Valuation Report

JMMB Investments

April 2021
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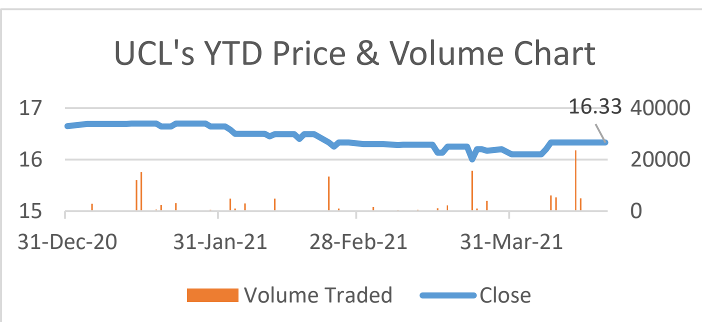
Unilever Caribbean Limited (UCL)

PLEASE SEE IMPORTANT DISCLOSURES

Unilever Caribbean Limited (UCL) is a subsidiary of Unilever Overseas Holdings AG. The local subsidiary operates in three segments: Personal Care, Home Care and Food. Home Care category is manufactured (distribution going forward) at the local Champs Fleur facility while UCL acts as a distributor for the rest of its parent company products.



Key Ratios			
	ROE	ROA	Trailing EPS
UCL	6.7%	4.1%	$0.71
WCO	79.7%	55.0%	$1.62
AHL	12.2%	10.3%	$0.69
GML	1.9%	1.4%	$0.12
NFM	9.1%	4.8%	$0.20
OCM	0.61%	0.42%	$0.04

Company Facts	
Symbol:	UCL
Target Price:	TT$21.36
Sector:	Manufacturing
Market Cap.:	$499,157,684.64
Issued Capital:	26,243,832
Financial Year End:	31-Dec

Stock Performance		
Banking	**YTD Price Change**	**Trailing Dividend Yield**
UCL	-1.92%	3.67%
WCO	-6.81%	3.91%
AHL	-5.98%	1.95%
GML	-4.97%	1.54%
NFM	2.33%	4.00%
OCM	1.03%	12.27%
Sector Avg.		4.56%

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Company Overview & History

Unilever Caribbean Limited (UCL) was incorporated in the Republic of Trinidad and Tobago in 1929, and its registered office is located at Eastern Main Road, Champs Fleurs, Trinidad and Tobago. The Company is a public limited liability company and is listed on the Trinidad and Tobago Stock Exchange. The principal business activities are the manufacture (no longer a manufacturer) and sale of Home Care, Personal Care and Food and Refreshment products. UCL is a subsidiary of Unilever Overseas Holdings AG (50.01% of shares held), which is a wholly owned subsidiary of Unilever PLC, a company incorporated in the United Kingdom.

The origin of UCL dates to 1929, when two predecessor companies; Trinidad Manufacturing & Refining and West Indian Oil Industries, were established in Trinidad to produce crude soaps and fats using local coconut oil. The London/Rotterdam-based Unilever acquired these two companies in 1948, and eventually merged them to form Lever Brothers West Indies Ltd. (LBWI) in 1964. The factory that stands at Champs Fleurs today was built in 1960, to produce both toilet and laundry soaps, packed margarine and shortening, and bottled cooking oil. Later additions were the powder detergent and liquid plants, as well as a broad-based personal product facility, which has subsequently been closed.

In 2004, Unilever worldwide relaunched its corporate brand and logo and with this came the mandate to adopt the Unilever identity in all local operations. As a result, in October 2004, Lever Brothers West Indies became Unilever Caribbean Limited due to a unanimous shareholder vote.

Today, UCL operates as part of the Greater Caribbean grouping, with offices in three countries, namely, Dominican Republic, Puerto Rico and Trinidad & Tobago, with this Greater Caribbean structure reporting to Mexico. UCL, with just over 200 employees, has responsibility for some seventeen countries in the Southern Caribbean through a network of distributors.

