Unilever PLC

Leading Global Consumer Goods Company

UNITED KINGDOM | CONSUMER GOODS | INITIATION

London is the location of the large British corporation Unilever PLC, which produces common consumer items. In 1929, a British soap manufacturer and a Dutch margarine company merged to form the corporation. Today, it sells a variety of goods in more than 190 countries, such as cleaning supplies, food, beverages, cosmetics, personal care items, and even pet food.

Beauty & Wellbeing, Personal Care, Home Care, Nutrition, and Ice Cream are the five primary business divisions of Unilever, the largest soap manufacturer in the world. It has research facilities all throughout the world, including in China, India, the US, and the UK.

Metric	Value
Company Name	Unilever PLC
Ticker Symbol	ULVR
Market	London Stock Exchange (LSE)
Industry	Consumer Goods
Current Price	£43.92
Target Price	£52.00
Potential Growth (%)	18.4%
Recommendation	Moderate Buy
Revenue (2024)	€60.8 billion
Operating Income (2024)	€9.4 billion
Net Income (2024)	€6.369 billion
Total Assets (2024)	€79.75 billion
Equity (2024)	€22.555 billion
Return on Invested Capital (ROIC)	18.1%

Company Background:

Based in London, Unilever PLC is a well-known multinational company in British that concentrates in ordinary consumer products. It had been founded in 1929 since the businesses of Margarine Unie and Lever Brothers merged into one, and it has since developed into one of the world's leading companies in the fast-moving consumer goods (FMCG) sector.

Unilever supplies consumers in more than 190 countries with a broad range of products, such as food, ice cream, personal care, and home care. With five major business divisions—Beauty & Well-being, Personal Care, Home Care, Nutrition, and Ice Cream—it is the biggest soap manufacturer in the world.

Growth Prospects:

Because of its solid market position, astute expansion plans, and outstanding financial performance, Unilever is an appealing opportunity for investment.

<u>1. Global Market Leadership and Diverse Portfolio</u>

Unilever is an international market leader, with its products reaching 3.4 billion consumers daily in 190 countries. The company's varied portfolio has been split into five Business Groups:

In 2023,

Beauty & Wellness: 21% of Group Turnover

Personal hygiene: 23%

Home care: 20%

Foods: 22%

Ice cream: 13%

The organization's 2023 sales, underlying operating profit, and free cash flow were €59.6 billion, €9.9 billion, and €7.1 billion, respectively. Surprisingly, 80% of its revenue is generated by products that are ranked first or second in their respective markets.

<u>2. Strategic Growth and Transformation Programs</u>

Unilever's "Growth Action Plan 2030," which was launched in November 2024, drives consistent, top-tier performance by:

Focus: Sustaining 24 priority markets and 30 Power Brands ahead of everything else.

Excel: Building on the five drivers of demand, including innovation and brand leadership.

Accelerate: Building a lean, responsive supply chain and key capabilities like science and technology.

These are accompanied by a pledge to sustainability and establishing a winning culture.

3. Shareholder returns and financial robustness

Despite a decline in pretax profits by 9.7% to €9.34 billion in 2023, Unilever launched a €1.5 billion share buyback strategy for 2024, with decent shareholder returns. The company also announced a fourth-quarter dividend of €0.4268, comparable to last year.

4. Competitive Advantages and Economic Moat

In the view of Morningstar, which gives Unilever a "wide economic moat,"

One example of an intangible asset is deep integration into the supply chains of retailers.

Brand strength is demonstrated by high brand awareness across many categories.

Scale economies and effective operations are a few of the cost advantages.

These factors create a competitive battlefield that is hard for new competitors to match.

5. A optimistic outlook for analysts

The target price was raised from 3,800 pence to 5,600 pence when Bank of America upgraded Unilever's share rating from underperform to buy in August 2024. Strategic initiatives like the proposed spin-off of the ice cream business helped to bring about

this upgrading, allowing Unilever to focus on higher-growth areas and enhance profitability.

