Industry In-Depth

20 April 2007 | 96 pages

Consumption Function

China's Performance, India's Potential

- **India poised for an organised retail bonanza** — Our recent visit to India to meet with retail operators and consultants served to highlight that India is on the cusp of rapid growth in the organised retail format. More than 600 shopping malls are planned for completion over the next 4-5 years, compared with about 100 now in existence.
- **Two companies, two very different formats** — We highlight two key operators that should benefit from the reorganization of Indian retail; Pantaloon, with its localized "bazaar" style format, and Shopper's Stop, with its more formal "Western" style supermarket chain.
- **Wide open window of opportunity** — India is at the peak of the cycle in terms of opportunities for organised retailers to now gain first mover advantage. Foreigners are trying hard to get a foot in the door. The China experience would suggest those in first are likely to prosper. Local incumbents have bold plans for expansion.
- **Upgrading Pantaloon to Buy; maintain Sell on Shoppers Stop** — Princy Singh has upgraded Pantaloon to BUY, from SELL, with a revised target price of Rs500, based on 30x FY08 P/E. For Shopper's Stop we have revised our TP to Rs421 from Rs270, but maintain our Sell rating; at 45x FY08F EPS we believe the risk-reward scenario remains unfavourable, with the positive macro backdrop and a potential acquisition of up to 51% of Hypercity fully discounted in current multiples.
- **Regional sector top picks** — We add Pantaloon and Li & Fung to our top picks list, and remove CJ Corp and Esprit.

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Figure 1. Top picks: Buys and Sells

		Price	Target	ETR	Mkt Cap.	2007E			
BUYs	Rating	17-Apr	(Lcl Cur)	(%)	(US$)	EPS Grth (%)	P/E (x)	Yield (%)	ROE (%)
Li & Fung	1L	25.35	31.00	24.9	11,070	20.7	31.1	2.6	33.6
Hindustan Lever	1L	210.85	253.00	23.5	11,157	1.5	24.6	3.4	75.6
Hite Brewery	1M	120,500.00	155,000.00	29.5	2,750	84.2	13.4	1.2	15.7
Noble Group	1H	1.64	2.28	40.5	2,618	28.8	15.2	1.6	16.7
Golden Eagle	1M	6.26	7.10	14.9	1,456	20.6	37.4	1.5	34.0
Pantaloon Retail	1M	395.95	500.00	26.3	1,305	53.5	45.9	0.1	25.2
SELLs									
ITC	3L	156.10	130.00	-14.8	14,082	22.3	21.3	1.9	27.9
Tingyi	3L	8.35	4.86	-40.6	5,978	17.4	33.3	1.2	18.9
Tsingtao Brewery	3M	13.70	10.90	-19.4	2,755	18.4	39.1	1.2	8.3
LG Household	3L	132,000.00	97,000.00	-25.6	2,220	67.1	24.4	0.9	25.1

Source: Citigroup Investment Research estimates

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

[1]Citigroup Global Markets Asia; [2]Citigroup Global Markets Korea Securities Ltd; [3]Citigroup Global Market India Private Limited; [4]PT Citigroup Securities Indonesia; [5]Citigroup Global Markets Inc - Taipei Branch

Contents

Regional consumer – key points & top calls

China (Sandy Chen +852 2501 2761)

- Backdrop: China's urban demand should continue to outstrip rural growth.
- Valuations: in many cases extremely rich; sector needs to post 25-30% growth p.a. over the next three years to sustain current valuations.
- Conclusion: pick strong structural themes and sound management.
- Top picks: BUY Mengniu, Yurun and Golden Eagle SELL Tingyi, Tsingtao

India (Princy Singh +91 22 6631 9871)

- Backdrop: rural demand pick-up, urban consumers up-trading
- Valuations: market re-rating not an overhang, growth remains strong
- Conclusion: opt for players with established brands, avoid cigarette sector
- Top picks: BUY Pantaloon, HLL and United Spirits. SELL Nestle, ITC

Korea (Ally Park +82 2 3705 0722)

- Backdrop: consumer demand to stabilize after recent correction
- Valuations: not daunting, but well below regional peers. Beware value trap
- Conclusion: opt for laggards with strong underlying fundamentals
- Top picks: BUY Hite. SELL LG H&H.

Indonesia (Ella Nusantoro +62 21 5290 8547)

- Backdrop: urban demand outstripping rural growth
- Valuations: not overly demanding, but reflective of growth expectations
- Conclusion: opt for brands geared to urban demand, avoid rural exposure
- Top picks: SELL Gudang Garam and Kalbe Farma

Hong Kong/Singapore (Peter Williamson +852 2501 2770)

- Backdrop: rental rise, softening demand, competitive pressure from Macau
- Valuations: sector valuations not demanding, but growth is muted
- Conclusion: opt for niche players or those that operate internationally
- Top picks: BUY Noble Group and Li & Fung. SELL Giordano.

Figure 2. Top picks – Buys and Sells

	Rating	Price 17-Apr	Target (Lcl Cur)	ETR (%)	Mkt Cap. (US$)	2007E EPS Grth (%)	2007E P/E (x)	2007E Yield (%)	2007E ROE (%)
BUYS									
Li & Fung	1L	25.35	31.00	24.9	11,070	20.7	31.1	2.6	33.6
Hindustan Lever	1L	210.85	253.00	23.5	11,157	1.5	24.6	3.4	75.6
Hite Brewery	1M	120,500.00	155,000.00	29.5	2,750	84.2	13.4	1.2	15.7
Noble Group	1H	1.64	2.28	40.5	2,618	28.8	15.2	1.6	16.7
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LG Household	3L	132,000.00	97,000.00	-25.6	2,220	67.1	24.4	0.9	25.1

Source: Citigroup Investment Research estimates

Regional Consumer Sector View

Whilst we do not believe investors would trade a basket of consumer stocks in one country for those in another based on relative value, we feel it pertinent to monitor such values to highlight market sentiment and cycles in each country.

Our China universe remains richly valued on 33x 2007 earnings, despite strong growth prospects. On a comparative basis, India looks far more compelling, with our comprehensive universe of Indian consumer stocks growing at a weighted average rate of 30% in 2007, against a P/E of 26x (PEG 0.9x).

Figure 3. Growth and valuations, 2007

	P/E (x)	Growth (%)	PEG
China*	33.2	31.6	1.1
India	25.8	29.6	0.9
Korea	15.3	20.1	0.8
HK	26.2	18.3	1.4

Source: Citigroup Investment Research estimates

Note: * Excluding Citi's A-share universe

China – priced to perfection

China stacks up less favorably, with the sector trading on 33x P/E relative to growth of 32%. Our China Consumer analyst Sandy Chen believes it makes sense to be selective, with some stocks trading on seemingly excessive multiples. Our preferred play in the department store space right now is Golden Eagle over Parkson on relative value.

Figure 4. Growth and valuations, 2008

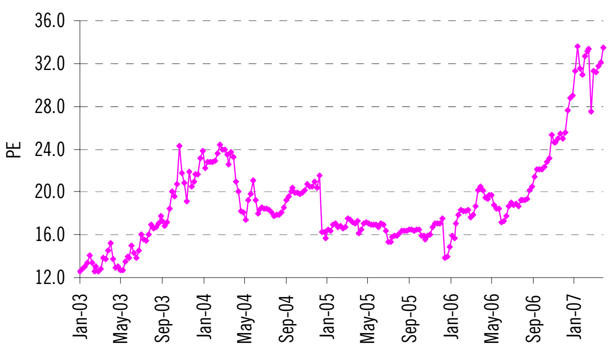
	P/E (x)	Growth (%)	PEG
China	26.7	23.1	1.2
India	20.3	31.4	0.6
Korea	13.1	16.5	0.8
HK	21.1	22.8	0.9

Source: Citigroup Investment Research estimates

India – offers better value

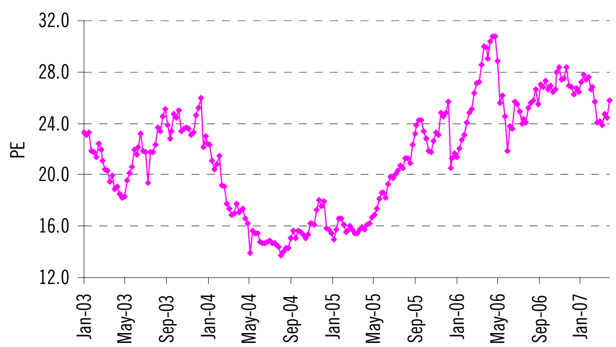
On a pure growth perspective, India still looks attractive; we expect our Indian universe of stocks to post a weighted average 30% growth in 2007. Although the weighted average forward P/E is not cheap at 26x, it does fairly reflect the robust growth opportunities present in that country. Our analyst, Princy Singh likes Pantaloon (our recent upgrade), Hindustan Lever and United Spirits.

Figure 5. China – Consumer 12-month forward P/E – Stratospheric?



Source: Citigroup Investment Research

Figure 6. India – Much better relative value



Source: Citigroup Investment Research

Figure 7. China Consumer Companies – Valuation Analysis

Pricing as at 12-Apr-07

	RIC	Mkt Cap (US$m)	Citigroup Ratings	Price (Local)	Target Price (Local)	Chg to TP (%)	P/E 07E	P/E 08E	P/B 07E	P/B 08E	DY 07E	DY 08E	EPS Growth 07E	EPS Growth 08E
H Share														
Tingyi	0322.HK	5,675	3L	7.93	4.86	-39%	31.6	28.8	5.6	5.0	1.3%	1.3%	17.4%	9.9%
Mengniu Dairy	2319.HK	4,352	1L	24.85	27.00	9%	39.2	30.2	9.4	7.4	0.5%	0.7%	42.1%	29.7%
Parkson Retail Group	3368.HK	3,949	2L	55.90	54.00	-3%	49.4	34.6	13.2	11.1	1.0%	1.5%	38.3%	42.8%
GOME	0493.HK	3,581	1M	9.15	13.75	50.2%	21.1	18.8	2.4	2.2	1.4%	1.6%	22.9%	12.2%
Hengan International Group	1044.HK	3,527	3L	25.50	18.00	-29%	32.4	27.1	9.3	8.1	2.0%	2.5%	14.2%	19.3%
Tsingtao	0168.HK	2,730	3M	13.80	10.90	-21%	39.3	34.0	3.2	3.0	1.2%	1.2%	22.0%	15.5%
Li Ning	2331.HK	2,270	1L	17.18	18.50	8%	44.2	32.8	11.2	9.4	0.9%	1.4%	44.4%	34.8%
Prime Success International Group	0210.HK	1,947	1L	9.29	9.50	2%	29.5	21.9	11.4	8.4	1.1%	1.5%	48.7%	34.9%
China Yurun Food Group	1068.HK	1,854	1L	9.98	10.20	2%	24.4	19.3	4.6	3.9	1.0%	1.3%	22.4%	26.5%
Huabao International Holdings	0336.HK	1,652	3S	4.24	5.20	23%	21.3	20.4	15.8	10.2	1.5%	1.7%	81.1%	4.0%
Golden Eagle Retail Group	3308.HK	1,490	1M	6.41	7.10	11%	38.2	26.4	11.0	9.0	1.4%	2.1%	24.3%	44.7%
Global Bio-chem Technology Group	0809.HK	846	1M	2.85	2.80	-2%	9.9	8.3	1.2	1.0	1.7%	2.0%	44.8%	19.6%
Lianhua Supermarket	0980.HK	837	1M	10.52	13.30	26%	19.1	16.6	2.8	2.5	1.5%	1.6%	23.7%	15.1%
Wumart	8277.HK	603	3H	6.88	6.75	-2%	23.9	19.9	3.2	2.8	0.7%	0.8%	46.4%	20.5%
China Flavors & Fragrances	3318.HK	188	2S	3.30	3.80	15%	15.6	13.7	2.8	2.4	1.9%	2.2%	14.6%	14.3%
Weighted average							**33.2**	**26.7**	**7.9**	**6.5**	**1.2%**	**1.5%**	**31.6**	**23.1%**
A Share														
Wuliangye Yibin	000858.SZ	12,269	2M	34.96	36.60	5%	60.4	42.4	9.8	8.1	0.2%	0.2%	38.3%	42.6%
Kweichow Moutai	600519.SS	12,074	1L	98.84	119.80	21%	45.6	29.3	12.8	9.8	0.7%	1.0%	40.1%	56.0%
Luzhou Laojiao	000568.SZ	3,618	1M	32.08	37.34	16%	51.1	29.8	11.5	9.7	1.1%	1.8%	67.4%	71.8%
Shanxi Fenjiu	600809.SS	1,995	3H	35.61	32.95	-7%	41.6	28.8	11.9	9.9	1.3%	1.8%	46.1%	44.5%
Weighted average							**52.3**	**34.9**	**11.3**	**9.1**	**0.6%**	**0.8%**	**43.0%**	**51.5**

Source: Citigroup Investment Research estimates

Figure 8. India Consumer Companies – Valuation Analysis

Pricing as at 12-Apr-07

	RIC	Mkt Cap (US$m)	Citigroup Ratings	Price (Local)	Target Price (Local)	Chg to TP (%)	P/E 07E	P/E 08E	P/B 07E	P/B 08E	DY 07E	DY 08E	EPS Growth 07E	EPS Growth 08E
ITC	ITC.BO	13,760	3L	156.10	130.00	-17%	21.3	18.0	5.5	4.7	1.9%	2.1%	19.9%	24.8%
Hindustan Lever	HLL.BO	10,716	1L	207.25	253.00	22%	24.2	20.4	18.0	17.4	3.5%	4.2%	6.7%	19.7%
Zee Telefilms	ZEE.BO	2,573	1L	253.35	277.00	9%	41.7	27.5	8.8	7.5	0.2%	1.5%	23.2%	60.5%
Nestle India	NEST.BO	2,319	3L	1,026.35	916.00	-11%	25.8	22.5	23.7	21.3	3.1%	3.5%	21.5%	15.2%
Dabur India	DABU.BO	1,900	2L	94.00	93.33	-1%	28.0	23.1	16.3	16.5	1.6%	2.0%	31.8%	28.4%
United Spirits	UNSP.BO	1,861	1L	840.60	1,080.00	28%	34.7	23.7	6.5	5.4	0.1%	0.1%	180.5%	54.3%
Asian Paints	ASPN.BO	1,784	1L	793.80	960.00	21%	27.1	22.6	10.3	8.6	1.9%	2.3%	47.4%	26.7%
Pantaloon	PART.BO	1,305	1M	395.95	500.00	26%	45.9	30.9	13.2	9.4	0.1%	0.2%	54.3%	54.6%
Colgate Palmolive (India)	COLG.BO	1,126	1L	353.30	413.00	17%	23.6	19.7	16.1	14.6	2.8%	4.0%	44.9%	26.8%
HT Media	HTML.BO	991	1L	180.65	190.00	5%	40.1	24.3	5.6	4.7	0.6%	0.9%	175.0%	74.4%
Tata Tea	TTTE.BO	873	1L	631.25	960.00	52%	10.9	9.9	1.9	1.7	2.8%	3.0%	6.5%	16.6%
Britannia Industries	BRIT.BO	689	1L	1,230.45	1,720.00	40%	14.3	12.1	4.0	3.1	1.3%	1.5%	13.5%	25.1%
Bajaj Hindusthan	BJHN.BO	684	1M	206.50	300.00	45%	18.0	9.0	1.9	1.6	0.4%	0.8%	-11.9%	103.9%
GlaxoSmithKline Consumer	GLSM.BO	512	1L	519.95	675.00	30%	15.4	13.4	4.0	3.6	3.6%	4.1%	17.4%	15.7%
Shoppers Stop	SHOP.BO	500	3M	620.15	421.00	-32%	50.7	33.0	6.8	5.9	0.4%	0.6%	55.1%	62.3%
Balrampur Chini Mills	BACH.BO	424	1M	72.85	107.00	47%	18.2	8.2	1.9	1.6	0.9%	2.1%	-70.9%	127.1%
Weighted average							**25.8**	**20.3**	**11.0**	**10.0**	**2.1%**	**2.5%**	**29.6%**	**31.4%**

Source: Citigroup Investment Research estimates

Korea looks cheap, but beware the value trap!