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Business Model

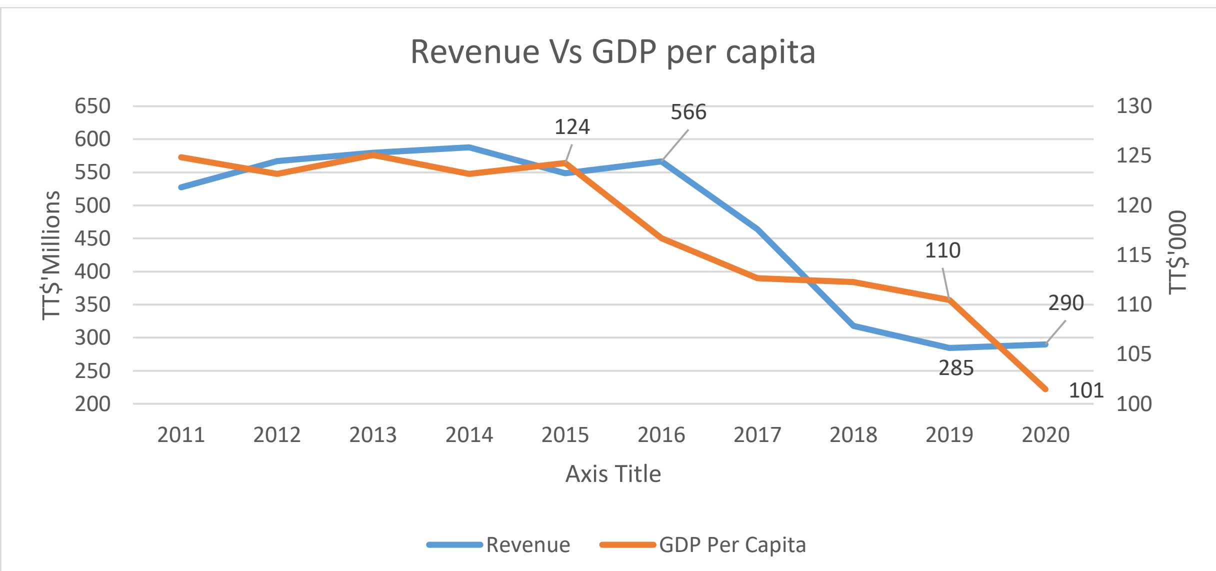
UCL operates in three segments: Personal Care, Home Care and Food. Home Care category is manufactured at the local Champs Fleur facility (UCL will source its Home Care products from global affiliates going forward) while UCL acts as a distributor for the rest of its parent company products. The Personal Care segment sells hair care, deodorants, oral care, skin-cleansing and hand and body care products. Home Care sells powder detergents, dishwashing liquids, and fabric conditioners. The Food segment offers cooking aids, dressings and savory products alongside teas and ice-cream.

The Home Care business consists of iconic brands like BREEZE, RADIANTE, COMFORT, QUIX and CIF in the Laundry Detergent (Powdered and Liquid), Fabric Conditioning, Dishwashing Liquids, and General Purpose Cleaners categories.

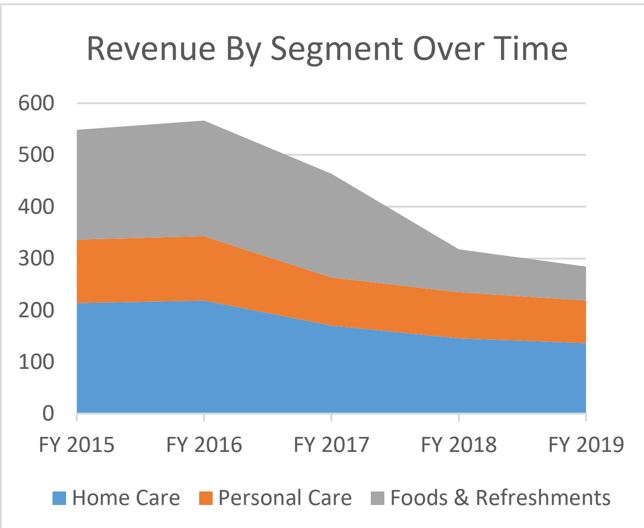
The major brands in the Personal Care segment include AXE, DEGREE, DOVE, LIFEBUOY, LUX, SUAVE, TRESEMME and VASELINE.