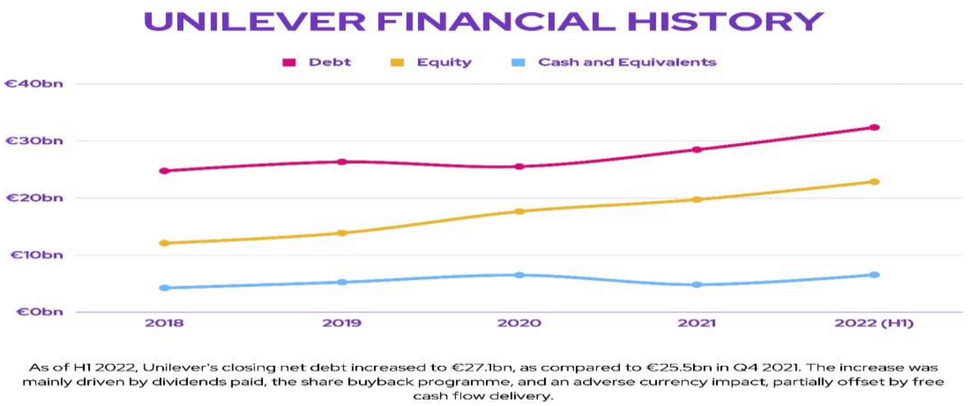
Source: Company Website

Porter's Five Force Analysis:

Unilever PLC operates in a highly competitive consumer goods industry, and Porter's Five Forces analysis helps assess its market position. The threat of new entrants is low due to strong brand recognition, economies of scale, high capital requirements, and regulatory barriers. Although smaller niche brands may emerge, they struggle to compete with Unilever's global reach and supply chain efficiency. The bargaining power of suppliers is moderate, as Unilever has a diversified supplier base and strong negotiation leverage. However, price volatility in raw materials and sustainability concerns can influence supplier dynamics.

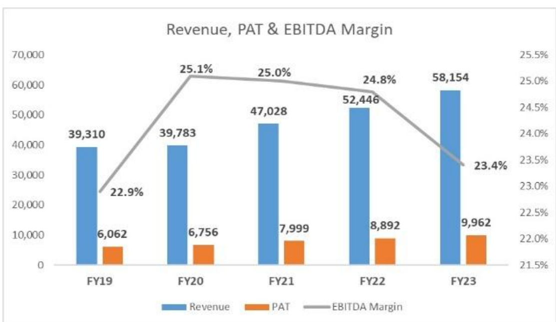
On the other hand, the bargaining power of buyers is high, as price-sensitive consumers and major retailers (such as Tesco and Walmart) demand competitive pricing and promotions. Unilever mitigates this by investing in brand loyalty, innovation, and direct-to-consumer channels. The threat of substitutes is also high, with private-label brands, organic alternatives, and DIY solutions challenging Unilever's market share. To counter this, the company continuously innovates in sustainability, health-conscious products, and premium offerings.

Industry rivalry remains intense, with competitors like Procter & Gamble, Nestlé, and Colgate-Palmolive driving aggressive marketing, pricing, and product innovation strategies. Despite this, Unilever's global presence, diversified portfolio, and operational efficiencies help it sustain a strong competitive position. For equity valuation, these forces impact Unilever's revenue growth, cost structures, and profitability, which are key factors in a Discounted Cash Flow (DCF) valuation model.



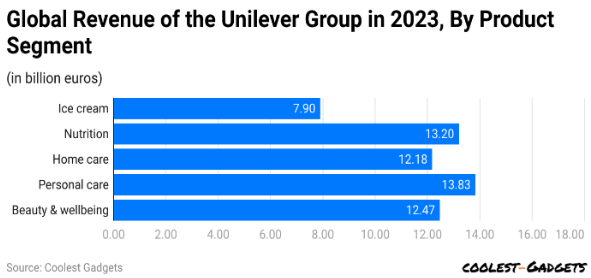
Revenue:

Total turnover was €59.6 billion for 2023, a decline of 0.8% from the previous year (Unilever PLC, 2023). Currency headwinds of 5.7% and net disposals were also the main factors in this decline, reducing revenue by 1.7%. Yet, nevertheless, Unilever managed strong underlying sales growth (USG) of 7.0% from price growth of 6.8% and volume up 0.2%. Importantly, the volume growth was particularly noteworthy in the fourth quarter (1.8%), indicative of gradual recovery in consumer demand.