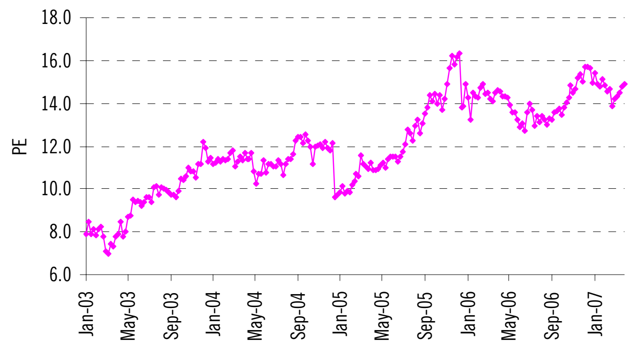
Korea stands out as the most attractive country on an absolute P/E basis, trading at around 50% discount to China and India. However, with a PEG ratio of 0.8x, the growth backdrop is less vibrant than these two emerging giants.

Our Korean Consumer analyst Ally Park prefers stocks with solid fundamentals and reasonable valuations; top buy Hite, top sell LG H&H.

Hong Kong/Singapore – ignore domestic; go for international players

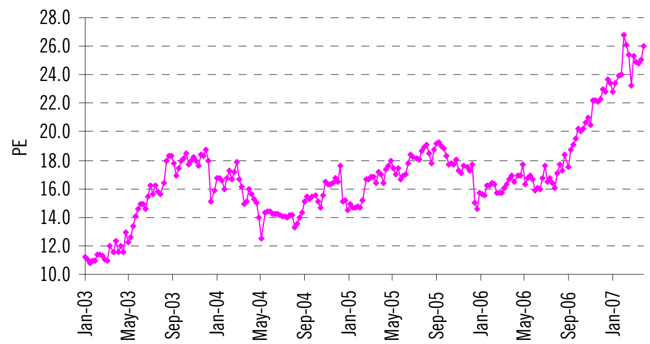
We prefer to target companies that are not exposed to the moribund domestic demand backdrop. Top picks that operate in the international arena include Noble and Li & Fung. We are a fundamental seller of Giordano.

Figure 9. Korea – P/E chart; beware value trap



Source: Citigroup Investment Research

Figure 10. Hong Kong – P/E chart; driven by Li & Fung and Esprit



Source: Citigroup Investment Research

Figure 11. Korea – Consumer Companies Valuation Analysis

Pricing as at 12-Apr-07

	RIC	Mkt Cap (US$m)	Citigroup Ratings	Price (Local)	Target Price (Local)	Chg to TP (%)	P/E		P/B		DY		EPS Growth	
							07E	08E	07E	08E	07E	08E	07E	08E
Shinsegae	004170.KS	11,579	2L	572,000	560,000	-2%	19.4	16.2	3.2	2.7	0.2%	0.2%	21.0%	20.0%
Lotte Shopping	023530.KS	10,349	1M	332,000	430,000	30%	12.2	10.2	1.2	1.1	0.2%	0.2%	20.0%	19.9%
KT&G	033780.KS	10,065	2L	63,600	62,000	-3%	14.8	13.9	2.7	2.5	3.8%	3.8%	-0.1%	6.7%
CJ Corp	001040.KS	3,122	1L	95,800	149,000	56%	12.2	10.5	1.6	1.4	2.1%	2.5%	17.9%	16.8%
Hite Brewery	000140.KS	2,662	1M	117,000	155,000	32%	13.1	10.0	1.7	1.5	1.3%	1.5%	88.5%	30.4%
LG Household & Health Care	051900.KS	2,246	3L	134,000	97,000	-28%	24.8	20.4	5.4	4.4	0.9%	1.0%	71.0%	21.6%
Hyundai Department Store	069960.KS	1,944	1M	79,900	116,000	45%	9.3	8.5	1.4	1.2	1.3%	1.3%	15.0%	9.6%
ORION	001800.KS	1,498	3M	235,000	230,000	-2%	17.7	15.9	2.7	2.4	0.8%	0.9%	-37.6%	11.8%
CJ Home Shopping	035760.KQ	786	3H	67,000	73,000	9%	11.0	9.1	1.4	1.3	3.4%	3.4%	34.9%	21.9%
GS Home Shopping	028150.KQ	511	3H	73,200	70,000	-4%	8.8	8.7	1.4	1.3	4.1%	4.1%	8.1%	1.3%
Binggrae	005180.KS	434	2M	41,000	43,000	5%	9.6	8.8	1.5	1.3	2.4%	4.1%	11.8%	9.4%
Weighted average							**15.3**	**13.1**	**2.4**	**2.1**	**1.4%**	**1.5%**	**20.1%**	**16.5%**

Source: Citigroup Investment Research estimates

Figure 12. Hong Kong – Consumer Companies Valuation Analysis

Pricing as at 12-Apr-07

	RIC	Mkt Cap (US$m)	Citigroup Ratings	Price (Local)	Target Price (Local)	Chg to TP (%)	P/E		P/B		DY		EPS Growth	
							07E	08E	07E	08E	07E	08E	07E	08E
Esprit	0330.HK	15,087	1L	95.80	100.00	4%	25.6	20.6	11.4	10.0	2.9%	3.6%	20.2%	24.0%
Li & Fung	0494.HK	11,568	1L	26.50	31.00	17%	32.6	25.8	11.0	10.1	2.5%	3.1%	20.1%	26.3%
Yue Yuen Industrial (Holdings)	0551.HK	5,801	3L	27.25	26.60	-2%	15.0	13.4	2.5	2.3	3.4%	3.8%	11.2%	12.2%
EganaGoldpfeil (Holdings)	0048.HK	1,089	1M	5.83	7.20	23%	21.7	16.9	3.3	2.9	1.5%	2.0%	12.8%	28.1%
Integrated Distribution Services Group	2387.HK	833	1L	21.00	19.60	-7%	38.5	28.5	6.7	6.1	1.6%	2.1%	-9.8%	35.4%
Giordano International	0709.HK	744	3L	3.90	3.00	-23%	19.0	18.1	2.7	2.7	5.3%	5.5%	47.2%	5.2%
Weighted average							**26.2**	**21.1**	**9.2**	**8.3**	**2.8%**	**3.4%**	**18.3%**	**22.8%**

Source: Citigroup Investment Research estimates

Indian retail: wide open window of opportunity…

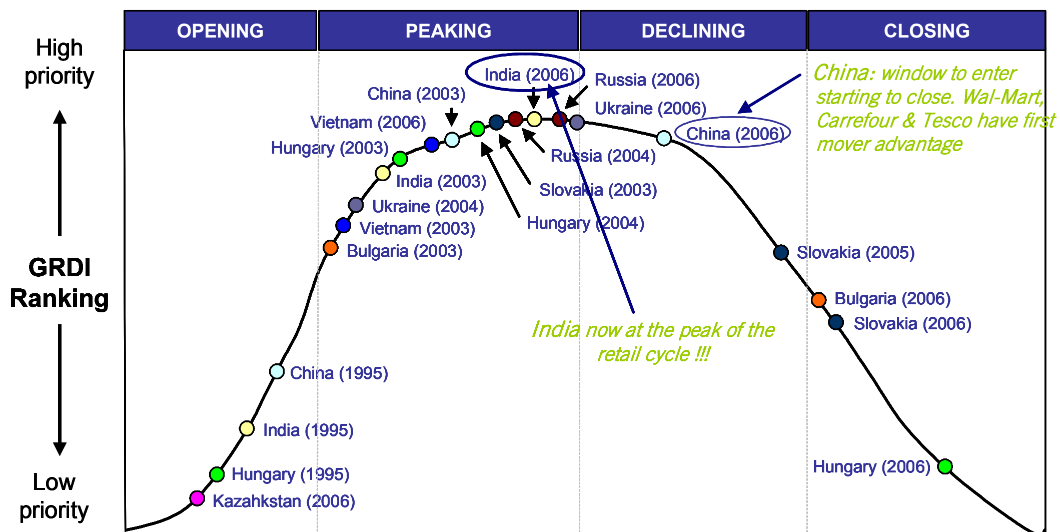
It is now the most attractive time for international retailers entering the Indian market

We believe India is on the cusp of a dramatic change in terms of organised retail. The market is ripe for incumbent players to ramp up operations and for new players to seek an entry into the market.

Using China as a gauge it can be seen that:

- Retailers entering during the peaking stage have a better chance for long-term success.
- Wal-Mart & Tesco already adopting their China strategy in India – testing market conditions before entry.
- Wal-Mart & Carrefour's China success in late 90s and early 00s demonstrate the importance of timing to commit early to promising high-growth market.
- Urgency to enter the China market is subsiding as the market starts to mature and those operators with first mover advantage consolidate their positions. Conversely, the urgency to enter India is becoming increasingly intense.

Figure 13. Window of opportunity analysis (based on the Global Retail Development Index™ rankings for 95-06; by AT Kearney)



OPENING	Monitor market; consider sending research team	Open sourcing office or step up retail stores; test the market	Scale up openings to capture market share	Determine market position; reevaluate strategy as needed
FORMATS	Not applicable	Consider supermarkets and hypermarkets, cash and carry, and convenience stores over other formats as they have higher success rates	Consider discounter models	No pattern identified
LABOR	Identify skilled labor pool for market	Hire and train local talent; create balance with expatriate employees	Switch balance from expatriate to local staff	No pattern identified

Source: A.T. Kearney

The retail landscape and conditions for entering the market could be categorized into four main stages:

Opening

At this stage, retailers are generally monitoring the market and performing high-level assessments. Begin planning entry strategies and send in task-force teams. Patience is key – entering too early can lead to failure if the market is not ready. India in the late-90s is a prime example of an "opening" market.

Peaking

Retailers that enter in this stage have the best chance for success.

Developing quickly and ready for modern retail. Retailers to enter via sourcing offices, local representation and new stores. India is in the peaking stage right now. Retailers that enter in this stage have the best chance for success, in our view. This is demonstrated by Wal-Mart and Carrefour's success in China in the late 1990s. Today, Wal-Mart and Tesco are adopting the same strategies in India that they pursued in China ten years ago.

Declining

The market is still big and growing, but the space for new entrants is becoming tighter – and prospective entrants at this stage must be extremely smart and nimble with a higher tolerance for risk of failure. China is a prime example. Wal-Mart, Tesco and Carrefour have established themselves in the primary hubs, and are now focused on tier-two cities. Competition is intense and rules have been established.

Closing

The share of modern retail is very high, reaching 40-60%.New formats may work, such as discount models, or non-food formats such as consumer electronics and apparel.

Timeframe

A window of opportunity generally lasts 5-10 years before a market reaches saturation levels similar to developed economies.

India top priority

India is the top choice for international retailers looking to expand to overseas markets

India is now one of the top priorities for international retailers looking for overseas expansion. The US$270bn retail market is growing at a rate of about 6% p.a (13% in nominal terms), with underlying economic growth at 8-9%. Of the total retail market, organized, or modern retail formats account for only 4.6%, valued at US$12.4bn. However, modern retail formats are growing at a rate of about 35% per annum. The top five retailers account for less than 2% of the total retail market. The high population of over 1bn however, can be misleading, with only about 350m people making up the addressable retail market. Severe poverty excludes the balance to 1bn people.

Regulatory changes benefit some...

Regulatory changes benefit single but not multi-brand retailers. The latter seek to enter the market through wholesale operations and JVs

Fundamental changes to the regulatory backdrop are paving the way for foreign entrants to the Indian market. In early 2006 the government announced it would allow foreign companies to own up to 51% of a single brand retail company. Companies such as Gap, Zara, Timex and Benetton have announced plans or are already entering the market.

...but not all

These regulatory changes do not apply to multi-brand retailers such as Wal-Mart and Tesco. Despite this, global retailers are finding ways to enter the market possibly via wholesale operations and joint ventures. Such operations skirt the issues of not being able to sell directly to consumers and while establishing a presence in the market. Tesco for example plans to partner with Home Care Retail Mart Pvt Ltd and open 50 stores by 2010, according to AT Kearney.

Local names moving quickly to defend market position

Local retailers have aggressive expansion plans to secure a strong domestic footprint

Local players are moving quickly to offset the competitive threat of foreign entrants. Reliance announced it will invest US$3.4bn to become the country's largest modern retailer by establishing a chain of 1,575 stores by March 2007. Further, Hypercity Retail plans to open 55 hypermarkets by 2015.

Pantaloon, now the largest retailer in India, plans to increase its retail space from about 3m sq. ft. in Jun'06 to 30m sq. ft by 2011. The company has already tied up space up to 25m sq. ft. with mall developers. It plans to increase its hypermarket format, Big Bazaar, from 29 outlets in 2006, to over 70 outlets by end 2007. It is also looking to double its food bazaar outlets from about 70 now to about 135 by 2007 end. In addition, it intends to increase its presence to new formats, such as home interiors, health and beauty and consumer electronics.

Shoppers Stop, a leading department store, intends to increase its retail space from 1.4m sq. ft. currently to about 6.4m sq. ft. by 2010. Supermarket chain Subiksha is also planning to increase its number of outlets from current 500 to about 1,200 by end 2007.

The opportunity in China is narrowing as the market matures

China retail market remains relatively strong, but becoming increasingly saturated and difficult to enter for late-comers

Retail sales growth remains extremely strong in China, providing attractive exposure for stock market investors. However, market saturation is on the rise as foreign retailers gain a relatively strong foothold across the country.

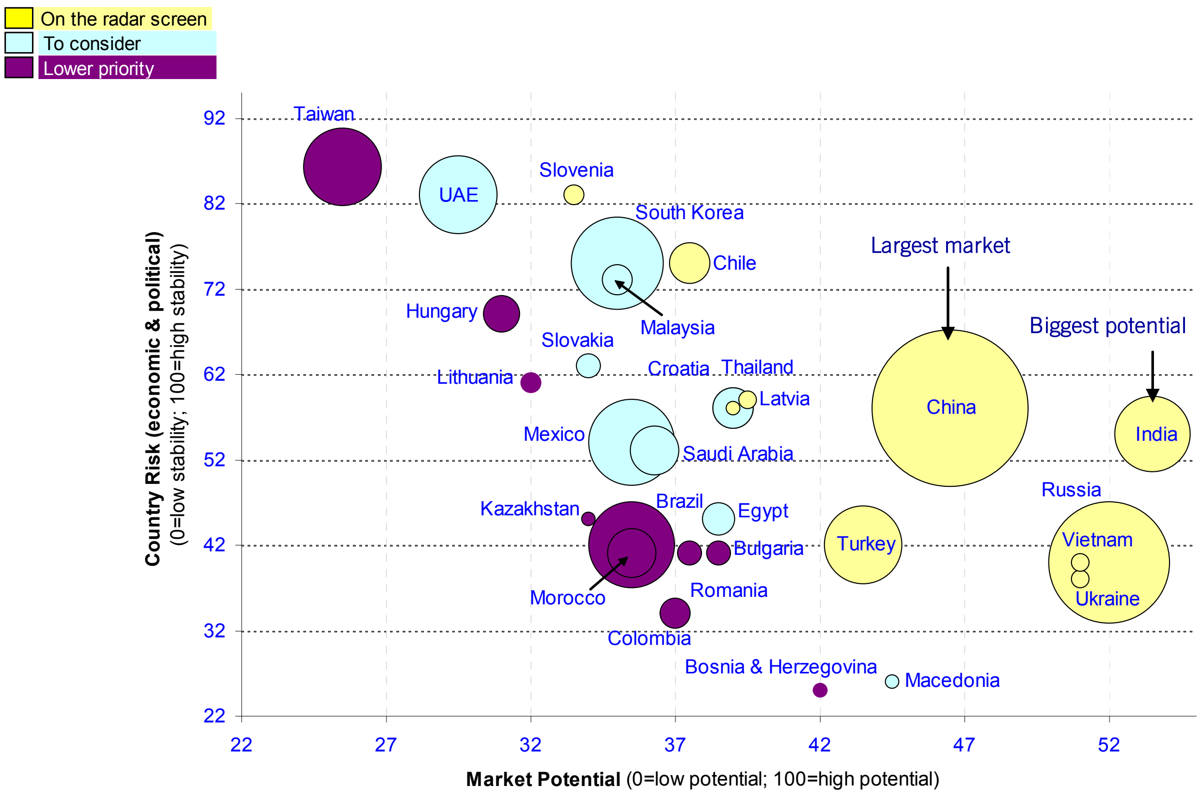
AT Kearney classify "wave 1" retailers (Wal-Mart, Tesco and Carrefour) as those having entered the market during the 1990s in cities along the Eastern seaboard and have now moved West. "Wave 2" retailers, generally consumer electronics (Best Buy), do-it-yourself (B&Q, Home Depot) and apparel retailers are a few years behind, but following the same path.

Whilst formal data on how foreign retailers are faring is scarce, indicative signals given by management suggest strong double-digit top line growth. All have aggressive expansion plans afoot through the next five years.