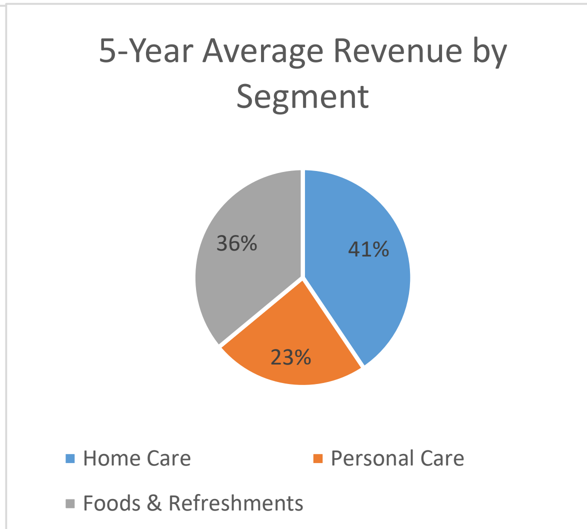
Major brands in the food category include HELLMANN'S in the domestic market, and MAIZENA. The Refreshments business comprises Teas (LIPTON and RED ROSE), and Ice Cream (MAGNUM, BEN AND JERRY'S, BREYERS).

Financial Analysis

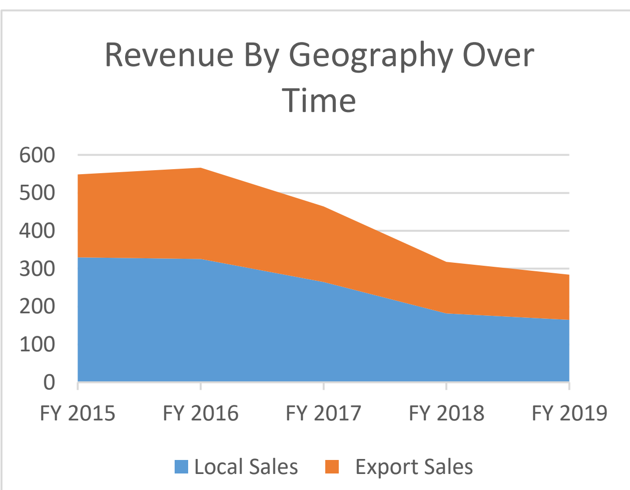


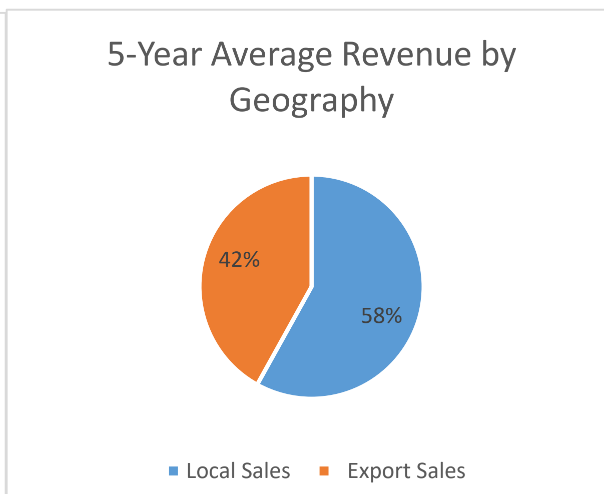
UCL's revenue has been trending downwards since 2016. Revenue fell by approximately, TT$ 282 million (50%) in that period. The fall in revenue coincided with a recession in Trinidad and Tobago which began in 2015. However, in 2020, the downward trend was reversed.





Revenue for FY 2020 grew by 1.9% to TT$ 290 million, versus the prior year's revenue of TT$ 284.5 million. According to the Chairman's Review, this was driven by a strong performance in the domestic market, resulting in a growth of 10.7%, mostly driven by the Personal Care and Food segments.





Both local and export sales declined from 2015 to 2019, but as stated before, 2020 saw an increase in local sales. Local sales account for 58% on average of total sales while export sales account for 42%.

Profitability	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Trend	5-Year Avg.
Return on Equity	18.9804	4.4546	55.625	-24.0361	6.7439		12.35356
Return on Assets	9.6475	2.3398	33.3601	-14.7759	4.1397		6.94224
Gross Profit Margin	40.3338	35.8039	33.8065	37.025	44.9524		38.38432
Operating Margin	10.8808	4.2057	1.4266	0.3806	7.5925		4.89724
Net Income Margin	7.5031	2.2563	2.0002	-26.6862	6.416		-1.70212

In 2018 Return on Equity (ROE) was abnormally high as a result of the divestment of UCL's spreads business in that year. Return on capital employed in 2018 was 1%. In 2019, ROE fell to -24% mainly due to cost associated with the restructuring exercise. UCL returned to profitability in 2020 largely due the restructuring exercise undertaken. Return on Assets (ROA) followed the same trend as ROE over the period.