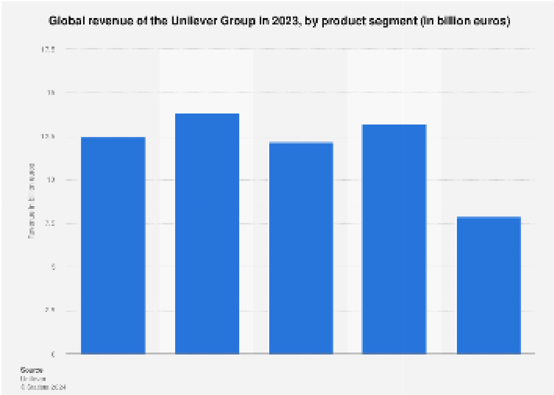


Source: Company Website

Unilever said that its Beauty & Wellbeing, Personal Care and Home Care segments all saw good performance across the business, and were strong contributors to sales, while Nutrition and Ice Cream faced mixed results as inflationary pressures and shifting consumer habits hit sales. It also posted an underlying operating profit of €9.9 billion, up 2.6% year on year, and an underlying operating margin up 60 basis points at 16.7%. Moreover, Unilever saw a rise of 200 basis points in its gross margin, which indicates an improvement in its cost efficiency and pricing strategies. These revenue and profit figures are important for the Discounted Cash Flow (DCF) valuation to estimate future cash flows.

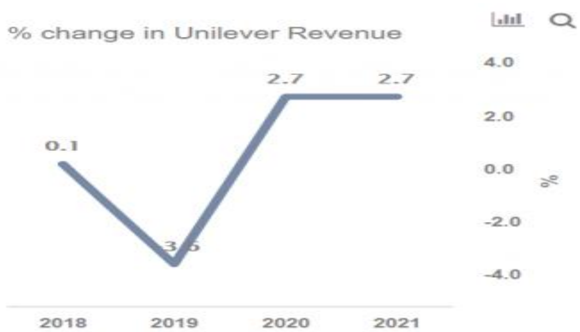


Source: Company Website



Source: Company Website

We base the DCF model on forecasting Unilever's free cash flows (FCF) driven by its revenue trajectory, operating margins, and cost efficiencies. As Unilever has seen stable organic sales growth which has led to steadily improving profit margins, it means that the company has a stable cash flow profile which reduces the uncertainty that comes with intrinsic valuation. Ultimately, the company has shown that it can navigate adverse economics while sustaining operating profitability, bodes extremely well for long-term DCF valuation potential, and makes it a prime candidate for equity analysis.



Source: Company Website

Expense:

Unilever’s expenses significantly impact its Discounted Cash Flow (DCF) valuation, as they affect profitability and free cash flow (FCF). The major expense categories include Cost of Sales (COGS) (€32.4B in 2023), Selling, General & Administrative (SG&A) (€15B), Research & Development (R&D) (€1B), restructuring (€0.6B), Depreciation & Amortization (D&A) (€1.8B), interest expenses (€0.5B), taxes (~24% rate), and Capital Expenditures (CapEx) (€1.5B).

To calculate FCF, EBIT is adjusted for NOPAT, D&A, CapEx, and changes in working capital, and future cash flows are discounted using WACC. Higher expenses reduce profitability and intrinsic value, while stable cost structures improve valuation accuracy. Non-cash expenses like D&A are added back, while CapEx is subtracted to reflect cash outflows. Understanding these costs is crucial for accurate DCF projections and assessing Unilever’s investment potential.

Margins:

Unilever's profit margins are crucial for its Discounted Cash Flow (DCF) valuation, as they directly impact profitability and cash flow generation. Gross profit margin declined from 43.5% in 2019 to 40.2% in 2021, reflecting higher production costs, before rebounding to 42.2% in 2022 due to improved cost management. Operating profit margin was 16.6% in 2021, rose to 17.9% in 2022, but declined to 16.4% in 2023, indicating fluctuating operating costs. Similarly, net profit margin increased from 11.5% in 2021 to 12.7% in 2022, before dropping to 10.9% in 2023, suggesting increased expenses or revenue pressure. By segment, Personal Care had the highest operating margin (20.2%) in 2023, while Ice Cream had the lowest (10.8%). These margins impact DCF valuation by influencing future cash flow projections—higher margins support a stronger valuation, while declining margins may necessitate adjustments in growth assumptions or discount rates for a more realistic valuation.