As can be seen below China commands the largest retail market amongst the developing economies, whilst India contains the most potential. Other findings:

- Asia has always been the largest emerging region, represents 26% of global GDP & 32% of global retail sales
- Modern retailers have tapped into just 28% of Asian countries compared with 42% in Eastern Europe

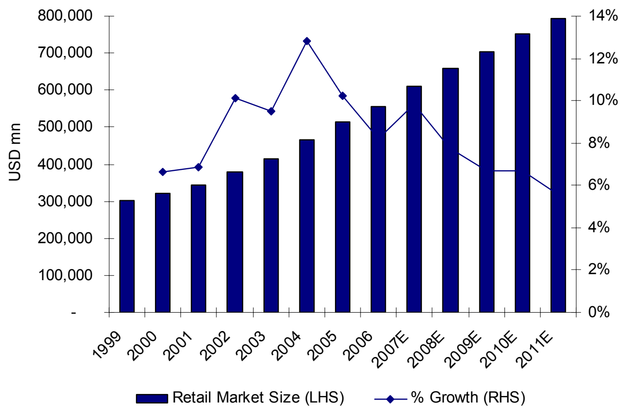
Figure 14. Global – GRDI™ 2006 Market Attractiveness



Source: A.T. Kearney
Note: Bubble Size - 05 retail sales of food, drink & tobacco in $bn, excluding taxes

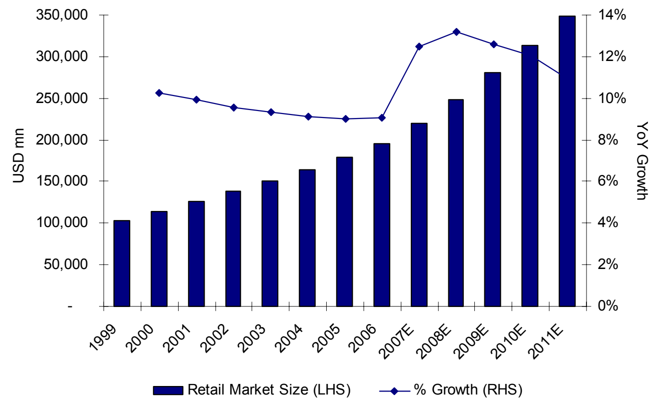
Comparing retail sales for both China and India, we find a more robust scenario for India, with average growth remaining above 10% p.a. through 2011. This contrasts with China, which according to Euromonitor, where retail sales are expected to fall below 10% p.a. as that market slowly matures.

Figure 15. China – Retail sales: 1999-11E CAGR 8.4%



Source: Euromonitor and Citigroup Investment Research estimates

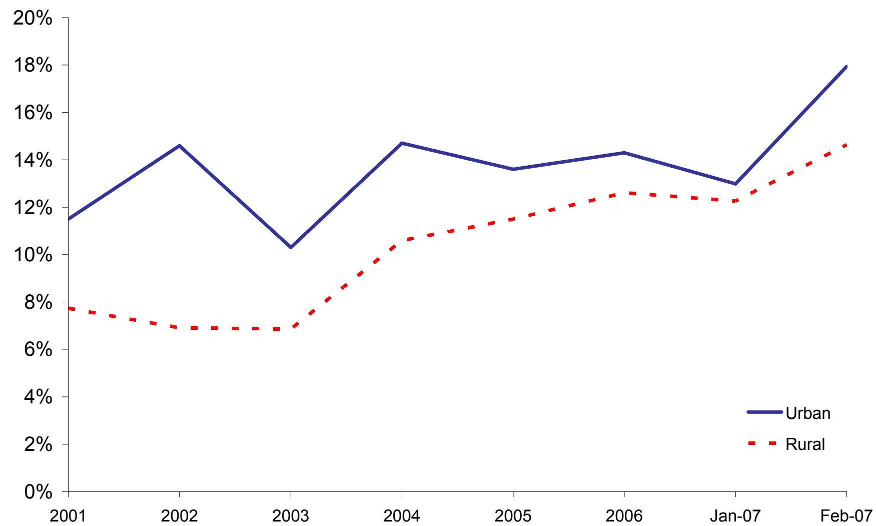
Figure 16. India – Retail sales: 1999-2011E CAGR 10.6%



Source: Euromonitor and Citigroup Investment Research estimates

However, recent experience shows that Chinese retail sales remain extremely robust. We see clear upside risk to Euromonitor's medium-term forecasts.

Figure 17. China retail sales growth



Source: CEIC and Citigroup Investment Research

Definition of retail sales as per Euromonitor: Sales of new and used goods to the general public for personal or household consumption. It excludes specialist retailers of motor vehicles, motorcycles, vehicle parts and fuel. Also excludes foodservice, rental and hire, wholesale industries. Retailing is the aggregation of grocery retail sales value and non-grocery retail sales value and non store retailing. Sales value excludes VAT/Sales Tax.

Recognizing tomorrow's middle classes

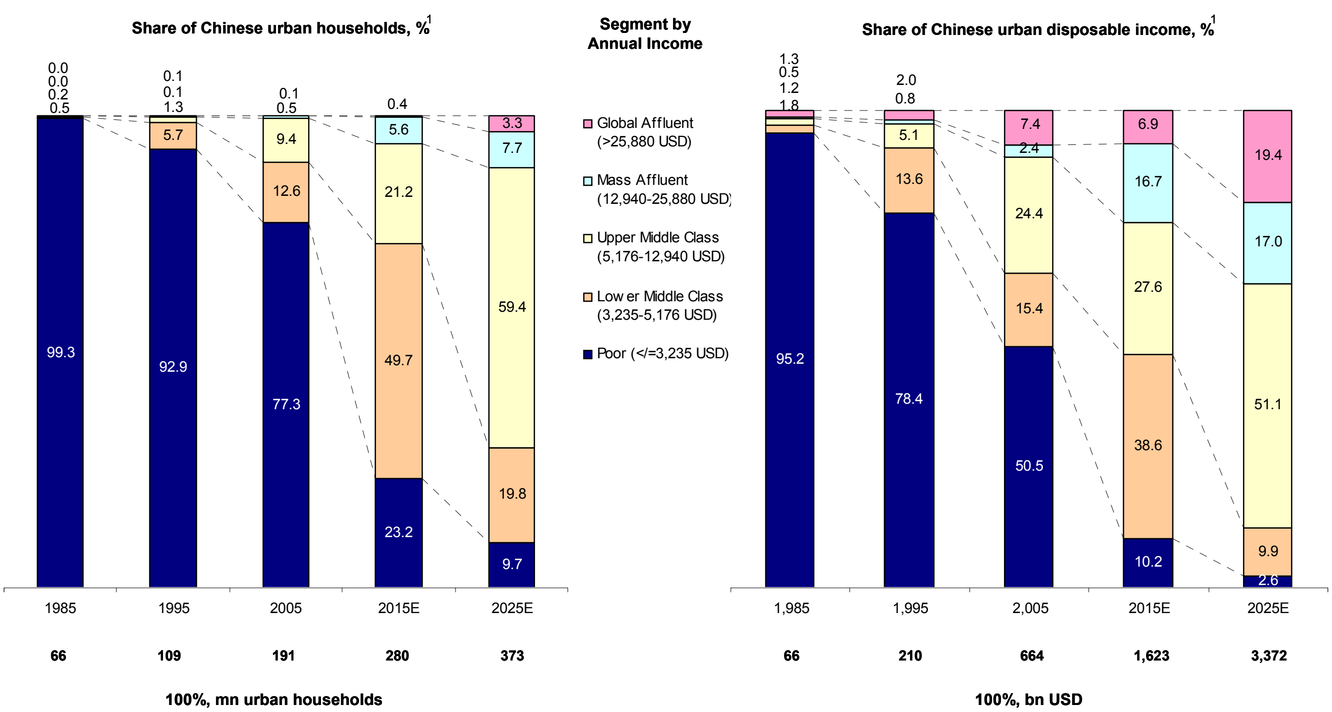
It is important to clearly recognise the expected growth in the middle classes that is poised to occur in both China and India.

A published study by McKinsey clearly highlights the expected shift over the next few years in the middle to upper income brackets for both countries. Key points:

China

- Currently, about 77% of urban Chinese live on < US$3,200 p.a.; this is expected to drop to 10% by 2025.
- The upper middle class is earning between US$5-13k p.a. This is expected to rise to 60% of Chinese urban households, from 9% through 2025, and will be a key driver of consumption.

Figure 18. China – Urban household spending



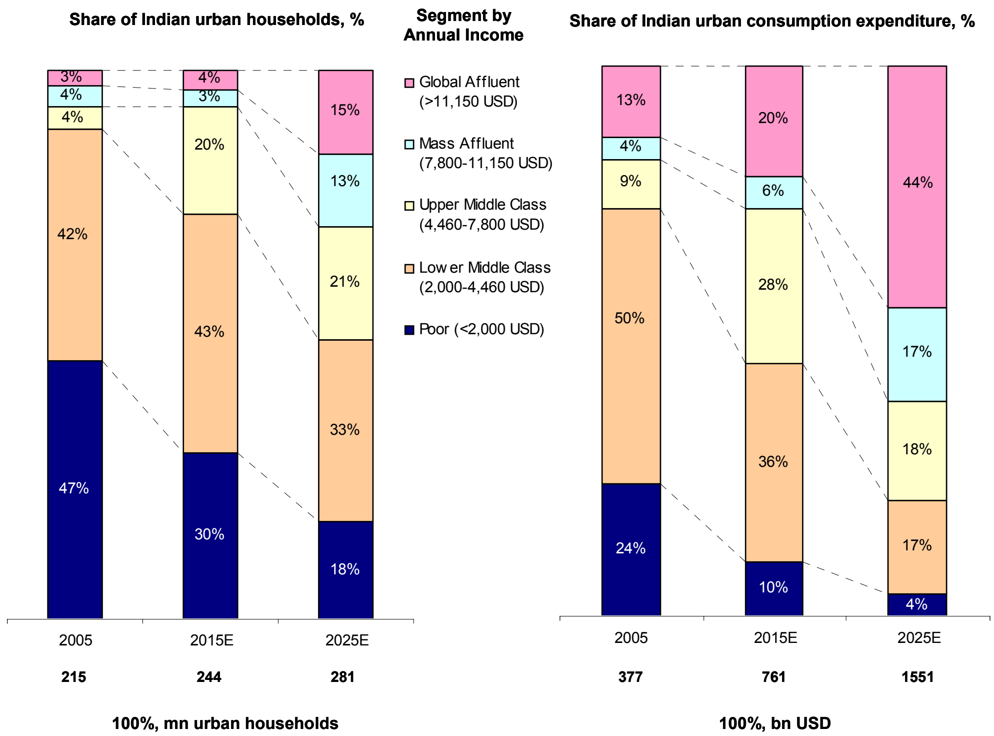
Source: National Bureau of Statistics of China; Citigroup Investment Research

Note: 1 Some figures do not sum to 100% due to rounding; disposable income = after-tax income, including savings; real Rmb, based yr = 2000, 1 Rmb = $0.12

India

- Currently, about 89% of urban Indians live on <US$4,500 p.a.; this is expected to drop to 51% by 2025.
- The upper middle class is earning US$5-8k p.a. This is expected to rise to 21% of Indian urban households, from 4% through 2025.
- The magnitude of the shift is less pronounced in India in terms of the notional dollar earnings of the typical urban household. Nevertheless, the shift in the composition of the middle class is still very strong and will pose a significant opportunity for retailers in India.

Figure 19. India – Urban household spending



Source: Citigroup Investment Research

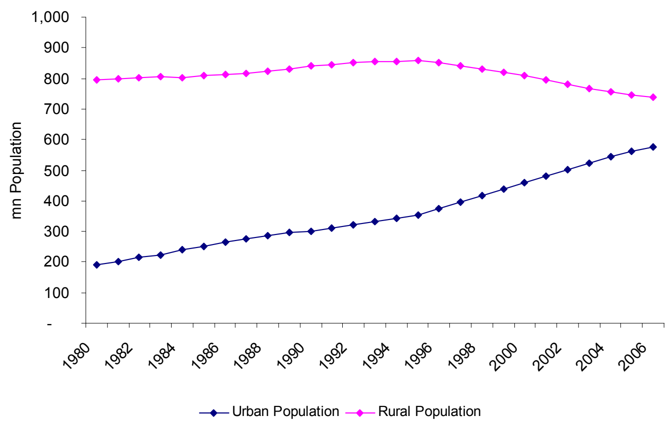
Note: Household income calculated to US$ based on real INR 2000

The narrowing urban/rural population gap

Viewed another way, the gap between the urban and rural populations of both countries can be seen to be narrowing significantly.

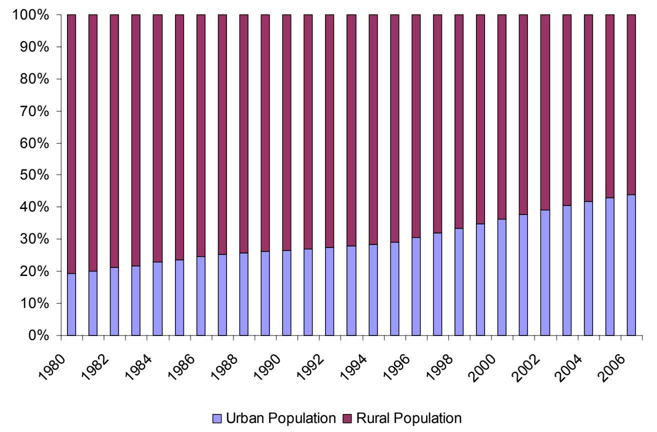
Again China is ahead in this regard, with over 40% of the population now living in an urban environment, or 580m people. This compares with just over 30% for India, or 413m people.

Figure 20. China – Population, rural vs. urban



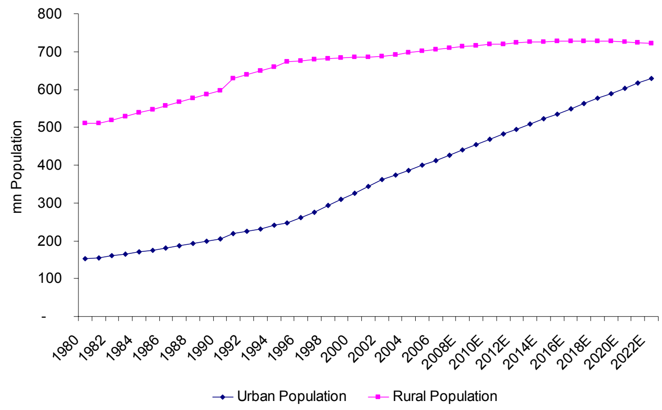
Source: CEIC and Citigroup Investment Research

Figure 21. China – Population, rural vs. urban



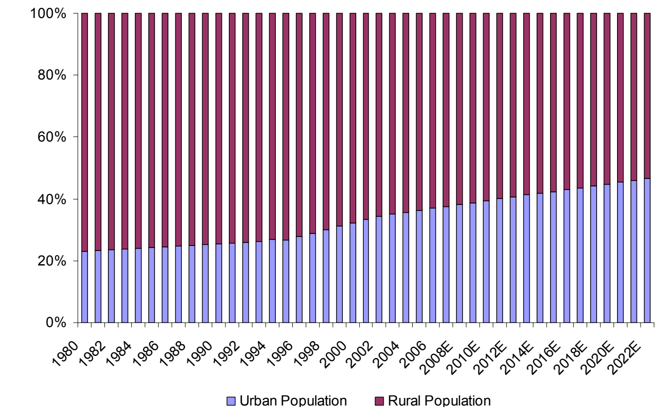
Source: CEIC and Citigroup Investment Research