Profit margins declined consistently from 2016 to 2019. Due to the various restructuring exercises undertaken by UCL, profit margins have improved considerably in 2020.

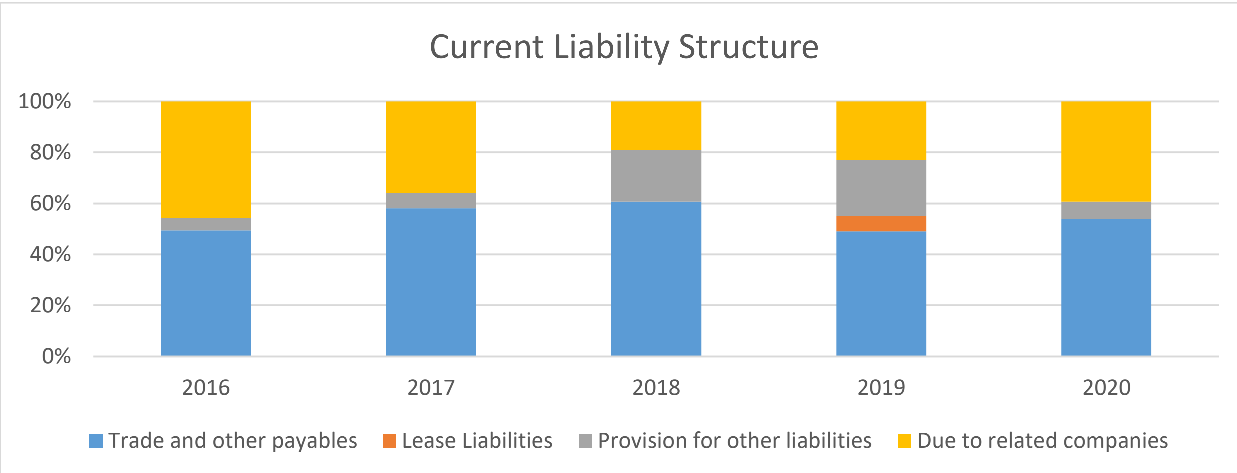
Liquidity	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Trend	5 Year Avg.
Current Ratio	1.68	1.44	2.80	1.75	2.45		2.03
Quick Ratio	1.28	0.77	0.95	0.72	1.56		1.06

UCL has very healthy liquidity ratios. The company's current ratio is above 2 and its quick ratio is above 1.5. This indicates that the company is well equipped to meet its short-term debt.

Solvency & Financial Ratios	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Trend	5 Yr. Avg.
Total Liabilities to Total Assets	47.62%	47.33%	34.28%	43.72%	33.21%		41.23%
Total Liabilities to Total Equity	90.91%	89.86%	52.16%	77.68%	49.72%		72.07%
Equity Multiplier	1.91	1.90	1.52	1.78	1.50		1.72

While UCL has no formal long-term debt, it funds its working capital and investment capital through holding significant current liabilities and to a lesser extent long-term payables. This translates to a lower cost of capital for UCL, but increases the need for working capital management as on average over the 5 years 73% of total liabilities relates to current liabilities.

These current liabilities are mostly trade and other payables as well as amounts due to parent and related firms. Given the restructuring we expect that the share due to related companies will increase.



With liabilities to equity for 2020 of ~50%, UCL has become less dependent on funding from debt holders as that measure declined from ~91% in 2016. Risk is therefore tilted to equity holders of UCL.