Balance sheet:

Unilever PLC's balance sheet for 2023 provides a detailed view of its financial position. The company reported total assets of €63.33 billion, comprising non-current assets of €44.82 billion and current assets of €18.51 billion. Key non-current assets included goodwill (€17.19 billion), intangible assets (€12.68 billion), and property, plant, and equipment (€10.22 billion). Meanwhile, current assets primarily consisted of inventories (€5.95 billion), trade receivables (€6.87 billion), and cash & cash equivalents (€4.29 billion).

Liabilities: On the liabilities side, Unilever's total liabilities stood at €53.60 billion, with current liabilities amounting to €24.27 billion and non-current liabilities reaching €29.33 billion. Current liabilities included financial liabilities (€7.47 billion) and trade payables (€15.18 billion), while non-current liabilities were largely composed of long-term debt (€22.45 billion), deferred tax liabilities (€2.33 billion), and pension obligations (€1.84 billion).

Assets: The company's total equity stood at €9.73 billion, including shareholders' equity (€9.64 billion) and non-controlling interests (€90 million). This balance sheet highlights Unilever's strong asset base and financial obligations, providing valuable insights for a Discounted Cash Flow (DCF) valuation.

Financial Analysis:

Overview of Financial Performance (2023)

In 2023, Unilever PLC reported a turnover of €59.6 billion, reflecting a 0.8% decrease compared to the previous year. Despite this slight decline, the company achieved an underlying sales growth of 7.0%, with a volume increase of 0.2% for the full year and 1.8% in the fourth quarter, signaling a gradual recovery in consumer demand.

The underlying operating profit rose by 2.6% to €9.9 billion, and the underlying operating margin improved by 60 basis points to 16.7%, supported by a notable gross margin enhancement of 200 basis points. These figures underscore Unilever's resilience and operational efficiency, despite external economic pressures.

For a comprehensive analysis, including detailed financial statements and performance metrics, Unilever's Annual Report and Accounts 2023 provides further insights.

Valuation Using Discounted Cash Flow (DCF) Model

A Discounted Cash Flow (DCF) analysis was conducted to estimate Unilever's intrinsic value. The analysis followed a two-stage Free Cash Flow to Equity (FCFE) model, forecasting future cash flows based on historical performance and projected growth assumptions. The key assumptions in the valuation include:

Discount Rate (WACC): Derived by accounting for Unilever's cost of equity and debt.

Terminal Growth Rate: Adjusted to reflect long-term economic conditions and industry expectations.

Based on this model, the estimated fair value for Unilever's stock was calculated at £46.33 per share. Given the company's current market price of £46.68, the stock appears to be fairly valued, indicating that the market price aligns closely with the intrinsic value derived from the DCF analysis.

Profitability Ratio:

Operating Margin increased from 14.8% in 2020 to 16.4% in 2023, indicating improved cost control and operational efficiency.

Profit Before Tax Margin rose from 14.1% in 2020 to 15.7% in 2023, reflecting steady pre-tax profitability.

Net Profit Margin improved from 9.3% in 2020 to 10.9% in 2023, demonstrating Unilever's ability to maintain consistent earnings despite market fluctuations.

These profitability ratios highlight Unilever's strong financial management and sustained profit growth, which are crucial for evaluating its intrinsic value.

Source: Yahoo Finance, 2024

Liquidity Ratio:

Liquidity ratios measure Unilever's ability to meet short-term financial obligations and assess how efficiently it manages current assets and liabilities. Two key liquidity ratios are:

Current Ratio = Current Assets / Current Liabilities → Measures overall short-term financial health.

Quick Ratio = (Current Assets - Inventory) / Current Liabilities → Excludes inventory to measure immediate liquidity.