Figure 22. India – Population, rural vs. urban



Source: Asian Demographics and Citigroup Investment Research

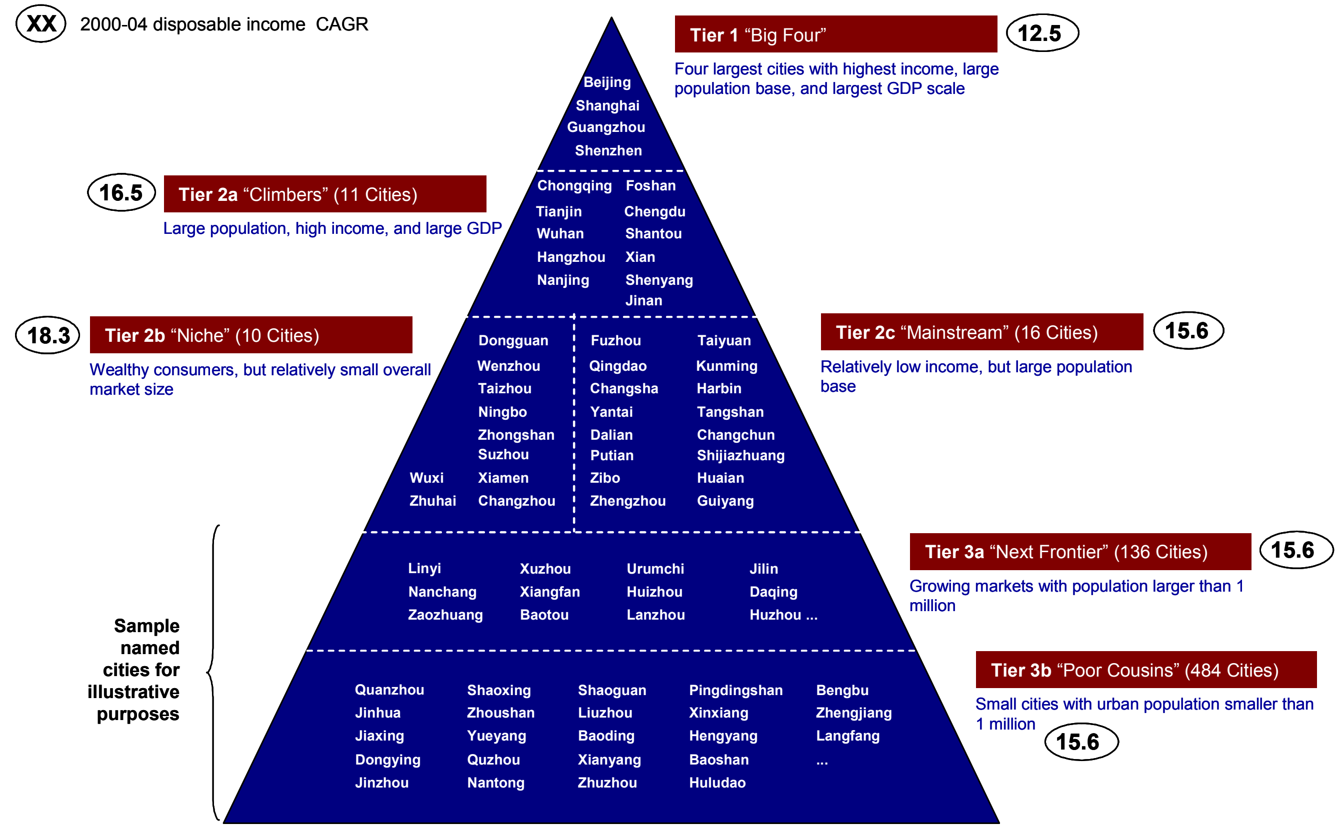
Figure 23. India – Population, rural vs. urban



Source: Asian Demographics and Citigroup Investment Research

As can be seen in the charts below, growth in disposable income is at its highest in the tier two cities in China as they play catch-up to the big-four. This would explain the attractiveness of exposure such as Li Ning (Buy 1L, price 17.18, ETR +9%), which has comprehensive coverage of throughout tier-two and tier-three cities.

Figure 24. China – Cities grouped into tiers



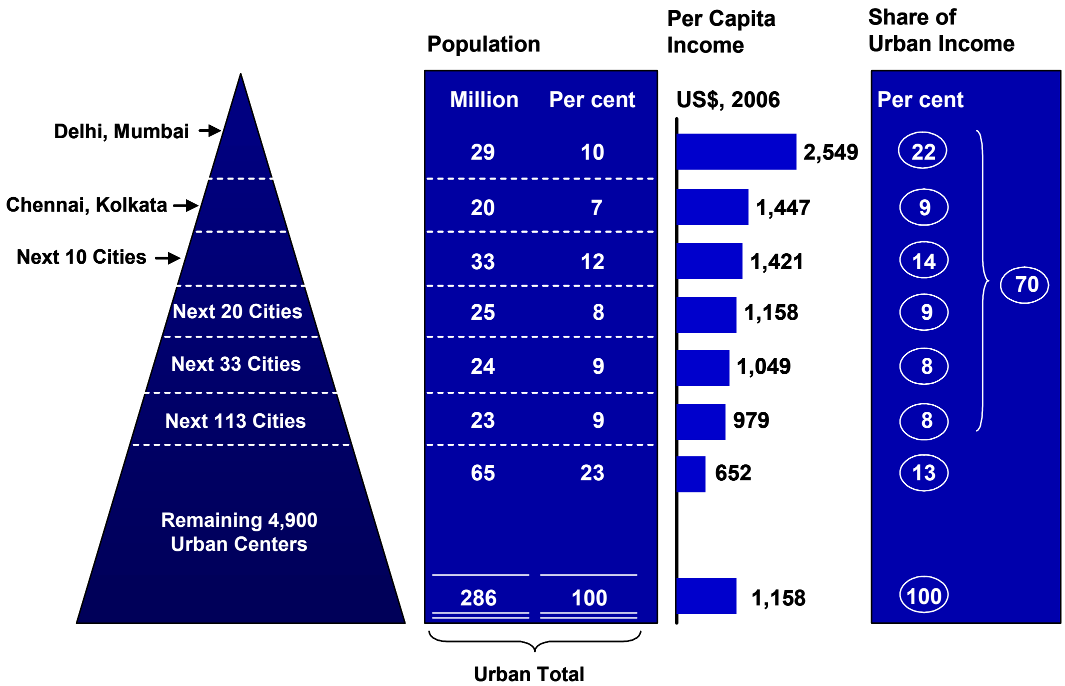
	2004 Population	Household Disposable Income, 2004
TOTAL	1,300 billion	US$ 949 billion
Tier 1	3%	9%
Tier 2	9%	18%
Tier 3	34%	43%
Rural China	54%	30%

Source: China Statistical Yearbook, Citigroup Investment Research
Note: Reference to Tier 3 combines 3a with 3b for a total of 620 cities

Growth rates in disposable income in India difficult to come by; however, it can be seen in the chart below that whilst the major cities obviously have the highest per capita income, tier two cities are not far off and we would expect to be subject to faster growth rates as the urbanization theme continues apace.

This again provides for an attractive backdrop for retailers looking to develop a national footprint by delving deeper into tier two areas.

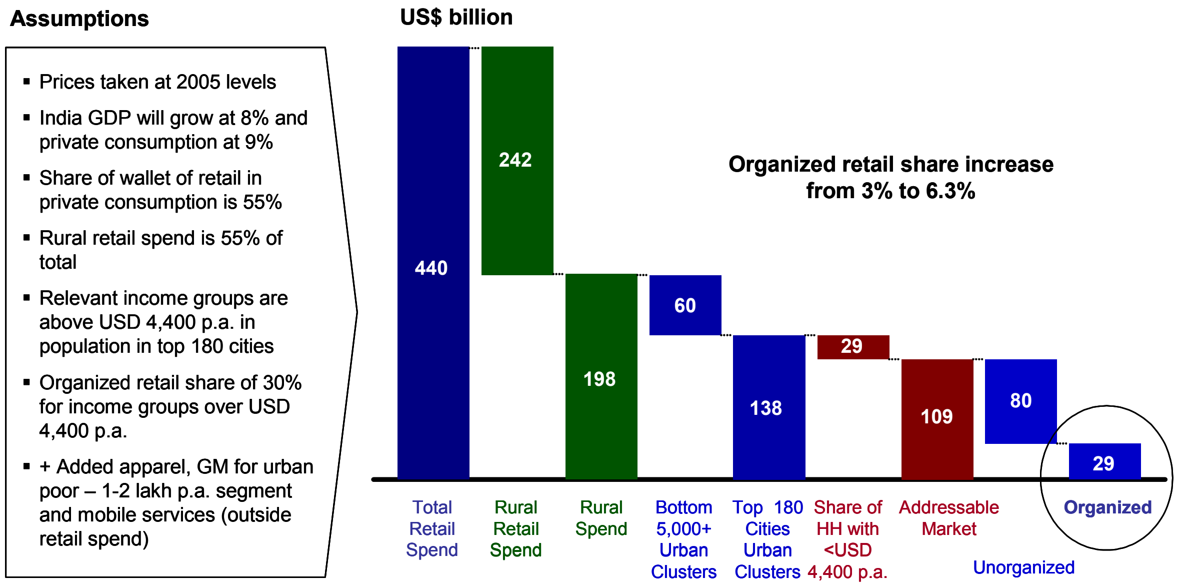
Figure 25. India – Share of Income: largely in top 180 cities



Source: Census of India 2001; NCAER "The Great Indian Middle Class"; Market Skyline 2006 – Indicus Analytics

The size of the Indian organised retail market is blurred by inconsistent data. We note below that the estimated size of the market of US$440bn is sharply higher than data provided by CSO, which estimates the total retail market size to be US$270bn. Either way, it can be seen that the urbanization trend will continue to drive consumption growth and provide for an attractive market backdrop for retailers prepared to invest and expand at this opportune time.

Figure 26. India – Addressable organized market



Source: Census of India 2001; NCAER "The Great Indian Middle Class"; Market Skyline2006 – Indicus Analytics

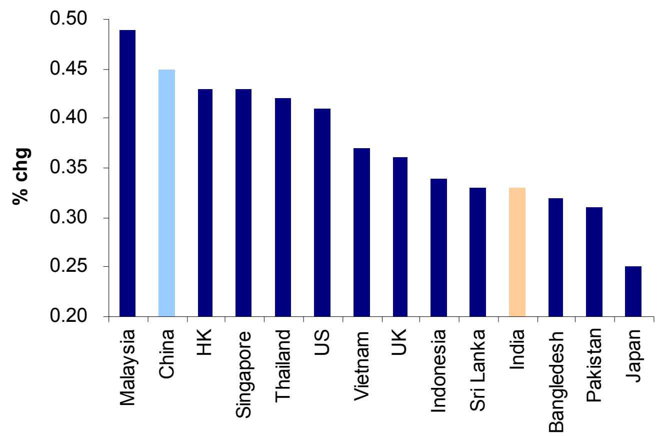
Note: 1 Lakh = 100,000

China/India income inequality

With several states growing faster than others, inclusive growth is a rising concern for India. However, interestingly, the Gini Coefficient, an income inequality metric that ranges between 0 and 1, where a score of 0 implies complete income equality and 1 indicates perfect inequality, indicates that India's Gini coefficient is 0.32 i.e. lower than that of most Southeast Asian economies.

However, our Indian economist Rohini Malkani notes that the Gini Coefficient doesn't capture the gender and social inequalities that persist in India, which can constrain the extent to which groups in the population are able to participate in and benefit from the process of economic growth.

Figure 27. Asia – Gini Coefficient: Not really an efficient yardstick of poverty

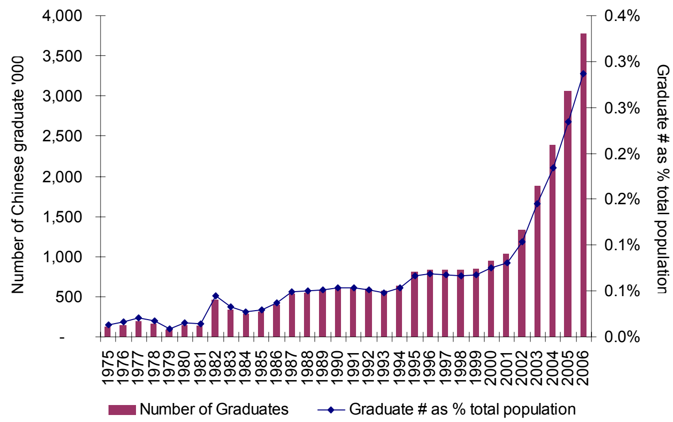


Source: Human Development Report, 2006; RBI, NSS

Supporting consumption in both countries is a sharp increase in the educated classes. It can be seen below that since 2003, China has seen a significant jump in graduates as a percentage of the population.

The number is similar in magnitude for India, although long-term data is not available.

Figure 28. China – Education, graduate number as % of total population



Source: CEIC and Citigroup Investment Research

Figure 29. India – Talent pool

		Stock as of 2001	Annual Out-turn, FY07 estimates	% Population
Engineers	Degrees	1,024,380	264,000	0.02%
	Diploma	1,531,720	196,000	0.02%
Graduates	Arts	8,768,000	1,200,000	0.11%
	Commerce	4,853,000	565,000	0.05%
	Science	4,025,000	190,000	0.02%
Post Graduates	Arts	3,917,278	190,000	0.02%
	Commerce	902,278	50,000	0.00%
	Science	805,041	70,000	0.01%
TOTAL			2,725,000	0.25%

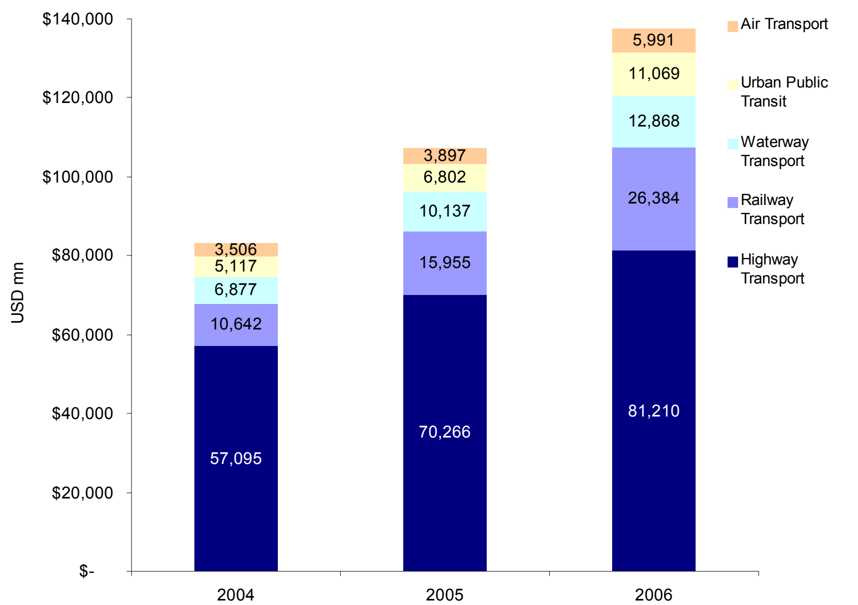
Source: Nasscom, Ministry of HR, BLS, Indian Labor Bureau and Citigroup Investment Research

India hindered by infrastructure bottlenecks

For modern retailing to develop, infrastructure spending is extremely important. Here China has led the way with huge spending on infrastructure supported by strong FDI flows. Spending on highways, railways and ports supports the development of fluid supply chains. This is a major problem in India and one that may hinder the development of modern retail, at least in terms of foreign entrants into the sector.

Some incumbent domestic retailers proclaim they are able to integrate and work within the current system of "80 bullock cart deliveries per day". We question whether such a disparate supply chain is sustainable over the long term and believe higher infrastructure spending and development is needed if modern retailing in India is to flourish.

Figure 30. China – Infrastructure spend

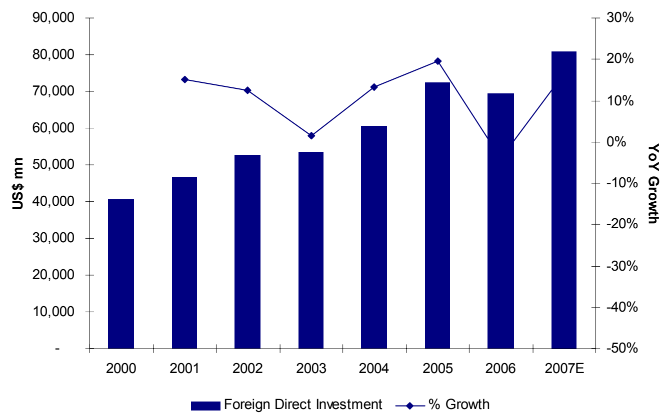


Source: CEIC and Citigroup Investment Research

India's prime minister estimates US$320bn is required to be spent by 2012 on roads, ports and other infrastructure if India is to speed up economic expansion and cut poverty.

Citing China as a prime example, FDI into the mainland is five times that for India. India spends around a seventh of China's US$150bn on public works projects. According to the Finance Minister, India loses two percentage points from annual growth because of inadequate power and transportation networks. Modern highways account for only 2% of the nation's road networks and it takes a ship ten times longer to discharge and load than it does in Hong Kong or Singapore, according to government figures.

