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Unilever PLC

11:27 25 Jul 2019

Unilever sales growth softer than hoped but pricing and margins are sweeter

Unilever PLC (LON:ULVR) improved sales less than the market was expecting in the second quarter but margins continue to pick up.

The consumer goods colossus increased organic sales 3.5% in the most recent quarter, up from 3.1% in the three months of the year but short of the consensus forecast of 3.7%.

READ: Unilever shares gain after first quarter underlying sales beat expectations
Underlying sales volume grew 1.2%, which was less than the 1.9% that City analysts had pencilled in, while pricing continued to ascend, up 2.3% in the three months to June compared to consensus estimate of 1.7%.

Growth across the Unilever's various end markets was mixed, with weather affecting European and North American ice cream sales and overall developed markets were weaker.

Emerging markets continued their good momentum, particularly in China and South East Asia, while India's strong growth moderated as expected and Argentina's hyperinflation weighs on consumer demand.

Margins improving
For the first half as a whole, underlying sales growth of 3.3% was accompanied by a pick-up in underlying operating margins to 19.3% from 18.8% a year ago, leading to underlying operating profits of £5.1bn, up 1.8% and slightly ahead of forecasts.

Underlying earnings per share of €1.27 was up 5% on this time last year, but slightly short of the €1.29 expected.

Price: 4428.5

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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Chief executive Alan Jope, who took the top job after predecessor Paul Polman got the boot along with his attempt to move the group's HQ to Holland, reiterated the guidance for the full year of delivering underlying sales growth in the lower half of the long-term 3%-5% range, with continued gains in underlying operating margin.

"Accelerating growth remains our top priority and we continue to evolve our portfolio and seek out fast growth channel and geographical opportunities, as well as address those performance hotspots where growth is falling short of our aspirations," he said.

Developed versus emerging
"Unilever is developing a pattern with a good performance in emerging markets and a struggle in developed markets. Ideally you want strength in both regions," said Russ Mould, investment director at AJ Bell.

With the the consumer goods giant saying full-year growth will be in the lower half of its target range, he added: "Increasingly you have to question whether developed market consumers are shunning the big name brands and are happy with retailers' own brands or less expensive versions of products.

"Unilever, like many other large cap consumer goods providers, has enjoyed many years of stellar earnings thanks to the strength of its brands and the public automatically flocking to its products because they stand out on the shelves. Now there is so much more choice and the consumer is increasingly value-driven and so will try alternative products, rather than simply rely on the big-name brands."

While Unilever will make lower-priced versions of many of its products, these items are likely to come with lower profit margins, so to protect and grow margins, the group knows it will have to accelerate new product development.

"We're already seeing this brand extension at work with examples such as the Hellmann's brand being taken beyond its core focus of mayonnaise and used for different types of sauces," Mould said.

"This innovation is essential to keep its brands fresh. However, relatively new chief executive Alan Jope will equally have a close eye on emerging markets where the dynamics are more favourable to Unilever and plentiful opportunities to accelerate sales growth."

Unilever shares, recently setting all-time highs, were down more than 1% to 4,931.26p on Thursday morning.