.6%	7.5%	-36.8%	1.4%
Other non-current assets	108,139	105,499	104,630	104,792	ROA	2.7%	2.4%	-7.7%	0.2%
Non-current assets	365,356	464,467	502,273	509,563	ROIC	98.5%	28.8%	7.1%	6.0%
Total assets	485,522	619,889	831,676	804,782	ROCE	7.4%	7.3%	-45.1%	1.4%
Short-term borrowings	24,542	119,825	316,648	267,821	Net debt/Equity (x)	0.1	0.6	2.0	1.8
Payables	226,418	264,090	255,529	300,729	Net debt/EBITDA (x)	0.1	1.1	3.1	2.8
Other short-term liabilities	21,573	23,790	29,928	21,670	Sales/Assets (x)	0.9	0.9	0.7	0.8
Current liabilities	272,533	407,705	602,105	590,220	Assets/Equity (x)	2.8	3.4	6.7	6.5
Long-term debt	4,098	2,426	79,162	66,955	Interest cover (x)	2.3	1.5	0.3	1.1
Other long-term liabilities	36,980	29,844	26,417	23,513	Tax Rate	46.5%	24.0%	NM	32.0%
Non-current liabilities	41,077	32,270	105,579	90,469	Revenue YoY growth	29.7%	25.9%	1.2%	14.0%
Total liabilities	313,610	439,975	707,685	680,689	EPS YoY growth	72.0%	4.1%	NM	NM
Shareholders' equity	171,912	179,914	123,991	124,093					
Total liabilities & equity	485,522	619,889	831,676	804,782	Valuation	2021A	2022A	2023E	2024F
BVPS	21.37	21.68	14.94	14.95	P/E (x)	23.5	23.3	NM	181.6
Net debt/(cash)	11,910	100,070	249,998	222,806	P/BV(x)	1.7	1.7	2.5	2.5
					EV/EBITDA (x)	6.0	5.4	6.2	6.2
					Dividend Yield	4.3%	3.9%	0.0%	0.6%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

UAC of NIGERIA PLC

BLOOMBERG: UACN NL

UACN may retain profitability in 2024

HOLD

Target Price: N15.77

Ref Price: N15.65

Upside/(Downside): +0.8%

Investment Thesis

We expect UACN to record a 83.5% slump in its bottom line in FY'24 on the back of a high base effect in 2023. Specifically, the company is set to report its highest PAT in full-year 2023, following a one-off profit from the sale of assets during the financial year, which proved more than enough to mask the tapered revenue growth and spike in expense. In FY'24, we expect higher sales growth (+8.2% YoY) in the absence of naira scarcity supported by higher prices of products. Our market intelligence also reveals that the company has resumed aggressive distribution of its value products—Gala and Funtime Coconut Chips—particularly in heavy-traffic areas that may support revenue growth.

While we note that cost pressures could persist in 2024, we commend UACN on its plan to expand the use of renewable energy, which is already improving cost optimisation in the food segment. Hence, we envisage a 0.5 ppts reduction in OPEX to sales ratio to 16.0% in FY'24. Also, we expect finance costs to decline post FY'24 on plans to source cheaper commercial papers in place of expensive short-term borrowings (bank loans and overdrafts). However, some of the finance cost pressures are likely to remain in FY'24.

Valuation

Our new 12-month TP of N16.04 is at a 0.8% premium to our reference price. Our forecast average ROE stands at 5.2% (vs a 4.6% 5-year average). We have a HOLD rating over UACN.

Key risks to expectations: Upside

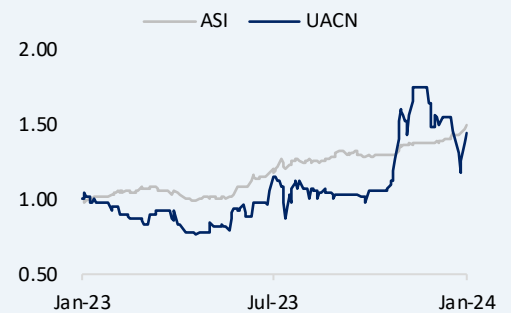
Export resumption: Paints has the highest margin across the company's portfolio of products, with an average PBT margin of 19.2%. It was also the only profitable segment in FY'22. The company recently decided to resume the exportation of its paint product, which could further support profitability.