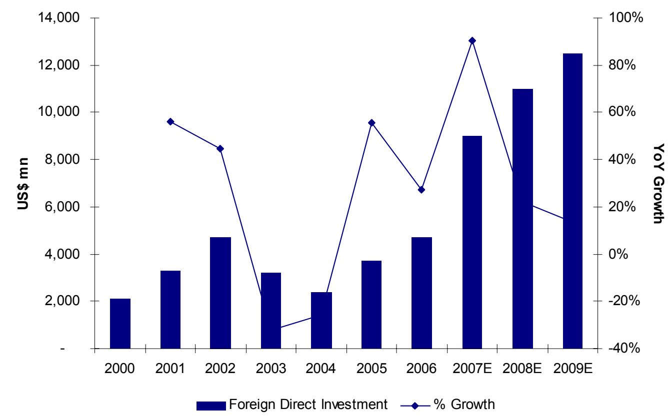
Figure 31. China – Total FDI inflow: 2000-07E CAGR 10.3%



Source: CEIC and Citigroup Investment Research estimates

Note: 2006 figure as at November

Figure 32. India – Total FDI inflow: 2000-09E CAGR 22.0%

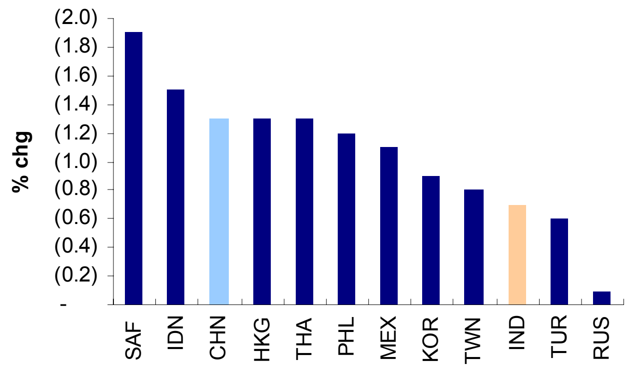


Source: CEIC and Citigroup Investment Research estimates

Impact of a US slowdown

India is more sheltered than China in terms of GDP impact caused by a slowdown in the U.S. Estimates by Oxford Economic Forecasting suggest Indian GDP would be hit by about 0.5% relative to China that is exposed to the tune of 1.3% for every 1% downward shift in U.S. GDP.

Figure 33. Asia – Impact of 1% slowdown in the US economy (% change from base)



Source: Oxford Economic Forecasting

Featured Companies

Pantaloon (PART.BO)

Buy/Medium Risk	**1M**
from Sell/High Risk	
Price (18 Apr 07)	Rs398.95
Target price	Rs500.00
from Rs212.00	
Expected share price return	25.3%
Expected dividend yield	0.2%
Expected total return	**25.5%**
Market Cap	Rs56,128M
	US$1,346M

Price Performance (RIC: PART.BO, BB: PF IN)

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Upgrade to Buy: First Mover Advantage to the Fore

- Upgrade to Buy — After being negative on Pantaloon's shares for a long time, we are now turning positive. The stock has underperformed the Sensex by 12.4% in the past 12 months. We are upgrading to Buy (from Sell), capturing value of subsidiaries that are scaling up quickly and continued growth in the core business (forecast an earnings CAGR of 35%).

- Price target Rs500 — Our price target is based on sum of the parts valuation. We now capture the value of Home Solutions (Rs60/share) and Future Capital (Rs50/share) subsidiaries and revise per share target of parent from Rs212 to Rs390, based on 30x P/E, rolled forward FY08E.

- First mover advantage playing out — Retail space locked in at lower-than-average market rents, strong brands, judicious product mix and understanding of Indian consumers developed over years are sources of competitive advantage and should protect growth and margins as competitive intensity picks up.

- New format roll out judiciously managed — Store formats have increased from four to 12 over last 18 months. Pantaloon used resources judiciously, and has not hesitated from curtailing underperforming formats. Recently opened "Home Town" store impresses us, and it could likely evolve as the next "big" format.

- Value unlocking from subsidiaries — Pantaloon's subsidiaries (media, logistics, brand-management, e-tailing) are being scaled up. It is looking to dilute equity in some of these over next 2-3 months to fund growth, which will unlock value, not yet captured in our target price.

Figure 34. Pantaloon – Valuation Summary

Year to 31-Mar	Net Profit (Rs Mils.)	FD EPS* (Rs)	EPS Growth (%)	P/E (x)	Adj.P/E** (x)	DPS (Rs)	Yield (%)	RoE (%)
2005	386.0	3.5	69.4	116.8	85.4	0.5	0.1	24.4
2006	641.6	4.9	38.5	84.3	61.7	0.5	0.1	17.1
2007E	1,449.4	10.0	105.6	41.0	30.0	0.5	0.1	19.7
2008E	1,889.8	13.0	30.4	31.4	23.0	0.7	0.2	21.1
2009E	2,394.4	16.5	26.7	24.8	18.1	0.8	0.2	22.4

Source: Company Reports and Citigroup Investment Research estimates
*Pre-exceptional EPS; ** Adjusted for value of subsidiaries

Fiscal year end 30-Jun	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	113.7	82.1	55.1	30.6	24.2
EV/EBITDA adjusted (x)	64.4	42.1	26.8	15.8	12.7
P/BV (x)	19.8	10.0	6.4	7.2	5.6
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Per Share Data (Rs)					
EPS adjusted	3.51	4.86	7.24	13.03	16.51
EPS reported	3.51	4.86	7.24	13.03	16.51
BVPS	20.14	39.91	62.62	55.61	71.19
DPS	0.50	0.51	0.36	0.65	0.83
Profit & Loss (RsM)					
Net sales	10,528	18,678	31,079	56,094	76,930
Operating expenses	-9,753	-17,465	-29,108	-52,555	-72,099
EBIT	**775**	**1,212**	**1,971**	**3,539**	**4,831**
Net interest expense	-275	-335	-640	-860	-1,410
Non-operating/exceptionals	31	42	800	100	100
Pre-tax profit	**531**	**919**	**2,131**	**2,779**	**3,521**
Tax	-145	-277	-682	-889	-1,127
Extraord./Min.Int./Pref.div.	0	0	-400	0	0
Reported net income	**386**	**642**	**1,049**	**1,890**	**2,394**
Adjusted earnings	386	642	1,049	1,890	2,394
Adjusted EBITDA	909	1,420	2,270	4,070	5,574
Growth Rates (%)					
Sales	60.1	77.4	66.4	80.5	37.1
EBIT adjusted	68.0	56.3	62.6	79.5	36.5
EBITDA adjusted	65.3	56.3	59.8	79.3	36.9
EPS adjusted	69.4	38.5	48.9	80.1	26.7
Cash Flow (RsM)					
Operating cash flow	**-403**	**-2,626**	**-1,085**	**381**	**-2,023**
Depreciation/amortization	133	208	299	531	743
Net working capital	-1,020	-3,610	-2,575	-2,089	-5,160
Investing cash flow	**-1,145**	**-1,335**	**-1,935**	**-1,166**	**0**
Capital expenditure	-1,145	-1,335	-1,935	-1,166	0
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,133**	**5,565**	**4,723**	**3,642**	**6,739**
Borrowings	496	3,152	1,983	2,749	6,875
Dividends paid	-63	-77	-59	-107	-135
Change in cash	**-415**	**1,604**	**1,703**	**2,858**	**4,717**
Balance Sheet (RsM)					
Total assets	**6,651**	**14,174**	**21,153**	**26,388**	**38,862**
Cash & cash equivalent	215	218	300	5	5
Accounts receivable	123	170	255	307	422
Net fixed assets	2,295	3,955	5,169	8,509	11,294
Total liabilities	**4,441**	**8,916**	**12,073**	**18,324**	**28,539**
Accounts payable	1,271	2,298	3,189	5,955	8,583
Total Debt	2,862	6,014	7,997	10,746	17,620
Shareholders' funds	**2,215**	**5,269**	**9,080**	**8,064**	**10,323**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	8.6	7.6	7.3	7.3	7.2
ROE adjusted	24.4	17.1	14.6	22.0	26.0
ROIC adjusted	15.6	12.4	10.6	15.3	15.0
Net debt to equity	119.5	110.0	84.8	133.2	170.6
Total debt to capital	56.4	53.3	46.8	57.1	63.1

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791

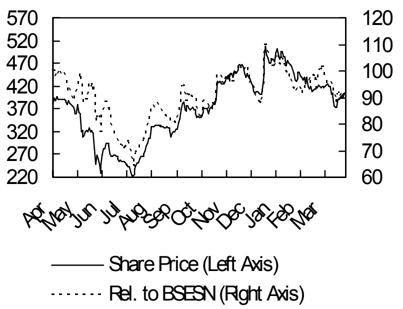
Powered by: dataCentral

Figure 35. Pantaloon – Stock Performance

(%)	3M	6M	12M
Absolute	(15.4)	14.4	4.3
Rel. to .BSESN	(10.7)	8.8	(12.4)

Source: Datastream

Figure 36. Pantaloon – Stock Price relative to Sensex



Source: Datastream

Upgrade to Buy, Price Target Rs500

We upgrade Pantaloon to Buy after raising our target price to Rs500 from Rs212 earlier. We have maintained a Sell rating on the stock for almost two years, maintaining that risk-reward was unfavorable, given that already high valuations did not leave scope for error in Pantaloon's aggressive expansion to new formats. The stock has underperformed the Sensex by 12.4% over the last 12-months, but we now believe that triggers are in place to reverse this trend. In the near term, we believe that key upside triggers will come from stake sales (likely to private equity and strategic partners) in subsidiaries.

Over the last 12-18 months, Pantaloon has demonstrated a smooth roll out to new formats, albeit slightly delayed. Additionally, it is looking to unlock value from its subsidiaries, which are being scaled up. We now believe that the risk profile of the business is much lower than we gauged earlier (we are also reducing our risk rating on the stock from High to Medium), and that Pantaloon is now better positioned to grow from its current base. While we are cognizant of the emerging competitive landscape, we believe that Pantaloon has sustainable competitive advantages to take on competition over the next few years. The key sources of competitive advantage for Pantaloon emanate from: 1) strong brands and well established retail formats; 2) judicious product mix; 3) below market rentals that are locked in through long-term leases; and 4) longstanding experience in understanding consumer behaviour and preferences of a highly heterogeneous population, comprising differing cultures, languages and tastes across India. We assume slowing same store sales growth, delay in expansion plans and declining margins into our earnings estimate for Pantaloon, which we believe captures the risk of increasing competition.

Our higher target price is driven by 1) raising EPS estimates for FY08E by 11.6%; 2) rolling forward our target P/E multiple from FY07E to FY08E, with FY08E EPS growth estimate of 31%; and 3) incorporating the value of subsidiaries (Home Solutions and Future, which have now been materially scaled up, and account for Rs110 per share based on our estimates. We have still not attributed any value to five other subsidiaries – Future Media, Future Logistics, Future Bazaar, Future Brands and Future Knowledge Services. These businesses are now in a nascent stage, but will likely be scaled up over the next 4-6 quarters.

Pantaloon – SOTP Price Target of Rs500

Our price target for Pantaloon is based on sum of the parts. We value parent Pantaloon Retail on our earlier 30x P/E multiple. However, we roll forward our target multiple to FY08E, given Pantaloon is already in 4QFY07 and that the market is likely start discounting FY08E into valuations. Our fair value for the parent company based on 30xFY08E P/E is Rs390. We also revise down our FY07E EPS by 7.9%, taking into account one-time inventory write-off expected in 4QFY07E and equity dilution, which mitigates the positive impact of one time asset sales in 2QFY07E, which we now incorporate into our estimates. We increase our net profit estimates for FY08E by 12.8%, however, FY08E EPS estimate increase is only 1.7%, taking into account equity dilution in Pantaloon.

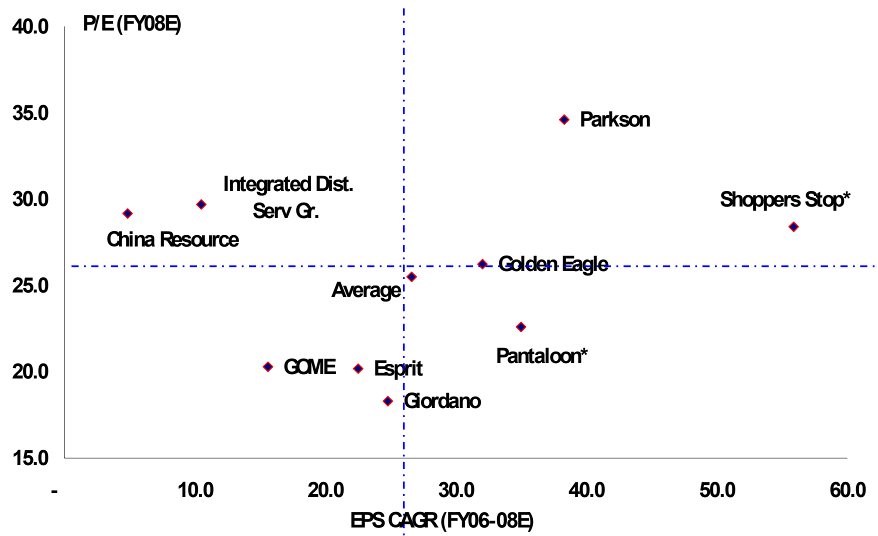
Figure 37. Pantaloon – Earnings Revision Summary

	Net Profits (Rsm)			EPS			DPS		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
FY07E	1139	1,049	-7.9	8.6	8.0	-7.9	0.4	0.4	-17.8
FY08E	1693	1,890	11.6	12.8	13.0	1.7	0.6	0.7	1.8

Source: Company Reports and Citigroup Investment Research estimates

We benchmark Pantaloon's valuations against early-stage valuations for Chinese retailers, which we believe have similar characteristics to Indian retailers. Our 30x valuation multiple is also benchmarked against our regional retail universe, and is at a premium of almost 100%. We expect a two-year EPS CAGR of 35% for Pantaloon, vs. a 30% CAGR for our Asian retail universe.

Figure 38. Asian Retail Universe – P/E v/s 2-year EPS CAGR



Source: Company reports; Citigroup Investment Research estimates; * P/E adjusted for subsidiary values

Figure 39. Asia Retail Sector – Valuation Summary

Company	Ticker	Rating	P/E 2007	P/E 2008	EV/EBITDA 2007	EV/EBITDA 2008	Dividend Yield 2008	RoE 2008	RoCE 2008	EPS CAGR 2006-08E
Golden Eagle Retail	3308.HK	1M	37.33	25.82	16.86	11.82	2.1%	41%	65%	32.04
Parkson Retail	3368.HK	2L	49.65	34.81	25.83	19.68	1.5%	35%	47%	38.31
China Resources	0291.HK	3L	32.96	31.49	17.08	15.71	2.8%	9%	8%	4.85
Esprit	0330.HK	1L	24.77	19.92	17.52	13.84	3.7%	52%	64%	22.52
GOME	0493.HK	1M	25.09	20.38	19.13	14.76	1.5%	12%	14%	30.68
Giordano	0709.HK	3L	18.12	17.23	7.78	7.41	5.5%	15%	22%	24.79
Integrated Dist.	2387.HK	1L	45.81	33.83	24.31	19.42	2.0%	22%	16%	10.50
Pantaloon	PART.BO	1M	55.1	30.6	25.8	14.4	0.2%	23%	19%	30.00
Shoppers Stop	SHOP.BO	3M	58.6	45.2	34.2	25.7	0.5%	15%	14%	33.00
Average			**37.6**	**28.2**	**21.1**	**16.3**	**2.2%**	**25.0%**	**29.9%**	**25.80**

Source: Citigroup Investment Research estimates

We value the Home Solutions subsidiary benchmarked off the valuation used for recent stake sale in the company to private equity players. Home Solutions subsidiary offloaded a 15% stake to private equity investors, valuing the subsidiary at Rs7.5bn-Rs14bn. We use a mid-range valuation, valuing the Home Solution subsidiary at Rs10bn. We also use a 1.2x Market Cap/Sales multiple, benchmarked off Pantaloons sales multiple valuation, which returns a value of Rs11bn for the Home Solution subsidiary. We use a sales multiple, given that Home Solutions is still in a nascent stage and that FY08E earnings do not fully reflect the potential margin profile of the business. Our fair value per share for the Home Solutions subsidiary is Rs60 per share, valuing the subsidiary at Rs10bn, in which Pantaloon has 85% stake.