Efficiency Ratios	2016	2017	2018	2019	2020	Trend	5 Year Avg.
Total Asset Turnover	1.29	1.04	0.63	0.55	0.65		0.83
Inventory Turnover	9.83	8.42	7.00	6.62	8.20		8.01
Average Collection Period (days)	92.84	91.25	83.67	101.71	111.34		96.16
Days Payable Outstnading	86.07	67.84	68.63	164.34	123.28		102.03
Days in Inventory	62.25	67.53	78.75	87.23	80.89		75.33
Cash Cycle	69.03	90.93	93.78	24.60	68.94		69.46
Free Cash Flow to Sales	0%	-3%	-40%	10%	21%		-0.02

From 2016 to 2019 the increase in revenue was less than the corresponding increase in assets leading to declining usage efficiency of assets over that period. In 2020, this trend has reversed slightly as a result of a small increase in revenue and a decline in total assets.

The Free cash flow to Sales ratio indicates that between 2016 and 2018 UCL struggled to convert sales into cash. This measure has since improved with the company converting 20% of its sales into cash in 2020. A breakdown of the cash cycle will give a more definitive picture of activity over the period.

Average time taken to collect on receivables is an area of concern for UCL. This measure has increased from 84 days in 2018 to 112 days in 2020. It may be difficult for management of UCL to address this measure given that their debtors may be experiencing difficulties as a result of the pandemic.

Time taken to pay UCL's suppliers now stands at 124 days verses 165 days in 2019. Although this measure has improved in 2020, it is still well above its 5-year average. Management should continue to monitor this measure as they may not want to jeopardize their relationships with suppliers.

Days taken to sell off merchandise had increased steadily from 63 days in 2016 to 88 days in 2019. In 2020, UCL took 81 days to sell off their merchandise, a 7-day improvement from the previous year. The deterioration in the rate at which UCL sell its merchandise signals a worsening economy or increased competition as the firm is holding more inventory on hand for longer periods.

UCL's cash cycle increased to 69 days in 2020 from 25 days in 2019. This is a reversion to the levels seen in 2016 and 2017. This increase is mainly due to a 41-day decrease in the number of days that UCL takes to pay their suppliers.

Competition

UCL continues to face competition from cheaper imported products in their Home Care segment. One recent development in this space is a draft standard proposed by the Trinidad & Tobago Bureau of standard. This standard sets out compulsory requirements for laundry detergents beings sold in Trinidad & Tobago. The standard sets out compulsory requirements for the chemical composition and labelling of these products. These requirements will likely affect the lower cost and/or imported products which compete with UCL's Home Care products.

Please see excerpts from the draft standard below:

TRINIDAD AND TOBAGO STANDARD

COMPULSORY

LAUNDRY DETERGENTS– COMPULSORY REQUIREMENTS

CDTTCS 7:20XX
(Replaces TTS 466:2010)

4 Compulsory requirements

4.1 Chemical composition

4.1.1 Laundry detergents shall conform to the requirements specified in Table 1 when tested in accordance with the relevant test methods.

Table 1 — Chemical requirements for laundry detergents

	Form of laundry detergent							
	Powder		Liquid		Bar		Capsule/pod	
Parameter	Test method	Limit	Test method	Limit	Test method	Limit	Test method	Limit
Moisture and volatile matter content at 105 °C maximum wt %	ASTM D820	15	-	-	-	-	-	-
pH maximum	ASTM D1172 or ISO 4316	11	ASTM D1172 or ISO 4316	11	ASTM D1172 or ISO 4316	11	ASTM D1172 or ISO 4316	12.5
Water insoluble matter maximum wt %	ASTM D820	5	-	-	-	-	-	-
Surface active agent minimum wt %	ISO 2871-1 ISO 2872-2 ISO 2271 BS 3762-3.7 ASTM D6173 (for pure anionic surfactants)	10	ISO 2871-1 ISO 2872-2 ISO 2271 BS 3762-3.7 ASTM D6173 (for pure anionic surfactants)	15	ISO 2871-1 ISO 2872-2 ISO 2271 BS 3762-3.7 ASTM D6173 (for pure anionic surfactants)	20	ISO 2871-1 ISO 2872-2 ISO 2271 BS 3762-3.7 ASTM D6173 (for pure anionic surfactants)	20
Phosphates as STPP and tetrasodium pyrophosphate maximum wt %	ISO 4313	1	ISO 4313	1	ISO 4313	1	ISO 4313	1
Ultimate biodegradation of surfactant minimum %	OECD 301D or ISO 10708	60	OECD 301D or ISO 10708	60	OECD 301D or ISO 10708	60	OECD 301D or ISO 10708	60