Key risks to expectations: Downside

The slowdown in its energy diversification: Given that its QSR segment is diesel-heavy, the company's delay in switching to renewable energy could portend higher OPEX, further weighing on margins.

Market Data	UACN
Market Cap (N'bn)	45.09
Last close price (N)	15.65
52-week high-low price (N)	18.00/ 7.90
Avg 3M daily volume (N'mn)	3.98

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Figure 13: UACN's summary of financials

Income Statement (Nm)	2021A	2022A	2023E	2024F
Revenue	101,377	109,270	111,368	120,445
COGS	(83,837)	(95,033)	(92,547)	(99,367)
Gross profit	17,540	14,237	18,821	21,078
Other operating income/(loss)	2,320	691	7,270	1,481
OPEX	(14,846)	(17,312)	(18,376)	(19,271)
EBIT	5,014	(2,384)	7,715	3,288
Net Interest	(10)	(2,085)	1,465	(1,771)
Share of associates	(895)	103	-	-
PBT	4,108	(4,365)	9,181	1,517
Tax	(1,519)	366	(2,938)	(486)
PAT	2,589	(4,000)	6,243	1,032
Total income/(loss) attributable to:				
Equity holders of the parent	1,807	(3,079)	4,461	737
Non controlling interests	780	(914)	1,782	294
EPS	0.62	(1.06)	1.54	0.25
DPS (NGN)	0.65	0.22	0.79	0.20
Payout ratio	104.2%	NM	51.2%	80.0%
Shares outstanding (million)	2,896	2,896	2,896	2,896

Balance Sheet (Nm)	2021A	2022A	2023E	2024F
Cash and cash equivalents	11,410	16,197	35,180	29,679
Accounts receivable	8,723	6,694	6,793	7,347
Inventories	36,214	24,396	23,137	22,854
Other current assets	7	5	5	5
Current assets	56,353	47,292	65,116	59,886
PP&E	22,224	25,043	27,496	30,149
Other non-current assets	19,805	20,950	20,950	20,950
Non-current assets	42,029	45,994	48,447	51,100
Total assets	98,932	93,828	114,104	111,528
Short-term borrowings	19,572	16,537	21,625	19,135
Payables	11,347	13,352	18,509	19,873
Other short-term liabilities	11,825	12,679	15,525	15,853
Current liabilities	42,745	42,568	55,659	54,862
Long-term debt	340	2,467	5,607	5,082
Other long-term liabilities	5,009	3,512	3,324	3,149
Non-current liabilities	5,349	5,980	8,931	8,231
Total liabilities	48,093	48,547	64,591	63,093
Shareholders' equity	50,838	45,280	49,514	48,435
Total liabilities & equity	98,932	93,828	114,104	111,528
BVPS	17.55	15.63	17.10	16.72
Net debt/(cash)	8,502	2,807	(7,948)	(5,462)

Cash Flow Statement (Nm)	2021A	2022A	2023E	2024F
Cash flow from operating activities	(15,525)	16,631	12,946	3,318
o/w Depreciation & amortization	2,633	2,838	2,893	3,128
o/w Changes in working capital	(16,747)	16,552	6,317	1,093
Cash flow from investing activities	(2,144)	(6,083)	(181)	(3,693)
o/w Capital expenditure	(3,466)	(5,981)	(5,346)	(5,781)
as % of sales	3.4%	5.5%	4.8%	4.8%
Cash flow from financing activities	4,777	(5,761)	6,219	(5,126)
o/w Dividends paid	(4,394)	(1,898)	(2,009)	(2,111)
o/w Debt issued/(repaid)	15,151	(1,495)	8,228	(3,015)
Net change in cash	(12,892)	4,787	18,983	(5,501)
Cash & cash equivalents at beginning of year (incl credit losses)	24,302	11,410	16,197	35,180
Cash & cash equivalents at end of the year	11,410	16,197	35,180	29,679