We attribute per share value of Future Capital, Pantaloon's 74% subsidiary at Rs50. We value the NPV of cash flows to Pantaloon from the three 7-year close ended funds, where Pantaloon earns a 2%-2.5% management fee, and a 20% carry over 8% hurdle rate of return on equity (Pantaloon has leveraged the funds 1:1). We assume 15% increase in the fund NAV every year, and a 13% rate to calculate NPV of Pantaloons cash flows. Our sum of the parts valuation summary is enumerated below:

Figure 40. Pantaloon – Sum of the Parts Valuation Summary

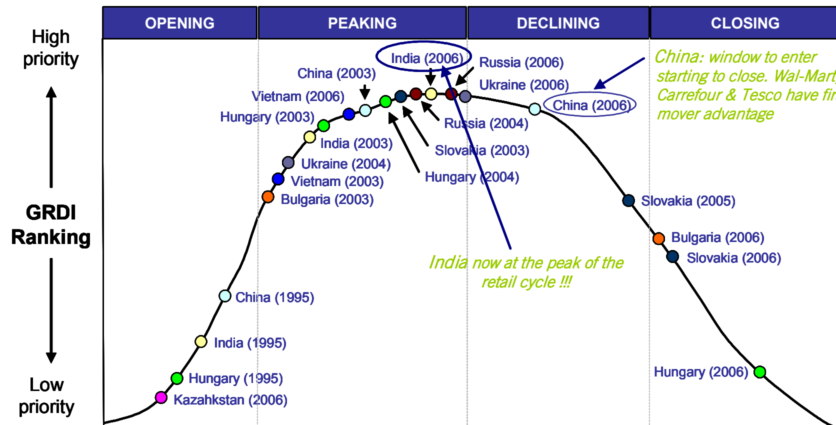
Business	Valuation Methodology	Per Share Value (Rs)
Pantaloon	30xFY08E P/E, benchmarked off trading multiples of Asian peer group	Rs390
Home Solutions	Valued at Rs10bn, using mid-point of stake sale valuation and 1.2x FY08E market cap / sales valuation	Rs60
Future Capital	Valued at NPV of cash flows to Pantaloon, assuming annual 15% fund NAV improvement and 13% discount rate	Rs50
Total		**Rs500**

Source: Company Reports and Citigroup Investment Research estimates

First mover advantage to the fore

We believe that Pantaloon is well positioned along a peaking window of opportunity for the Indian retail sector. We refer here to a study undertaken by AT Kearney that clearly shows India at the peak of the market attractiveness cycle. What this means is that based on a comprehensive criterion, the urgency to enter the Indian market is currently at its most intense. Pantaloon has been amongst the first movers to take advantage of this window of opportunity.

Figure 41. Window of opportunity analysis (based on the Global Retail Development Index rankings for 95-06; refer to figure 14 for the 2006 ranking)



OPENING	Monitor market; consider sending research team	Open sourcing office or step up retail stores; test the market	Scale up openings to capture market share	Determine market position; reevaluate strategy as needed
FORMATS	Not applicable	Consider supermarkets and hypermarkets, cash and carry, and convenience stores over other formats as they have higher success rates	Consider discounter models	No pattern identified
LABOR	Identify skilled labor pool for market	Hire and train local talent; create balance with expatriate employees	Switch balance from expatriate to local staff	No pattern identified

Source: A.T. Kearney

While Pantaloon has so far has been able to expand at a rapid pace, and has really not faced any material competitive challenges, the landscape is likely to change over the next 2-3 years. Large business houses like Reliance, Tatas, Bharati (through a Joint Venture with Wal-Mart), and the Birla group are planning aggressive entry into retail. It is in this environment, that we believe that Pantaloon's business model will be tested the most. While we do expect sales growth and margins for incumbents like Pantaloon to be adversely impacted, we believe that company has some strong first mover advantages, which will continue to drive strong growth for the company. The key advantages, to our mind are: 1) Strong brands and well established retail formats; 2) Judicious product mix; 3) below market lease rental, which are locked in; and 4) Long standing experience of understanding the complex heterogeneous Indian consumer.

Figure 42. India – Retail Expansion Plans of Various Players

Company	Location	Current Retail Formats	Targeted Expansion Plans	Investment Outlay
Reliance Retail	Pan India	Supermarkets, Hypermarkets, Specialty Stores	100m sq. ft. by FY11	US$5bn-US$6bn
Bharti-Wal Mart	Pan India	Hypermarkets	10m sq. ft (55 Stores) by FY10	US$2bn-US$2.5bn
AV Birla Group	Pan India	Supermarkets	NA	US$1bn-US$1.5bn
Subiksha	Pan India	Supermarket	1300 stores by end 2007	NA
Hypercity	Pan India	Hypermarkets	7m sq. ft. by FY15	US$125mUS $150m
Piramyd Retail	Maharashtra	Department Stores, Supermarkets	0.8m sq ft (17 hypermarkets and 69 supermarkets by 2008)	US$125-US$150m
RPG Retail	Pan India	Hypermarkets, Supermarkets	5m sq. ft. by 2008 (57 hypermarkets and 200 music stores)	NA
Tata Group	Pan India	Hypermarkets, Department Stores, Consumer Electronics	60Croma stores by 2009 by Infinity, 27 Trent stores via the JV with DLF	NA

Source: India Retail Report 2007

We enumerate below in what we believe are the key sources of competitive advantages for Pantaloon, emanating from its first mover positioning in the organized retail segment:

1. Strong brands and well-established retail formats: Pantaloon besides its scale has also created well-established and diversified formats with strong brand names. The Big Bazaar and the Food Bazaar brands are now household names and are well established as “value for money” hypermarkets. On the other hand, Pantaloon and Central are well recognized lifestyle stores. Same store sales growth for value as well as the lifestyle formats continuous to be well over 20%. Pantaloon has also recently ventured into the home interiors segment through its Home Town store. The home town store is a first of its kind store in India that caters to all home interior needs, addressed through a wide range of products such as hardware, sanitary ware, furniture, home textiles, furnishings, building material, home appliances and accessories.

Figure 43. Big Bazaar had thousands of customers waiting to enter the store at its annual republic day sale

Source: Citigroup Investment Research

Figure 44. A weekend sale at a Big Bazaar Outlet

Source: Citigroup Investment Research

Figure 45. Up market lifestyle format Central Mall

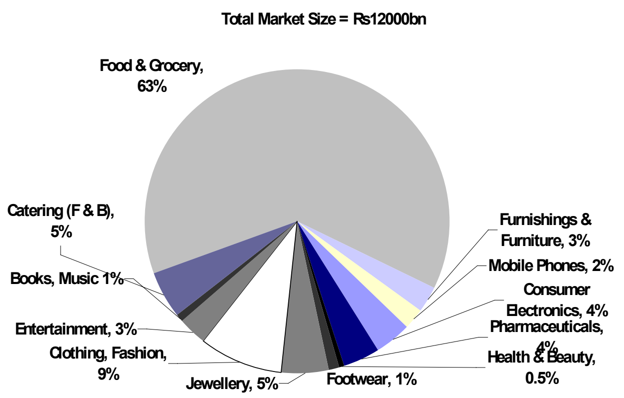
Source: Citigroup Investment Research

Figure 46. Recently launched Home Town store

Source: Citigroup Investment Research

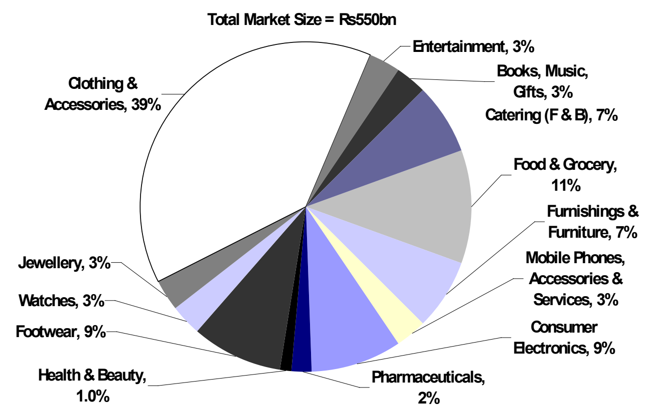
2. Judicious product mix: India's overall retail market is dominated by the food & grocery segment, which commands 63% of the total retail share. However, with in the organized retail segment, food & groceries constitute only 11% of total retail sales. On the other hand, clothing & accessories command 39% market share of organized retail, while commanding only 9% share of total retail spend. Thus, food & beverages segment seems to be presenting best growth opportunity for organized retailers.

Figure 47. India – Segmental Break Up of Total Retail Market



Source: Images retail

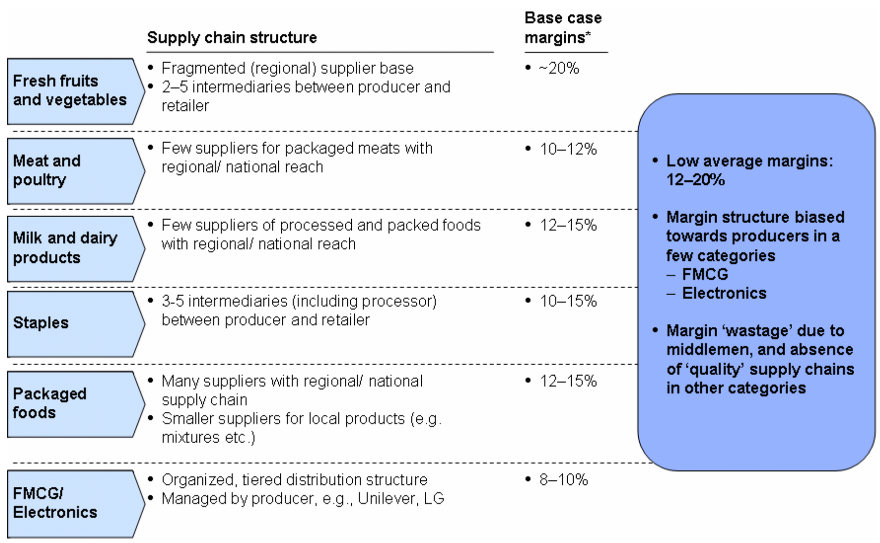
Figure 48. India – Segmental Break Up of Organized Indian Retail Market



Source: Images retail

However, It is important to have a judicious mix of non food and food segments in our view – while apparel has higher margin profile (typical gross margins of 35%-50%) but low inventory turns (and therefore lower capital efficiency), margins for food and groceries are low (gross margins of 10%-15%), but this segment has high inventory turns, and therefore higher capital efficiency. In addition, the supply chain for the foods business in India is highly fragmented and infrastructure is underdeveloped, making large-scale and consistent sourcing difficult.

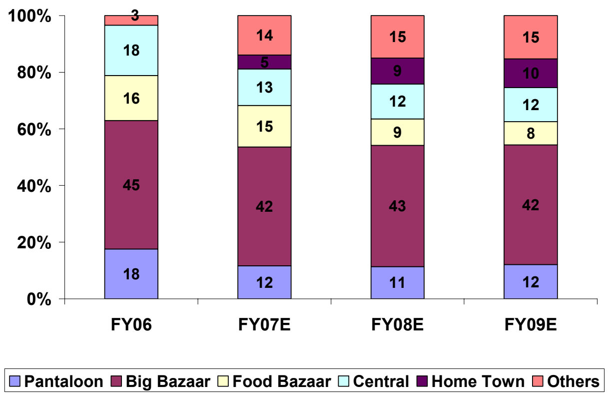
Figure 49. India – Food Supply Chain Infrastructure and Margin Structure



Source: McKinsey & Company

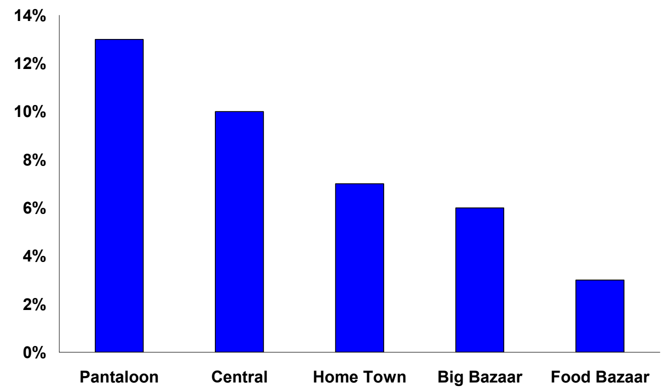
Pantaloon has created a judicious mix of apparel & accessories, food and grocery and household products. Now, almost 30% of its sales come from the lifestyle formats (mainly apparel, cosmetics and accessories) while remaining sales are from the value formats. Going forward, Pantaloon is looking to reduce the contribution of foods to overall sales, with total space dedicated to Food Bazaar likely to decline from 16% of overall space in FY06 to 8% of total space by FY09E, based on our estimates. Contribution from new formats like Home Solutions is likely to increase, while the Big Bazaar format contribution is likely to remain stable. From a margin perspective, Pantaloon's EBITDA margin is the highest amongst all formats, close to 13%, while Food Bazaar has the lowest EBITDA margin profile of about 3%.

Figure 50. Pantaloon – Percentage Retail Space Mix for Retail Formats



Source: Company reports; Citigroup Investment Research estimates

Figure 51. Pantaloon – EBITDA Margin Profile of Retail Formats



Source: Company reports; Citigroup Investment Research estimates

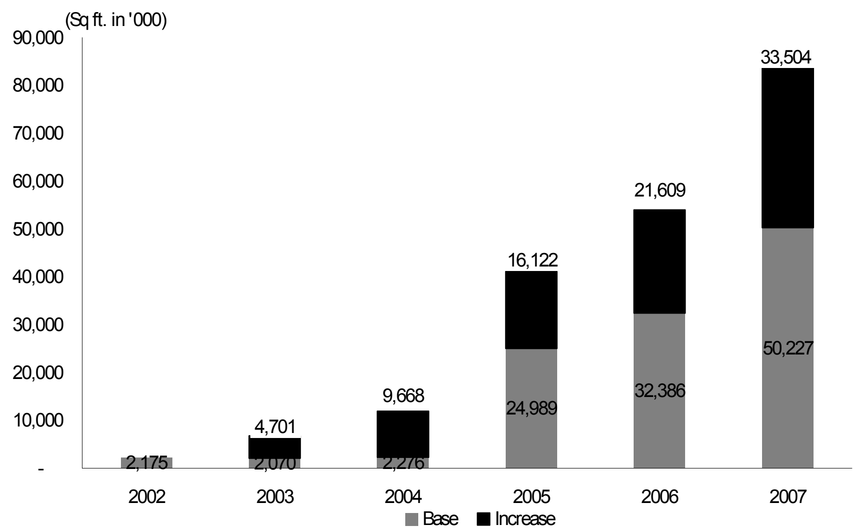
3. Below-market rentals: One of the major competitive advantages for Pantaloon is that it has been able to lock in retail space at much lower than average rents. The company typically locks in retail space with long-term leases with nine-year to 25-year tenors. Average per sq. ft. rent for Pantaloon is currently about Rs45 per sq. ft. per month, against average mall rentals of Rs80-Rs300 in tier I cities (high street rentals are even higher). Pantaloon, which is a key anchor tenant for mall developers, has been able to garner significant rent advantage, with rentals 40%-60% below some retailers that enjoy anchor tenant status. However, with many new players in the fray, demand for retail space is rising and mall space supply is likely to be fall short of demand over the next 2-3 years, driving up rents. Already, rents for retail space have increased by 40%-80% across most tier-I cities over the past 12months. However Pantaloon has already locked in 25m sq. ft. of retail space for its expansion plans over next three years, so it should not see significant pressure on rent costs. We are building in a 50bps increase in rents (as % of sales) into our estimates over the next 2 years. We would like to highlight that Pantaloon's growth ambitions are not overriding business sense, and it really is not in a "land grab" mode. We understand from Pantaloon's management that they have not signed any new lease agreements for the past six months as they believe that current rentals being demanded by mall developers do not make business sense. Pantaloon management expects rents to cool over the next few months and would look to enter fresh agreements only following a correction.

Figure 52. Pantaloon – Lease Rentals in Tier-1 cities: High Streets and Malls

Rs/Sq ft/Month	Minimum	Maximum	Mean
NCR	40	600	320
MMR	80	500	290
Bangalore	50	300	175
Kolkata	25	250	138
Pune	50	150	100
Hyderabad	38	158	98
Chennai	50	130	90

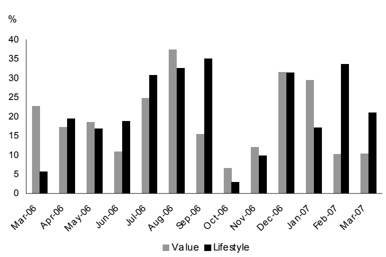
Source: Knight Frank India: Citigroup Investment Research estimates

Figure 53. India – Growth in supply of mall space



Source: India Retail Report 2007

Figure 54. Pantaloon – Same Store Sales growth Trend (%)



Source: Citigroup Investment Research

4. **Experience of understanding the complex Indian consumer:** Pantaloon tends to localize its Food Bazaar and Big Bazaar stores, keeping in mind consumer tastes in a particular region. Pantaloon has also over the years gained a first-hand understanding of consumer behaviour and preferences of a highly heterogeneous population, comprising many different cultures, languages and tastes across different states. For instance, for its value Hypermarket, Big Bazaar, Pantaloon has created a store layout that caters to family groups shopping together (a typical Indian trait) and seems slightly chaotic. Pantaloon management maintains that Indians are accustomed (and in some cases prefer) a "chaotic" shopping environment and the Big Bazaar tends to replicate a similar environment. We have seen also seen ample use of local language signage and product localization across stores. In addition, we have seen some great innovations by Pantaloon to drive footfalls – it offers consumers coupons to spend in its Big Bazaar stores in exchange for household junk (newspapers, old clothes, metal scrap etc). Pantaloon further sells these to the recycling industry (management of the process itself is outsourced, so Pantaloon does not waste resources). At any given time, one can see hordes of customers queued up outside Big Bazaar stores to exchange junk for purchase coupons. Pantaloon's stores have continued to attract higher footfalls and ticket sizes, evident from its continued strong same store sales trend.