4.2 Labelling

4.2.1 Labelling of laundry detergents in powder and liquid form

4.2.1.1 Retail packages of powder and liquid laundry detergents shall be conspicuously and legibly labelled in the English Language with the following information:

a) the common or usual name of the product,

b) any trade name or brand name;

c) the name and identifiable address, the principal place of business or registered office of the manufacturer, agent, distributor, seller, re-filler, packer, importer or organization responsible for the product together with a relevant electronic or telephone contact. This information shall be preceded by the words "manufactured by", "packed by", "distributed by", or "imported by", as applicable.

d) country of origin which shall be preceded by any of following phrases :

   1) "made in";

   2) "product of";

   3) "packaged in"; or

   4) "manufactured in".

e) a correct statement of the net contents of the package, subject to such tolerance as may be allowed, in SI units and any other units permitted under the Metrology Act 18 of 2004;

f) all ingredients or contents shall be listed in decreasing order of pre-dominance by weight or volume. 'Active Ingredients' shall be stated first, in decreasing order of weight, or volume, or percentage, followed by the 'Inert Ingredients', in decreasing order of weight or percentages

g) where any risk to the safety or health of a consumer or user, or where any significant deterioration of the quality, performance life, durability, or other property of the laundry detergent may result, any appropriate hazard symbol and instructions for use, shall be provided on the label on the package.

h) the batch number or lot number; if coded, this information shall be clear and unambiguous to the TTBS;

i) date of manufacture of the product shall be stated in a format which is unambiguous and acceptable to the TTBS;

EXAMPLE The following are acceptable date markings:

   1) JAN 08

   2) JAN 2008

   3) 13 JAN 2008

   4) 01 2008

j) the date of minimum durability shall be declared by the words "best before" or words expressing similar intent including "expiry" or "use by", "BB" or "EXP". The words used to express date of minimum durability shall be accompanied by:

   1) either the date itself; or

   2) a reference to where the date is given.

k) information regarding any specific dangers and precautions which might be related to the detergent and its application and first aid instructions where necessary; and

EXAMPLE Detergent solution can be a skin irritant. Avoid prolonged contact. Rinse garment and hands thoroughly.

l) storage conditions for laundry detergents.

4.2.1.2 Bulk packages of powder and liquid laundry detergents shall be conspicuously and legibly labelled in the English Language with the following information:

a) the common or usual name of the laundry detergent,

b) any trade name or brand name;

c) the name and identifiable address, the principal place of business or registered office of the manufacturer, agent, distributor, seller, re-filler, packer, importer or organization responsible for the laundry detergent together with a relevant electronic or telephone contact. This information shall be preceded by the words "manufactured by", "packed by", "distributed by", or "imported by", as applicable.

d) country of origin which shall be preceded by any of following phrases :

   1) "made in";

   2) "product of";

   3) "packaged in"; or

   4) "manufactured in".

e) a correct statement of the number of retail packages contained within the bulk package;

f) the batch number or lot number ; if coded, this information shall be clear and unambiguous to the TTBS;

g) date of manufacture of the laundry detergent shall be stated in a format which is unambiguous and acceptable to the TTBS;

h) the date of minimum durability shall be declared by the words "best before" or words expressing similar intent including "expiry" or "use by", "BB" or "EXP". The words used to express date of minimum durability shall be accompanied by:

   1) either the date itself; or

   2) a reference to where the date is given.

i) storage conditions for laundry detergents.

4.2.2 Labelling of detergents in bar and capsule/pod form

Retail and bulk packages of bar and capsule/pod detergents shall be conspicuously and legibly labelled in the English Language with the following information:

a) any trade name or brand name ;

b) country of origin which shall be preceded by any of following phrases:

   1) "made in";

   2) "product of";

   3) "packaged in"; or

   4) "manufactured in".

c) the date of minimum durability shall be declared by the words "best before" or words expressing similar intent including "expiry" or "use by", "BB" or "EXP". The words used to express date of minimum durability shall be accompanied by:

   1) either the date itself; or

   2) a reference to where the date is given.

Key Value Drivers

Improvements in UCL's profit margin (Reduction of Labour Cost) – As a result of the retrenchment exercise undertaken, UCL was able to reduce its labour cost and improve its gross margin to 45% in 2020 from 34% in 2018. We expect even further gross margin improvements in 2021.