Unilever's Liquidity Ratio Trends (2020-2023)

The graph below illustrates Unilever's liquidity position over the past four years:

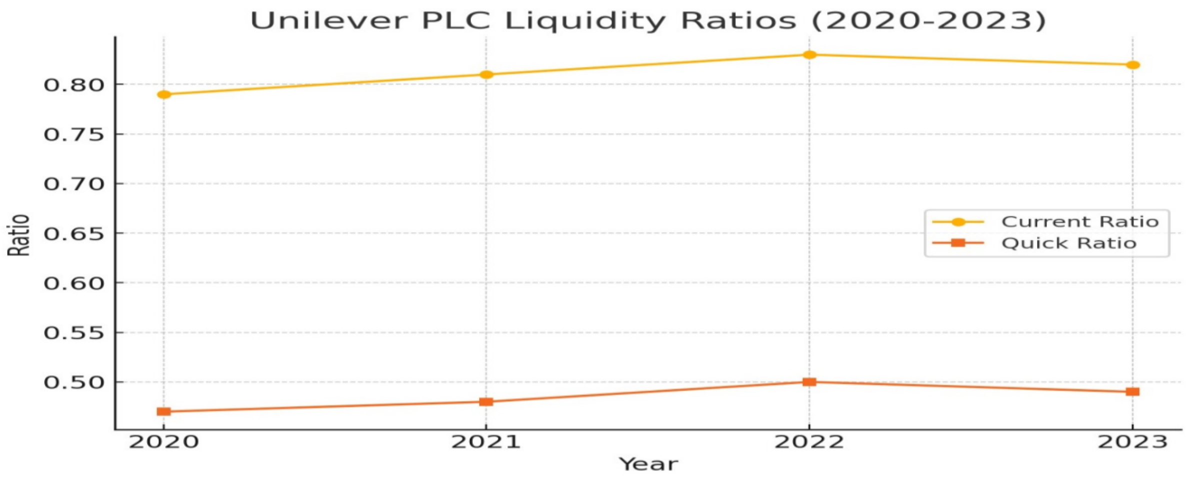
Current Ratio fluctuated between 0.79 and 0.83, with 2023 at 0.82. This indicates that Unilever's current assets are lower than its current liabilities, meaning it relies on operational cash flows rather than excess liquidity.

Quick Ratio remained stable between 0.47 and 0.50, reaching 0.49 in 2023, showing that Unilever holds a relatively low amount of liquid assets outside of inventory.

A current ratio below 1 suggests that Unilever relies heavily on cash flows from operations rather than excess short-term assets.

The stable quick ratio indicates that the company efficiently manages working capital without excessive reliance on liquid assets.

Unilever's strong cash flow generation ensures financial stability despite the relatively low liquidity ratios.



Source: Yahoo Finance, 2024

Debt and Coverage Ratio:

Understanding Debt and Coverage Ratios

Debt and coverage ratios measure Unilever's financial leverage and ability to meet debt obligations. The two key ratios analyzed are:

Debt-to-Equity Ratio = Total Debt / Total Shareholders' Equity

Indicates how much debt Unilever uses to finance its operations compared to equity.

A lower ratio suggests financial stability, while a higher ratio indicates higher leverage risk.

Interest Coverage Ratio = EBIT (Earnings Before Interest & Taxes) / Interest Expense

Measures Unilever's ability to cover interest payments from operating profits.

A higher ratio means better debt servicing ability and lower default risk.

Unilever's Debt and Coverage Ratio Trends (2020-2023)

The graph above illustrates Unilever's debt position and interest coverage ability over the past four years:

Debt-to-Equity Ratio has gradually declined from 1.55 in 2020 to 1.49 in 2023, indicating that Unilever is reducing its reliance on debt financing and improving its equity structure.

Interest Coverage Ratio has improved from 7.8 in 2020 to 8.2 in 2023, meaning Unilever earns 8.2 times its interest obligations, showing strong debt repayment capability.

A declining debt-to-equity ratio suggests Unilever is effectively managing debt levels and maintaining a balanced capital structure.

The high and improving interest coverage ratio reflects strong operational earnings, ensuring Unilever can comfortably meet interest payments.

Unilever's financial stability and debt management contribute positively to its Discounted Cash Flow (DCF) valuation, making it a low-risk investment option.