Figure 55. Customers queued up outside Big Bazaar to exchange 'junk' for purchase coupons

Source: Citigroup Investment Research

New format roll out seems on track

Over the past two years, we have been skeptical of Pantaloon's plans to expand at an aggressive pace and diversify into numerous new formats. Our skepticism was driven by Pantaloon's foray into numerous new segments and retail formats and concerns whether Pantaloon had the execution capabilities to deliver such rapid expansion. However, successful roll out of the new formats over last two years, albeit slightly delayed, has made us rethink. While we do not deny the execution risk entailed in the aggressive expansion plans going forward, we believe that Pantaloon now has the scale to be able to absorb losses arising from any formats that do not succeed. Till two years back, the company had four store formats (Pantaloon, Big Bazaar, Food Bazaar and Central). It has now expanded its store formats to over 12. We are impressed by Pantaloon's ability to gauge customer response and respond accordingly. We have observed that Pantaloon has been fairly quick on curtailing formats that do not perform to its expectations. For example, Pantaloon has curtailed its growth plans for its Fashion Station stores, which have not delivered targeted sales per square foot.

We would also like to highlight that older formats will remain the bread and butter for the company, besides the Home Town format, on which Pantaloon is betting big. Overall, we expect five formats (Pantaloon, Big Bazaar, Food Bazaar, Central and Home Town) to contribute over 85% of sales by FY09E.

Home Town: Potential for Next Big Format

Pantaloon recently rolled out its home interiors format, Home Store. The home town store is a first of its kind store in India that caters to all home interior needs, addressed through a wide range of products such as hardware, sanitary ware, furniture, home textiles, furnishings, building material, home appliances and accessories. Typical store size would be 125,000-150,000 sq. ft. Pantaloon plans to roll out 10-12 such stores over the next two years. Home town is part of Pantaloon's Home Solutions subsidiary (which we value at Rs60 per share). Besides Home Town stores, the home solutions subsidiary has four other store formats: consumer electronics, furniture and mobile phones. Our key operating assumptions for the Home Solutions subsidiary are enumerated below. Our retail space assumptions only capture stand alone stores, and do not capture space utilized by these formats in the Big Bazaar stores to avoid double counting. We expect the Home Town stores to continue to contribute over 50% of sales of this subsidiary.

Figure 56. Home Solutions Subsidiary – Operating Assumptions

	FY07E	FY08E	FY09E
E-Zone			
Sales (Rsm)	750.0	2250.0	3500.0
Growth (%)		*200.0*	*55.6*
Total Space (Sq Feet)	150000.0	300000.0	400000.0
Sales / Sq Ft. (Rs)	10000.0	10000.0	10000.0
Electronic Bazaar			
Sales (Rsm)	325.0	975.0	1250.0
Growth (%)		*200.0*	*28.2*
Total Space (Sq Feet)	32500.0	97500.0	125000.0
Sales / Sq Ft. (Rs)	10000.0	10000.0	10000.0
Collection i			
Sales (Rsm)	337.5	900.0	1237.5
Growth (%)		*166.7*	*37.5*
Total Space (Sq Feet)	112500.0	187500.0	225000.0
Sales / Sq Ft. (Rs)	6000.0	6000.0	6000.0
Furniture Bazaar			
Sales (Rsm)	288.0	888.0	1500.0
Growth (%)		*208.3*	*68.9*
Total Space (Sq Feet)	96000.0	200000.0	300000.0
Sales / Sq Ft. (Rs)	6000.0	6000.0	6000.0
Home Town			
Sales (Rsm)	450.0	4,100.0	8,200.0
Growth (%)		*811.1*	*100.0*
Total Space (Sq Feet)	225,000.0	800,000.0	1,250,000.0
Sales / Sq Ft. (Rs)	8,000.0	8,000.0	8,000.0
Gross Sales	**2150.5**	**9113.0**	**15687.5**
Total Area (sq ft)	616000.0	1585000.0	2300000.0
Gross Margins (%)			
E-Zone	11%	11%	11%
Electronic Bazaar	10%	10%	10%
Collection - i	45%	45%	45%
Furniture Bazaar	35%	35%	35%
Home Town	25%	25%	25%
Total Gross Profit	**480.2**	**2085.8**	**3641.9**
Gross Margins (%)	*22.3*	*22.9*	*23.2*
EBITDA Margins (%)			
E-Zone	-5%	3%	3%
Electronic Bazaar	-5%	2%	2%
Collection - i	-5%	10%	10%
Furniture Bazaar	-5%	9%	9%
Home Town	-5%	6%	6%
EBITDA	**-107.5**	**502.9**	**880.8**
EBITDA Margins (%)	*-5.0*	*5.5*	*5.6*
Depreciation	-50.0	-77.5	-57.2
Interest	-40.0	-200.0	-360.0
PBT	**-197.5**	**225.4**	**463.6**
Tax	59.3	-67.6	-139.1
Tax Rate (%)	*30%*	*30%*	*30%*
Net Profit	**-138.3**	**157.8**	**324.5**

Source: Company Reports and Citigroup Investment Research estimates

We recently visited the first Home Town store opened in Noida in the National Capital Region of Delhi. We came back fairly impressed with the format, and see tremendous potential for this format going forward. Typically, home interiors segment in India is dominated by the unorganized segment, entailing multiple points of purchase and services. Home Town offers a convenience proposition of all products and services under one roof – which scores significantly over the unorganized segment. We are also enthused by the store outlay, with demarcated areas for various products segments. The product range at the store itself was impressive, with ample choices across products, suiting most price brackets. However, we were most impressed by the display of live models of kitchens, living rooms, bedrooms and bathrooms – clearly aspirational for middle income consumers. The store also offers credit to consumers. Management indicated IRR on credit in the range of 20%-25%, built into product prices.

Figure 57. Bedrooms on display at the Home Town

Source: Citigroup Investment Research

Figure 58. Bathrooms on display at Home Town

Source: Citigroup Investment Research

Figure 59. Air Conditioning sections at Home Town

Source: Citigroup Investment Research

Figure 60. Tiles and hardware section at Home Town

Source: Citigroup Investment Research

Potential upside from subsidiaries

Pantaloon has forayed into businesses, which are ancillary to its retail business, but can potentially unlock significant value going forward. These businesses are held in subsidiaries, which could see equity infusion over the next 3-4 quarters as these are scaled up. We have not factored these subsidiaries into our sum of the parts valuation. However, we believe that if Pantaloon's plans to scale up these businesses remain on track, significant value could be unlocked over next 4-6 quarters. The key subsidiaries that could see equity dilution over next few months include:

- Future Media: Future media, a 100%-owned subsidiary of Pantaloon will manage LCD screens, billboards and hoardings in all Pantaloon stores, as well as third party stores. The company has already rolled out operations and an initial team of 25 employees has been put in place. LCD screens have already been put up at the Home Town store located in Noida.

- Future Logistics: This is a logistics management company, which now manages logistics for Pantaloon, but over next 1-2 years will also transit to managing logistics for third parties. The company has about 80 employees on board, and according to the Pantaloon management is exploring options to tie up with an international strategic partner.

- Future Bazaar: Future Bazaar is Pantaloon's e-tailing venture, which currently has a run rate of Rs10m per month sales, but growing rapidly.

- Future Brands: The Future Brands subsidiary owns the rights to all of Pantaloons private label brands, and has been entrusted to scale up all of these brands nationally. Future Brands will earn royalties from franchising out the brands.

Figure 61. Pantaloon – Subsidiaries and Joint Ventures

Subsidiaries	Pantaloon's Stake	Format	Current CIR per share value (Rs)
Home Solutions	85%	Home interior retailing	60
Future Capital	74%	Real estate and private equity funds	50
Future Media	100%	Advertising in retail outlets	0
Future Bazaar	100%	E-tailing	0
Future Logistics	100%	Logistics management	0
Future Brands	100%	Brand management and franchisee	0
Convergem	100%	Communications	0
Joint Ventures			
Gini & Jony	50%	Kids wear retailing	0
Capital Foods	33%	Ready to eat food	0
Generali	58%	Insurance	0
Liberty Shoes	51%	Footwear retailing	0
Planet Sports	49%	Sports and apparel retailing	0
Galaxy Entertainment	16%	Leisure and entertainment	0

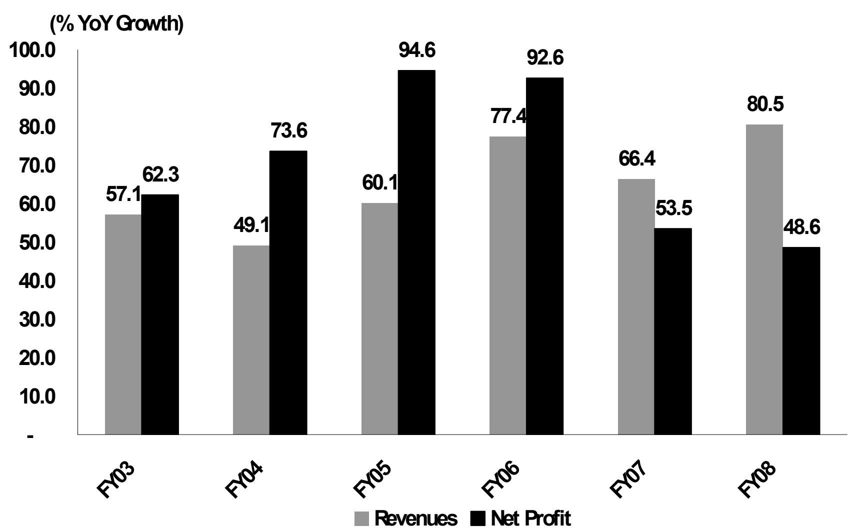
Source: Company Reports; Citigroup Investment Research estimates

EPS CAGR of 35% over FY07E-FY09E

We forecast EPS CAGR of 35% over FY07E-FY09E for standalone Pantaloon (excluding the subsidiaries), driven by aggressive new store expansion and continued strong same store sales growth. We estimate total retail space for standalone Pantaloon to increase from 3.9m sq. ft. by FY07E to 10.1m sq. ft. by FY09E. We estimate total retail space, including the home solutions subsidiary to increase from 4.5m sq. ft. to 12.4m sq. ft. over the same period. Our space addition estimates are significantly below management guidance (looking at 30m sq. ft. by FY11E), as we factor in store opening delays due to malls being behind schedule and delayed related to regulatory clearances.

We forecast sales growth CAGR of 57% for the standalone entity over FY07E-FY08E. However, rising interest cost and margin pressure are likely to pare net profit growth.

Figure 62. Pantaloon – Sales and EPS growth trend (%)



Source: Company reports; Citigroup Investment Research estimates

Figure 63. Pantaloon – Sales Growth Assumptions (Rupees in Million, Percent)

	FY05	FY06	FY07E	FY08E	FY09E
Pantaloon					
Sales (Rsm)	2,559.6	3,031.2	3,594.7	6,750.0	10,125.0
Growth (%)	23.2	18.4	18.6	87.8	50.0
Total Space (Sq Feet)	278,500	474,550	532,550	1,000,000	1,500,000
No. of Stores	12.0	21.0	23.0	35.0	40.0
Sales / Sq Ft. (Rs)	7,839.5	7,286.5	7,500.0	7,500.0	7,500.0
Big Bazaar					
Sales (Rsm)	4,256.4	8,153.4	14,672.7	28,687.5	40,162.5
Growth (%)	83.8	91.6	80.0	95.5	40.0
Total Space (Sq Feet)	841,800.0	1,220,200.0	1,918,000.0	3,750,000.0	5,250,000.0
No. of Stores	19.0	29.0	70.0	50.0	80.0
Sales / Sq Ft. (Rs)	8,357.8	8,153.4	8,500.0	8,500.0	8,500.0
Food Bazaar					
Sales (Rsm)	2,413.3	4,918.5	9,039.7	11,064.7	13,764.7
Growth (%)	110.7	103.8	83.8	22.4	24.4
Total Space (Sq Feet)	269,608.0	428,308.0	669,608.0	819,608.0	1,019,608.0
No. of Stores	28.0	45.0	56.0	68.0	85.0
Sales / Sq Ft. (Rs)	14,022.3	14,904.5	15,000.0	15,000.0	15,000.0
Central					
Sales (Rsm)	1,614.5	3,253.3	766.1	3,447.9	2,940.0
Growth (%)	1,641.6	101.5	5.0	7.0	8.0
Total Space (Sq Feet)	478,000.0	478,000.0	587,440.0	1,080,000.0	1,500,000.0
No. of Stores	3.0	4.0	5.0	9.0	13.0
Sales / Sq Ft. (Rs)	5,557.9	6,806.1	7,000.0	7,000.0	7,000.0
Fashion Station					
Sales (Rsm)	29.3	174.9	499.5	900.0	1,575.0
Growth (%)			185.5	80.2	75.0
Total Space (Sq Feet)	32,000.0	91,500.0	111,000.0	200,000.0	350,000.0
No. of Stores	1.0	5.0	6.0	11.0	19.0
Sales / Sq Ft. (Rs)	4,075.7	3,469.9	5,000.0	5,000.0	5,000.0
Brand Factory					
Sales (Rsm)			506.3	1,743.8	3,112.5
Growth (%)				244.4	78.5
Total Space (Sq Feet)			135,000.0	330,000.0	500,000.0
Sales / Sq Ft. (Rs)			7,500.0	7,500.0	7,500.0
Other Sales	312.2	300.0	2,000.0	3,500.0	5,250.0
Revenues	**11,185.3**	**19,831.3**	**31,079.0**	**56,093.9**	**76,929.7**
% Growth	72.8	77.3	56.7	80.5	37.1
Less: Inter segment Sales	(678.3)	(1,316.4)	(1,243.2)	(2,243.8)	(3,077.2)
% of Revenues	6.1	6.6	4.0	4.0	4.0
Gross Sales	**10,507.0**	**18,514.9**	**29,835.8**	**53,850.1**	**73,852.5**
Excise/VAT	(324.4)	(929.9)	(1,243.2)	(2,243.8)	(3,077.2)
Net Sales	**10,182.6**	**17,585.0**	**28,592.6**	**51,606.4**	**70,775.3**
% Growth		72.7	62.6	80.5	37.1
Sales per sq/ft (Rs.)	8,567.5	8,719.3	8,869.0	8,768.6	8,479.3
Other Operating Income	345.3	1,092.7	2,185.5	4,370.9	8,741.8
Total Income	**10,527.9**	**18,677.8**	**30,778.1**	**55,977.3**	**79,517.1**
% Growth		77.4	64.8	81.9	42.1

Source: Citigroup Investment Research

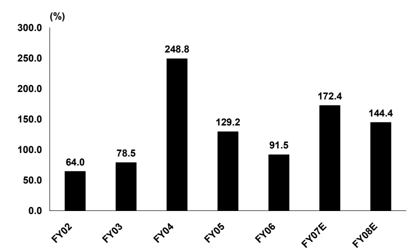
We expect margins for Pantaloon to decline marginally going forward, driven by rising rentals and wage bill. Some of the margin pressure is likely to be mitigated by operating leverage with the business scaling up rapidly. Our key margin assumptions are enumerated below:

Figure 64. Pantaloon – Key Cost Assumptions (Rupees in Million, Percent)

	FY05	FY06	FY07E	FY08E	FY09E
Total Income	10,527.9	18,677.8	30,778.1	55,977.3	79,517.1
% Growth		*77.4*	*64.8*	*81.9*	*42.1*
Cost of Goods Sold	7,003.1	12,434.3	20,822.9	37,582.9	51,542.9
% of Sales	*66.5*	*66.6*	*67.0*	*67.0*	*67.0*
Personnel Cost	506.5	1,120.7	2,042.3	3,686.2	5,055.4
% of Sales	*4.8*	*6.0*	*6.6*	*6.6*	*6.6*
Manufacturing & Other Expenses	2,109.6	3,702.3	5,943.6	10,754.8	14,757.7
% of Sales	*20.0*	*19.8*	*19.1*	*19.2*	*19.2*
Labor Charges	152.7	206.0	466.2	841.4	1,153.9
% of Sales	*1.5*	*1.1*	*1.5*	*1.5*	*1.5*
Packing Material	124.4	192.0	310.8	560.9	769.3
% of Sales	*1.2*	*1.0*	*1.0*	*1.0*	*1.0*
Mall Maintenance Charges	216.8	336.1	528.3	953.6	1,307.8
% of Sales	*2.1*	*1.8*	*1.7*	*1.7*	*1.7*
Rent	479.7	1,058.2	2,020.1	3,702.2	5,154.3
% of Sales	*4.6*	*5.7*	*6.5*	*6.6*	*6.7*
Advertising	325.5	509.6	870.2	1,682.8	2,231.0
% of Sales	*3.1*	*2.7*	*2.8*	*3.0*	*3.0*
Other Operating Expenses	810.5	1400.4	1747.9	3013.8	4141.4
% of Sales	*7.7*	*7.5*	*5.6*	*5.4*	*5.4*

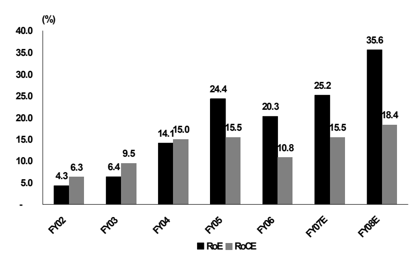
Source: Citigroup Investment Research

Figure 65. Pantaloon – Gearing Trend (%)



Source: Company; Citigroup Investment Research estimates

Figure 66. Pantaloon – ROE and ROCE (%)



Source: Company Reports and Citigroup Investment Research estimates

Gearing to rise on aggressive expansion

We estimate that Pantaloon requires about Rs19.3bn of funding for store expansion over FY07E-FY09E. We estimate that each incremental sq. ft of space requires about Rs2700 of capital – about Rs1200 to fund capital expenditure and Rs1500 for working capital. We expect Pantaloon to fund its expansion through a combination of internal accruals, debt and selling minority stakes in its subsidiaries. Pantaloon management has stated that it is not looking at further equity dilution of the parent company.