Growth in UCL's Revenue (Local & Regional Economic Conditions) – Earlier analysis indicates that UCL's revenue growth maybe highly dependent on the state of the economy in which it operates. While the pandemic has had a positive impact on UCL's Personal Care segment and Food & Refreshments segment, its Home Care segment didn't perform as well. Economic hardship as a result of the pandemic meant that there was a flight to lower cost bargain brands. This affected UCL's revenue growth in this segment. As vaccination programs are rolled out across the Caribbean and economies begin to reopen the expectation is that revenue in this segment will rebound.

Growth in Market Share (Compulsory Standard – Home Care) – When the new compulsory standard for laundry detergent is finalized by the bureau of standards in 2021, the expectation is that this standard will impact the lower cost local and imported brands competing with UCL's Home Care segment. This standard will likely increase cost for UCL's lower cost competitors as a result of meeting the labeling and/or quality requirements set out in the standard. This may allow UCL to regain some of the market share which it has lost over the last 4 years.

Valuation

Three valuation models were utilized to obtain an estimated intrinsic value range for UCL. Firstly, a discounted free cash flow (DCF) model was utilized. A simple P/E method using the average multiple over the last 5 years was used. Lastly, a dividend discount model was utilized.

DCF Model

The discounted cash flow model is based on a detailed analysis and projection of company cash flows and accompanying financial statements. The bases of this forecast are assumptions made about the main value drivers for UCL. We projected EPS for continuing operations to be TT$ 1.08 at the end of financial year 2021. Intrinsic valuation on the FCFF model shows a fair value of TT$ 27.81 vs. a market price of TT$ 16.33.

Simple P/E Insights

This model is a simple yet powerful measure of value that relies on historical market sentiment of the growth prospects of the stock. It uses the market implied multiple for UCL for the past 5 years and forecasts the firm's EPS to arrive at the firms 'fair value'. The analysis shows that UCL is Undervalued by TT$ 0.69.

DDM Model

Our DDM assumes UCL will be able to maintain an average payout ratio of 85% for the next two years, increase it to 90% thereafter and grow its EPS (and hence dividends) at the firm's fundamental growth rate for the next 5 years. Intrinsic valuation on the DDM shows a share price of TT$ 17.08 vs. a market price of TT$ 16.33.

UCL Risk Factors

- Continued deterioration in economic conditions in the region can affect UCL's earnings.
- Increased competition from imported brands of detergent and soap liquid brands could erode UCL's market share.
- Difficulty in sourcing foreign exchange could hamper UCL's manufacturing operations.

Recommendation

Fair Value Range		
Model	Intrinsic Value	Weight
DCF	$ 27.81	40%
DDM	17.08	40%
Simple P/E	$ 17.02	20%
Weighted Average Intrinsic Value	$ 21.36	
5% Over	$ 22.43	
5% Under	$ 20.29	

Our models give a range of values from $17.02 to $27.81, each with its own margin of error. The DCF & DDM models were both given a 40% weighting and the simple P/E model was given a weighting of 20%. A 5% margin of error was applied to the weighted price to give a fair value range of $20.29 - $22.43. This is compared to the current market price of $16.33. We recommend UCL with an OUTPERFORM rating.

This OUTPERFORM rating is given on the following basis:

- The improvement initiatives (Retrenchment exercise, sale of spreads business, ending of manufacturing for Home Care) implemented by UCL's management have significantly reduced cost and improved profit margins.
- We believe that the brands (Breeze, Comfort, Axe, Degree, Dove, Ben and Jerry's, Lipton etc.) that UCL carries have a moat in the market, hence it will be able to keep a certain level of market share.

- Standards implemented by the Bureau of Standards will increase cost for low cost competitors in the Home Care market and thus will allow UCL to regain some market share.

APPENDIX

IMPORTANT DISCLOSURES

Abstract— as a part of our new portfolio strategy we are recommending strict adherence to the following portfolio allocation **definitions/recommendations.**

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 10% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER/ INVESTMENT ADVISOR OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM - up to 10% of your portfolio

MARKETPERFORM - 5% of your portfolio

UNDERPERFORM - 2.5% to 4.9% of your portfolio

STRONGLY UNDERPERFORM - less than 2.5% of your portfolio

SELL - 0% of your portfolio