

Company Flash

11 March 2008 | 7 pages

Hindustan Unilever (HLL.BO)

Citi India Conference 2008: Day 1 Takeaways

- Conference takeaways** — HUL spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Market growth outlook positive** — According to HUL management, the growth outlook for the FMCG industry remains robust, driven by a strong economic growth outlook, rising rural incomes and the recent measures in the budget.
- Catering to all income segments** — HUL has tailored its products to cater to all income segments, and has been undertaking product innovations to make these relevant to changing consumer tastes.
- New growth drivers being put in place** — HUL is putting in place new growth drivers: it is scaling up its water business through a national launch, looking to expand its high-end personal-care portfolio and will roll out new food products.
- Profits to grow ahead of sales** — HUL management has indicated that it endeavors to grow profits ahead of sales going forward, driven by operating margin improvement. Margins should be driven by improving product mix, investment in new businesses fructifying and rising profitability for detergents.

Buy/Low Risk	1L
Price (11 Mar 08)	Rs223.75
Target price	Rs258.00
Expected share price return	15.3%
Expected dividend yield	4.0%
Expected total return	19.4%
Market Cap	Rs487,311M US\$12,062M

Price Performance (RIC: HLL.BO, BB: HUVR IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	18,554	8.41	31.4	26.6	18.1	73.8	3.1
2007A	19,255	8.84	5.2	25.3	18.1	71.1	4.0
2008E	20,778	9.54	7.9	23.4	17.4	75.7	4.0
2009E	24,513	11.26	18.0	19.9	16.6	85.6	4.8
2010E	28,419	13.05	15.9	17.1	15.8	94.7	5.5

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Hindustan Unilever

Company description

HUL is the largest consumer non-durables company in Asia. 51%-owned by the Unilever Group, HUL has one of the best-managed businesses in India, in our view, and a record of steady growth spanning decades. It has a diversified product portfolio, including fabric wash, personal care, tea, coffee and staple foods. Some of the strongest brands in India such as Lifebuoy, Lux, Surf, Wheel, Lakme, Ponds and Lipton are from the HUL stable.

Investment strategy

We have a Buy/Low Risk (1L) rating on the stock. HUL's valuations look attractive after the recent sell-off. The stock is trading at the lower end of its historical trading range and offers downside protection, in our view. HUL's fundamentals are looking up, with a significant pick-up in growth on improving demand from the urban as well as rural segments, especially in the rural areas. Management has increased its focus on market-share gains and as a result investment in brands has picked up. The company has been aggressively launching new product variants and has also undertaken product re-launches, which we believe will continue. With the high-end personal-care segment growing faster, the product mix is also improving. We believe margins could also surprise on the upside, driven by price hikes and declines in commodity prices. Margins have been under pressure in the past few quarters, and we believe they have bottomed.

Valuation

HUL's fairly steady stream of earnings makes P/E a good tool to value the stock. Our target price of Rs258 is based on what we think is a conservative multiple of 27x 2008E P/E, at the mid-end of the stock's historical trading band of 20-35x, over the past 8 years. We choose mid-end as we expect a re-rating for the stock given that its operating parameters are improving. We do not use a top-end multiple, as competitive intensity has increased over last few years and the environment in which HUL operates is not as conducive as before. At 27x P/E, HUL would trade at a 65-70% premium to the Sensex. The company has historically enjoyed more than a 100% premium to the Sensex owing to its high capital-efficiency ratios and consistent earnings growth. However, we do not expect the stock to re-trace to its historical high premium, given that the company now operates in a different competitive landscape, with higher competitive intensity and a lower margin profile. On EV/EBITDA, we believe the stock should trade at 24x 2008E EV/EBITDA, which gives a fair value of close to Rs250. The stock's trading band has been 20-30x over the past three years.

Risks

We rate HUL as Low Risk because the company operates in branded consumer products and has a diversified product portfolio. The Low Risk rating is consistent with our quantitative risk rating system which tracks the 260-day share price volatility of the shares. The most significant risk to our target price is the possibility of a prolonged battle for market share with other MNC peers

as well as Indian companies. HUL is leveraged equally to the rural and the urban economies and, as such, any dislocation would affect the company's performance. Although the company's brands have strong pricing power, in a challenging external environment price increases are limited. PG is aggressively seeking to increase its market share in detergents, shampoos and some other categories. Other downside risks include higher-than-expected raw-material costs and the company's inability to deliver on top-line growth.

Appendix A-1

Analyst Certification

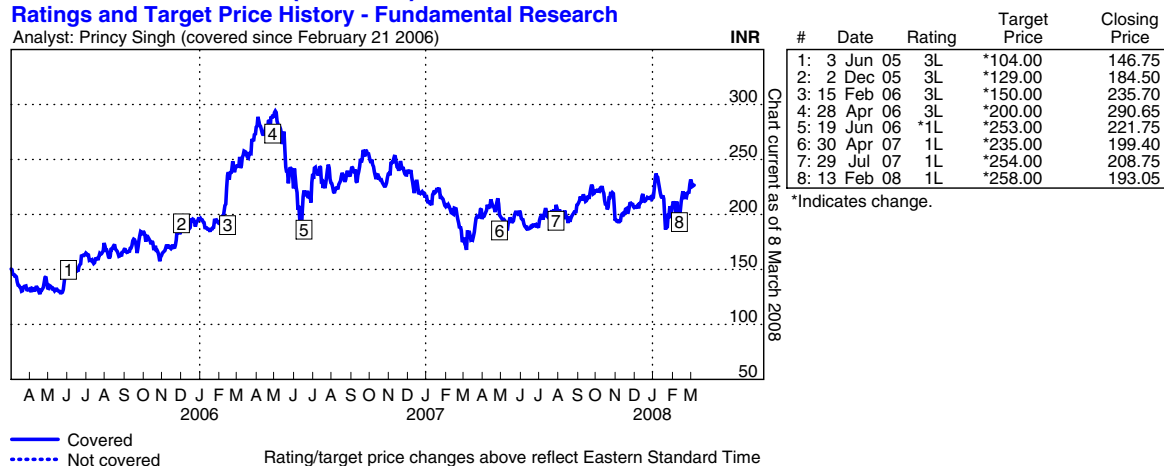
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Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh (covered since February 21 2006)



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