

Unilever PLC

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Unilever shares gain as Bryan Garnier upgrades recommendation to 'buy'

Unilever PLC (LON:ULVR) shares gained on Friday as Bryan Garnier upgraded its recommendation on the stock to 'buy' from 'neutral' after the consumer goods giant reported stronger-than-expected underlying revenue growth for the third quarter.

The maker of Marmite, Dove and Ben & Jerry's on Thursday posted a 3.8% increase in underlying sales for the third quarter with growth across all its divisions including home care, beauty and personal care, and food and refreshments.

READ: Unilever reports drop in quarterly turnover in wake of scrapping Dutch relocation plan

Unilever said it continues to expect underlying sales growth of 3% to 5% for the year.

Unilever outperforms market

Bryan Garnier said the third quarter sales performance outperformed the wider market's 3% growth and expects the group to post a 3.1% rise in full-year organic sales.

"We expect an acceleration in 2019 at +4.3% mainly driven by a rebound in Americas (+3%)," the broker said.

"This should be a good performance vs Danone and Nestlé which should publish respective organic sales growth of 2.7% and 3.1%."

It estimates EBIT margins will expand 360 basis points (bps) between 2016 and 2020, compared to 270bp at Danone and 190bp at Nestlé. Unilever has forecast an EBIT margin of 18.3% this year, in line with consensus forecasts and up 80bps on last year.

Shares under pressure after investor revolt

Unilever's shares have come under pressure in recent months after a shareholder revolt over plans, announced in March, to relocate its headquarters from London to Rotterdam and shift from a dual to a sole listing.

READ: Unilever boardroom shakeup expected after U-turn on HQ relocation

The group abandoned the plans in early October after an outcry from UK investors, who were worried that Unilever would be ejected from the FTSE 100, forcing funds that track the index to sell their shares.

In July, the company completed the disposal of its spreads businesses, which includes household names Flora and I Can't Believe It's Not Butter, to private equity house KKR for £6bn in July.

The disposal was part of an effort to overhaul the group after turning down a £115bn takeover from Kraft Heinz.

Bolt-on acquisitions to boost future sales growth

Price: 4400

Market Cap: £1.16 billion

1 Year Share Price Graph



Share Information

Code: ULVR

Listing: LSE

52 week High Low
5333 3905

Sector: Food & drink

Website: www.unilever.com

Company Synopsis:

Unilever is a global supplier of consumer goods, the company's brands include Knorr, Lipton, Hellmann's, Magnum, Omo, Dove, Lux and Axe/Lynx.

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Bryan Garnier said the sale of the spreads business means the home and personal care (HPC) divisions will now account for 65% of the group's total sales, close to its informal target of 70%.

"We estimate underlying growth in the HPC market is 3.5% vs 1.5% for food," it said.

"Over the past five years, HPC grew more than two times faster than food at Unilever."

The broker also believes the acquisitions and disposals Unilever carried out in 2017 and 2018 will add 90bps to organic sales growth in 2019 and 100bps in 2020. Last year, Unilever bought Asian skincare business Carver Korea and US-based beauty firm Sundial Brands.

This year, it has agreed to buy the beauty, personal care and home care brands of Latin American firm Quala, US beauty firm Schmidt's Naturals and a 75% stake in Italian wellbeing brand Equilibra.

"The group has always done bolt on which it considers to be the best way to create value by deploying the products in its distribution network," Bryan Garnier said.

"The pace of acquisitions has clearly stepped up since Kraft's takeover attempt."

Shares increased 2.2% to 4,077p in late morning trading.

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