Indiabulls

UNITED BREWERIES LIMITED RESEARCH

EQUITY RESEARCH | August 12, 2008

RESULTS REVIEW

Share Data

Market Cap	Rs. 43.21 bn
Price	180.00
BSE Sensex	15,212.13
Reuters	UBBW.BO
Bloomberg	UBBL IN
Avg. Volume (52 Week)	0.14 mn
52-Week High/Low	Rs. 415.00 / 123.05
Shares Outstanding	240.05 mn

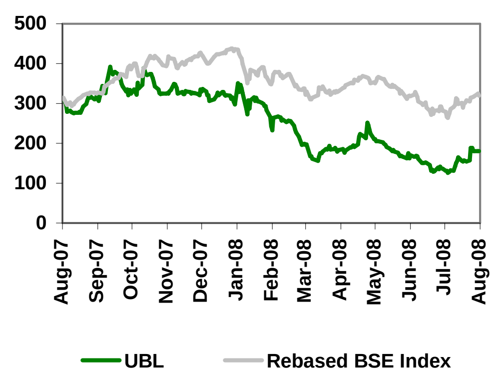
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	1.9	2.6
+/- (%)	(11.7%)	37.3%
PER (x)	96.1x	70.0x
EV/ Sales (x)	2.3x	1.7x
EV/ EBITDA (x)	20.2x	16.4x

Shareholding Pattern (%)

Promoters	75
FIIs	17
Institutions	1
Public & Others	7

Relative Performance



United Breweries Limited — Sell

Aggressive capex plans to dilute earnings

United Breweries Limited's (UBL) top line registered a strong growth of 26.5% yoy to Rs.4.7 bn; however, EBITDA margin dropped by whopping 6.3% yoy to 13.5% due to high advertisement costs. While the Company continues to spend heavily in its distribution network and brand building, it has aggressive capacity-expansion plans and will incur around Rs. 4.9 bn capex for the FY09.

We downgrade our rating on the stock to Sell based on the followings:

Margins to drop: On account of a rise in raw material costs such as barley, hops, and glass, we expect EBITDA margins to decrease to around 11–11.5% for FY09. Other than this, the rise in selling and distribution costs will keep the margins under pressure.

Heavy Capex plans to dilute earnings: UBL is planning to spend around Rs. 10 bn over the next 2–3 years to increase its production capacity from 120 mn cases to 165 mn cases, partly through right issue (raised Rs. 4.25 bn) and partly through internal accruals and debt. We believe that this will lead to a drop in EPS to around Rs. 1.9 for FY09. Besides, UBL's free cash flows (FCF) will remain negative until FY10.

Stretched valuation: The stock has appreciated by 36.7% from our last quarterly update, and at the current market price of Rs.180, it trades at a high forward P/E of 96.1x for FY09E. Besides, our DCF valuation gives a fair value of Rs. 141. Therefore, we believe that the stock's valuation is stretched. We downgrade our rating to Sell.

Key Figures (Standalone)

Quarterly Data	Q1'08	Q4'08	Q1'09	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	3,753	3,835	4,746	26.5%	23.8%
EBITDA	742	510	639	(13.9%)	25.3%
Net Profit	294	175	188	(36.0%)	7.5%
Margins (%)					
EBITDA	19.8%	13.3%	13.5%		
NPM	7.8%	4.6%	4.0%		
Per Share Data (Rs.)					
EPS	1.4	0.8	0.9	(36.0%)	7.5%

Result Highlights

The Company recorded a strong growth momentum in its top line (up 26.5% yoy to Rs. 4.7 bn), led by a robust performance in the Kingfisher strong and premium beer. However, the Company's decision to suspend supplies to the state-run corporation in Andhra Pradesh affected the sales volume in the largest beer market in India. In addition, untimely torrential rain in the northern India, coupled with the adverse changes in the excise policy, which led to an increase in the price of beers, resulted in a decline in sales volume in the north India.

Margins will remain under pressure on account of rising input cost

EBITDA went down by 13.9% yoy to Rs. 639 mn, and EBITDA margin declined by 6.3% yoy to 13.5% due to a substantial rise in advertisement cost and SG&A expenses during the Indian Premium League. However, for FY09, we expect EBITDA margins to remain under pressure around 11–11.5% on account of a rise in key raw materials such as barley, hops, and glass.

Key Events

Raised capital to fund its expansion plans

- UBL is planning to invest Rs. 10 bn to increase its brewing capacity by 20% over the next three years. While the annual production capacity at the Karnataka brewery will be 3 mn cases, the Andhra Pradesh brewery will initially churn out 6 mn cases and will further increase to 12 mn cases in a phased manner.
- ICRA Ltd (ICRA) has assigned LBBB+ rating to the long-term debt and A2+ to the short-term debt programme of the Company.

Key Risks

- Drop in raw material costs
- Government regulations
- Higher than expected revenues growth

Outlook

Heavy capex plans will lead to diluted earnings and negative cash flows

UBL raised Rs. 4.25 bn through the right issue, which it plans to use in expanding existing capacities in the key market and set-up of two new green field breweries. Moreover, the Company is planning to spend around Rs. 10 bn over the next three years to increase its brewing capacity by 20%. We believe that this will help it in improving the volume growth during the next 2–3 years, and hence the top line will grow at a CAGR of 35% during FY08–10E. However, huge capex plans and the expected drop in EBITDA margins due to a rise in raw material cost will lead to a drop in the earnings. We expect the EPS to drop to around Rs. 1.9 for FY09. Besides, the Company's FCF will remain negative till FY10.

The stock has appreciated by 36.7% since our last update. At the current market price of Rs. 180, the stock is trading at a high forward P/E of 96.1x and 70x for FY09E and FY10E, respectively. Using DCF, we have arrived at a fair value of Rs. 141, assuming a 9% Rf, a 5% terminal growth, and a 16.4% WACC. Therefore, we downgrade our rating to a Sell.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY08-10E)
Net Sales	7,991	12,058	15,608	21,070	28,445	35.0%
EBITDA	1,071	1,461	1,858	2,381	2,930	25.6%
Net Profit	113	457	458	449	617	16.0%
Margins(%)						
EBITDA	13.4%	12.1%	11.9%	11.3%	10.3%	
NPM	1.4%	3.8%	2.9%	2.1%	2.2%	
Per Share Data (Rs.)						
EPS	0.5	2.1	2.1	1.9	2.6	10.1%
PER (x)	284.1x	126.0x	84.9x	96.1x	70.0x	

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