Ratio Analysis	2021A	2022A	2023E	2024F
Gross Margin	17.3%	13.0%	16.9%	17.5%
EBITDA Margin	7.5%	0.4%	NM	5.3%
EBIT Margin	4.9%	NM	NM	NM
Net Profit Margin	2.6%	NM	NM	NM
ROE	5.1%	-8.8%	12.6%	2.1%
ROA	2.6%	-4.3%	5.5%	0.9%
ROIC	6.9%	-2.9%	8.6%	3.6%
ROCE	8.9%	-4.7%	13.2%	5.8%
OPEX/Sales	14.6%	15.8%	16.5%	16.0%
Net debt/Equity (x)	0.4	0.4	0.6	0.5
Net debt/EBITDA (x)	1.1	6.2	-0.7	-0.9
Sales/Assets (x)	1.0	1.2	1.0	1.1
Assets/Equity (x)	1.9	2.1	2.3	2.3
Interest cover (x)	3.2	-0.7	2.1	0.9
Tax Rate	37.0%	8.4%	32.0%	32.0%
Revenue YoY growth	24.6%	7.8%	1.9%	8.2%
EPS YoY growth	-32.2%	NM	NM	NM

Valuation	2021A	2022A	2023E	2024F
P/E (x)	25.1	NM	10.2	61.5
EV/EBITDA (x)	7.4	NM	4.8	11.3
Dividend Yield	4.2%	1.4%	5.0%	1.3%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

UNILEVER NIGERIA PLC

BLOOMBERG: UACN NL

Managing costs, maximizing opportunities

HOLD

Target Price: N15.74

Ref Price: N15.70

Upside/(Downside): +0.25%

Investment Thesis

UNILEVER may report a slowdown in revenue growth (FY'24F: +12.0% vs 21.0% in FY'23E) owing to its decision to discontinue its Home Care and Skin Cleansing categories, which, according to the management, was a proactive decision to preserve business sustainability. However, we like that the food segment (Knorr and Royco) remains the market leader in seasoning in Nigeria. The food segment also accounts for a larger proportion of sales, with personal care accounting for a smaller chunk. Thus, sustained traction in the food segment is likely to be the key driver of revenue in FY'24.

On the cost side, the company's utilisation of a jumble of raw materials (e.g. starch, mineral oil, petrolatum, and others) alongside some transition costs (owing to its business shedding) may lead to cost-related drags and a gross margin contraction in FY'24. On a positive note, given its low payables (compared to our other coverage companies), UNILEVER will likely record a net finance income on the back of higher yields, which could offset some exchange loss. Overall, EPS could come in at N0.32/share in FY'24 (vs N0.50/share in FY'23).

Valuation

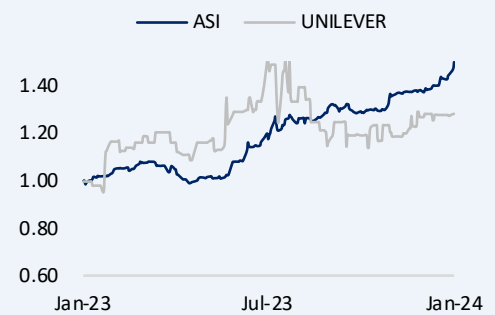
UNILEVER is trading on a 24.3% discount to its four-year P/E of 9.2x. Our new 12-month TP of N15.74 is at a 0.25% premium to our reference price. We have a HOLD recommendation on the ticker.

Key risks to expectations: Upside

Sale of assets: UNILEVER's exit from the Home Care and Skin Cleansing categories could result in asset sales that could provide one-off support for earnings.

Market Data	UNILEVER
Market Cap (N'bn)	90.20
Last close price (N)	15.70
52-week high-low price (N)	19.25/ 11.10
Avg 3M daily volume (N'mn)	01.13

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Figure 14: UNILEVER's summary of financials

Income Statement (Nm)	2021A	2022A	2023E	2024E	Cash Flow Statement (Nm)	2021A	2022A	2023E	2024E
Revenue	70,524	88,571	107,135	119,992	Cash flow from operating activities	20,090	12,031	27,359	13,806
COGS	(50,162)	(57,394)	(82,494)	(92,634)	o/w Depreciation & amortization	3,536	2,421	2,498	2,610
Gross profit	20,362	31,177	24,641	27,358	o/w Changes in working capital	(2,232)	(1,331)	24,121	8,894
Other Income	37	124	100	87	Cash flow from investing activities	(928)	669	(3,214)	(3,600)
OPEX and impairment	(19,270)	(23,755)	(24,160)	(25,798)	o/w Capital expenditure	(1,622)	(1,560)	(3,214)	(3,600)
EBIT	1,129	7,545	582	1,647	as % of sales	2.3%	1.8%	3.0%	3.0%
Net Interest	931	267	3,922	1,213	Cash flow from financing activities	(363)	(1,828)	868	(1,303)
PBT	2,061	7,812	4,504	2,860	o/w Dividends paid	(56)	(624)	(771)	(511)
Tax	(1,373)	(3,345)	(1,621)	(1,030)	o/w Debt issued/(repaid)	-	-	-	-
Profit from discontinued operations	2,721	-	-	-	Net change in cash	18,799	10,873	25,013	8,903
PAT	3,409	4,467	2,882	1,830	Cash & cash equivalents at beginning of year (incl exchange diff)	36,899	55,445	66,318	91,330
EPS	0.59	0.78	0.50	0.32	Cash & cash equivalents at end of the year	55,698	66,318	91,330	100,234
DPS (NGN)	0.50	0.25	0.13	0.09					
Payout ratio	84%	32%	27%	28%					
Shares outstanding	5,745	5,745	5,745	5,745					
Balance Sheet (Nm)	2021A	2022A	2023E	2024E	Ratio Analysis	2021A	2022A	2023E	2024E
Cash and cash equivalents	55,698	66,318	91,330	100,234	Gross Margin	28.9%	35.2%	23.0%	22.8%
Accounts receivable	14,993	21,247	35,810	32,874	EBITDA Margin	6.6%	11.3%	2.9%	3.5%
Inventories	14,956	16,332	15,821	20,811	EBIT Margin	1.6%	8.5%	0.5%	1.4%
Other current assets	262	-	1,313	-	Net Profit Margin	4.8%	5.0%	2.7%	1.5%
Current assets	85,909	103,896	144,274	153,919	ROE	1.7%	10.8%	0.8%	2.3%
PP&E	22,376	21,491	22,206	23,196	ROA	0.7%	3.8%	2.0%	1.1%
Other non-current assets	3	3	3	3	ROCE	1.7%	10.8%	0.8%	2.3%
Non-current assets	22,380	21,494	22,209	23,199	OPEX/Sales	27.3%	26.8%	22.6%	21.5%
Total assets	108,289	125,390	166,483	177,118	Net debt/Equity (x)	-0.8	-1.0	-1.3	-1.4
Payables	39,739	52,405	90,405	101,526	Net debt/EBITDA (x)	-11.9	-6.7	-29.7	-23.5
Other short-term liabilities	479	2,972	4,458	2,972	Sales/Assets (x)	0.7	0.7	0.6	0.7
Current liabilities	40,218	55,377	94,863	104,499	Assets/Equity (x)	1.6	1.9	2.4	2.5
Deferred tax liabilities	1,063	1,473	1,326	1,127	Interest cover (x)	11.8	4.8	-0.4	2.1
Other long-term liabilities	1,246	975	618	497	Tax Rate	66.6%	42.8%	36.0%	36.0%
Non-current liabilities	2,309	2,448	1,944	1,624	Revenue YoY Growth	35.1%	25.6%	21.0%	12.0%
Total liabilities	42,527	57,825	96,807	106,123	EPS YoY Growth	NM	31.0%	-35.5%	-36.5%
Shareholders' equity	65,762	67,565	69,676	70,995					
Total liabilities & equity	108,289	125,390	166,483	177,118					
BVPS	11.45	11.76	12.13	12.36	Valuation	2021A	2022A	2023E	2024E
Net debt/(cash)	(55,698)	(66,318)	(91,330)	(100,234)	P/E (x)	NM	44.6	30.6	48.2
					P/BV (x)	1.3	1.3	1.3	1.2
					EV/EBITDA (x)	0.3	0.1	0.4	0.3
					Dividend Yield	3.3%	1.6%	0.9%	0.6%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

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Buy ≥ +15.00% expected share price performance

Hold +0.00% to +14.99% expected share price performance

Sell < 0.00% expected share price performance

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