We expect gearing (gross debt to equity) for Pantaloon to increase from 0.9x in FY07E to 1.4x by FY08E on account of borrowings needed for expansion.

We expect ROE to improve over FY07E-FY09E due to rapid profit growth and coming off a low base of FY06E and FY07E due to fresh equity infusion. However increasing debt on the books is likely to keep ROCE under check over FY07E-FY09E.

One-time Inventory write-off expected

According to the Pantaloon annual reports, the company values its inventories in the following manner:

- Raw material and stitching material: At cost
- Stores, spares, packaging and branding material: At cost
- Finished goods lying at factory: At lower of cost or net realizable value
- Finished goods lying at retail outlets: Retail price less mark up

Pantaloon uses the 'retail method' to value its finished goods inventories lying in its retail stores (using FIFO method), in accordance with AS-2 (accounting standard 2) of Indian GAAP. The US GAAP also provides for the retail method of inventory valuation for retailing companies that allows retailers to take physical inventory at retail prices and then use a cost-to-retail ratio to convert ending inventory at retail to estimated costs. The retail inventory valuation method is followed by a significant number of leading retailers, globally.

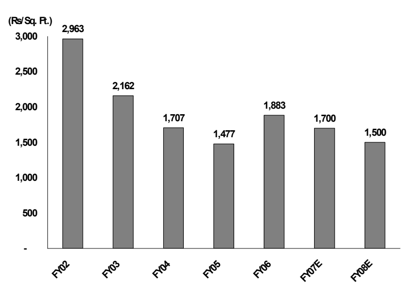
The Indian GAAP standard for retail inventory valuation is enumerated below:

"*The retail method is often used in the retail trade for measuring inventories of large numbers of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods.* ***The cost of the inventory is determined by reducing from the sales value of the inventory the appropriate percentage gross margin.*** *The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.*"

While Pantaloon's inventory valuation methodology is consistent with the Indian GAAP guidelines, the point of contention is the 'mark up' that the company uses to deduct from the retail price. Our discussions with the Pantaloon management suggest the following components of the 'mark up'

- EBITDA Margin (Historically, at about 8% level)
- Sales Tax (Average 4%)
- Promotions / Discounts / Shrinkage (Average 3%)

Figure 67. Pantaloon – Inventory per square feet (Rupees)



Source: Company reports; Citigroup Investment Research estimates

Thus, Pantaloon marks down its inventories by about 15% of retail price, or values the inventory at its retail outlets at about 85% of retail price, which we find aggressive. In our view, a more conservative norm of valuing inventories would be using the value of the purchase order (POI) issued to the vendors, and adding any freight and transportation costs incurred on brining the concerned goods to the respective retail outlets. We understand from the Pantaloon management that they are looking to revert to a more conservative inventory valuation norm (valuing at cost) from FY08 and a one-time inventory write off is expected in 4QFY07. Additionally, management is also looking at writing off store inventory over 365 days. We have incorporated a write off of Rs400m into our FY07E estimates.

There have also been issues pertaining to seemingly high inventory at the store level. While over the years, per sq. ft. inventory has been coming down, there was a sharp increase in FY06. Store inventory per sq. ft. is a function of the store mix, typically the Pantaloon store has the highest inventory on a per sq. ft. basis, while Food Bazaar carries the lowest per sq. ft. inventories. Going forward, we expect overall inventory per sq. ft. to decline, partly driven by change in store mix, and partly through better inventory management systems due to recent implementation of SAP across the organization.

Pantaloon

Company description

Pantaloon is the largest organized modern-format retailer in India, with a presence in apparel, general merchandise, home products and food retailing. It has retail space of about 3.5m sq. ft. with plans to expand to 30m sq. ft. by FY11. Pantaloon retails fashion apparel and accessories through its Pantaloon stores, and general merchandise and food through discount department stores Big Bazaar and Food Bazaar. It has presence in retail property management services through Central Malls, managing retail space for concessionaries fees and a share of sales. It has recently launched Home Town for home interiors, which it plans to expand aggressively. Its real estate investment subsidiary, Kshitij Retail Destinations plans to set up 51 malls across India spanning 14.5m sq. feet in the next three years. Pantaloon also has interests in media, logistics, brand management and e-tailing, through subsidiaries.

Investment Thesis

We rate Pantaloon Buy/Medium Risk (1M) with a target price of Rs500. In the near term, stock upside triggers should come from stake sales in subsidiaries. We are including the Home Solutions and Future Capital subsidiaries into our valuations. We believe that the risk profile of the business has come down, and that Pantaloon is now better positioned to grow from its current base. While we are cognizant of the emerging competitive landscape, we believe that Pantaloon has sustainable competitive advantages: 1) strong brands and well-established retail formats; 2) judicious product mix; 3) below-market rentals locked in with long-term leases; and 4) longstanding experience in understanding Indian consumer behaviour.

Valuation

Our price target is based on sum of the parts. We value parent Pantaloon Retail at Rs390 per share based on 30x FY08E P/E, similar to early-stage valuations for Chinese retailers. Our 30x multiple is also benchmarked against our regional retail universe. We expect a two-year EPS CAGR of 64% for Pantaloon, vs. 30% for our Asian retail universe. We benchmark valuations of Home Solutions against recent stake sales (mid point of Rs7.5bn-Rs10bn). We also use Market Cap/Sales valuation of 1.2xFY08E, at par with Pantaloon's valuations. Our fair value per share for the Home Solutions subsidiary is Rs60 per share. We attribute per share value of Future Capital, Pantaloon's 74% subsidiary at Rs50, based on the NPV of cash flows to Pantaloon from the three 7-year close-ended funds (management fee + carry). We assume a 15% increase in the fund NAV every year, and a 13% discount rate to calculate NPV of cash flows.

Risks

We assign a Medium Risk rating to Pantaloon Retail based on our quantitative risk-rating system. The main downside risks to our target price include: 1) Delay in store opening plans; 2) Legislative changes that allow FDI in retail; 3) Increase in competitive intensity, irrational competition; and 4) Continued pressure on rentals, which could result in lower than expected margins. The main upside risks to our target price and estimates include: 1) Better-than-expected sales growth; 2) Value unlocking in subsidiaries through listing / stake sales; and 3) Any significant acquisitions perceived to be creating value.

Shoppers Stop (SHOP.BO)

Sell: Valuations Building Excessive Expectations from HyperCity

Sell/Medium Risk	3M
from Sell/Speculative	
Price (19 Apr 07)	Rs635.00
Target price	Rs421.00
from Rs270.00	
Expected share price return	-33.7%
Expected dividend yield	0.3%
Expected total return	**-33.4%**
Market Cap	Rs21,833M
	US$522M

Price Performance (RIC: SHOP.BO, BB: SHOP IN)

- **Valuations pricing in growth opportunities** — We like the Shoppers Stop growth story, leveraged to rapidly growing high-end urban consumption. However, at 43x FY08E P/E valuations are steep and seem to be building unfeasible expectations from HyperCity. As such, the stock h`as underperformed the Sensex by 9% and we expect valuation roadblocks to continue. Maintain SELL

- **Excessive expectations from HyperCity** — Based on our scenario analysis, we estimate that Shoppers Stop's stock price is implying a steep valuation premium for HyperCity - ranging from 32%-290% over Pantaloon's valuations (India's leading hypermarket player), unsustainable in our view

- **Premium positioning, but exposed to competition** — Shopper's stores have high end positioning and are located in tier I cities. While stores are well positioned to capture high income urban growth opportunity, competitive intensity in these locations is also likely to be the highest, resulting in slowing same store sales growth, including cannibalization as Shopper's own stores increase in each city

- **Expansion to specialty segment** — Shoppers is increasing its retail space by 2.5x to 2.5m sq. ft over next 2-years. We expect 20% of this space to be dedicated to specialty formats offering a higher margin profile

- **Raising Price Target** — Raising our target price to Rs421 from Rs275, reflecting 1) rolling forward of our 27x target P/E multiple from FY07E to FY08E and 2) incorporating value of 19% stake in HyperCity at Rs45 per share. Our price target of Rs421 is 40% below consensus target price of Rs723

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Figure 68. Shoppers Stop – Statistical Abstract

Year to 31-Mar	Net Profit (Rs Mils.)	FD EPS (Rs)	EPS Growth (%)	P/E (x)	Adj.P/E* (x)	DPS (Rs)	Yield (%)	RoE (%)
2005	189.9	6.9	57.6	91.0	84.5	1.0	0.2	21.9
2006	271.1	7.9	13.8	79.9	74.2	1.5	0.2	14.9
2007E	369.4	10.7	36.3	58.6	54.4	1.9	0.3	13.0
2008E	479.4	13.9	29.8	45.2	42.0	3.1	0.5	15.1
2009E	676.7	19.7	41.2	32.0	29.7	4.7	0.8	18.8

Source: Company Reports and Citigroup Investment Research estimates; *Adjusted for Hypercity stake

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	91.7	80.6	59.1	45.5	32.3
EV/EBITDA adjusted (x)	68.5	44.6	33.8	25.8	18.0
P/BV (x)	18.4	8.1	7.3	6.5	5.7
Dividend yield (%)	0.2	0.2	0.3	0.5	0.7
Per Share Data (Rs)					
EPS adjusted	6.93	7.88	10.74	13.94	19.68
EPS reported	6.93	7.88	10.74	13.94	19.68
BVPS	34.55	78.51	87.07	97.50	111.84
DPS	1.00	1.50	1.94	3.11	4.73
Profit & Loss (RsM)					
Net sales	4,160	5,882	7,060	9,609	14,382
Operating expenses	-3,922	-5,531	-6,578	-8,967	-13,414
EBIT	**238**	**350**	**481**	**642**	**968**
Net interest expense	-39	-24	-42	-48	-89
Non-operating/exceptionals	8	76	112	122	132
Pre-tax profit	**207**	**402**	**551**	**716**	**1,010**
Tax	-17	-131	-182	-236	-333
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**190**	**271**	**369**	**479**	**677**
Adjusted earnings	190	271	369	479	677
Adjusted EBITDA	328	490	623	829	1,240
Growth Rates (%)					
Sales	25.4	41.4	20.0	36.1	49.7
EBIT adjusted	55.8	47.2	37.4	33.4	50.6
EBITDA adjusted	44.1	49.4	27.2	33.0	49.7
EPS adjusted	57.6	13.8	36.3	29.8	41.2
Cash Flow (RsM)					
Operating cash flow	**173**	**403**	**422**	**218**	**333**
Depreciation/amortization	90	139	142	186	273
Net working capital	-106	-7	-89	-447	-616
Investing cash flow	**-431**	**-511**	**-509**	**-800**	**-1,360**
Capital expenditure	-416	-269	-359	-800	-1,360
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**258**	**1,192**	**-56**	**-121**	**837**
Borrowings	285	-289	19	0	1,020
Dividends paid	-31	-59	-75	-121	-183
Change in cash	**1**	**1,085**	**-143**	**-702**	**-190**
Balance Sheet (RsM)					
Total assets	**2,480**	**4,130**	**4,646**	**5,190**	**7,275**
Cash & cash equivalent	10	1,098	951	249	59
Accounts receivable	26	53	45	61	91
Net fixed assets	1,096	1,225	1,442	2,056	3,143
Total liabilities	**1,532**	**1,427**	**1,652**	**1,838**	**3,429**
Accounts payable	626	783	897	1,213	1,804
Total Debt	874	586	605	605	1,625
Shareholders' funds	**947**	**2,699**	**2,994**	**3,352**	**3,846**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	7.9	8.3	8.8	8.6	8.6
ROE adjusted	21.9	14.9	13.0	15.1	18.8
ROIC adjusted	14.7	12.1	14.3	14.7	15.6
Net debt to equity	91.2	-19.0	-11.6	10.6	40.7
Total debt to capital	48.0	17.8	16.8	15.3	29.7

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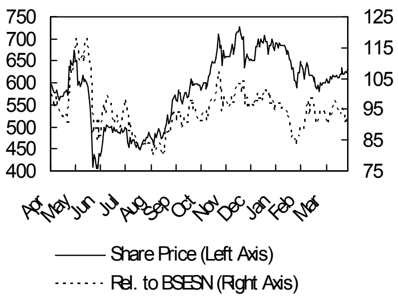
Figure 69. Shoppers Stop – Stock Price Relative to Sensex



Source: DataStream

Great Story, But Price into Valuations

We like the Shoppers Stop story – it is a leading department store in India with a premium position. Management has been conservative in expanding the business, managing growth carefully, focusing on strong operations and not unduly stressing the balance sheet. Shoppers Stop's positioning has also been at the premium end, with a strategy focusing on product assortment and quality, rather than discounts, driving sales. It is also expanding in the specialty format, focusing on food, cosmetics, books and apparel. We estimate retail space to increase from about 1m sq. ft. in FY06 to 2.5m by FY09E, driving a 36% CAGR in earnings over FY07E-FY09E. Shoppers Stop also has the option to acquire up to a 51% stake in HyperCity, the hypermarket format owned by its promoter. Of this, the company has already acquired 19%, and further increase in stake is imminent. However, current valuations seem to be pricing in growth profile of the business, and seem to be attributing an unsustainable premium to HyperCity's valuations. While we see clear upsides from Shoppers Stop acquiring 51% stake in HyperCity, we believe that too much is being built into the stock price. We maintain our Sell rating, but revise our price target upwards to RsRs421 from Rs270 earlier, factoring in the value of its 19% stake in HyperCity acquired recently (Rs45 per share). We value Shopper's Stop (standalone entity) as Rs376 per share based on 27xFY08E P/E.

Figure 70. Shoppers Stop – Stock Price Performance, Absolute and Relative to Sensex (%)

(%)	3M	6M	12M
Absolute	(6.7)	5.7	5.9
Rel. to .BSESN	(3.0)	(0.6)	(8.5)

Source: DataStream

Revising Price Target, Factoring in HyperCity Stake

We are increasing our price target for Shoppers Stop to Rs421 from Rs270, factoring in the value of 19% stake in HyperCity acquired recently (Rs45 per share). We value Shopper's Stop (standalone entity) as Rs376 per share, which we increase from Rs270 earlier. Our increase in per share value is on account of our rolling forward our target P/E multiple from FY07E to FY08E, given that we are already in FY08 and the stock valuations should start discounting in FY08E earnings. We maintain our 27x target P/E multiple. We also revise down our FY07E and FY08E EPS estimates by 12.2%-13.9%, factoring in lower sales due to delays in space roll out as well as lower margins.

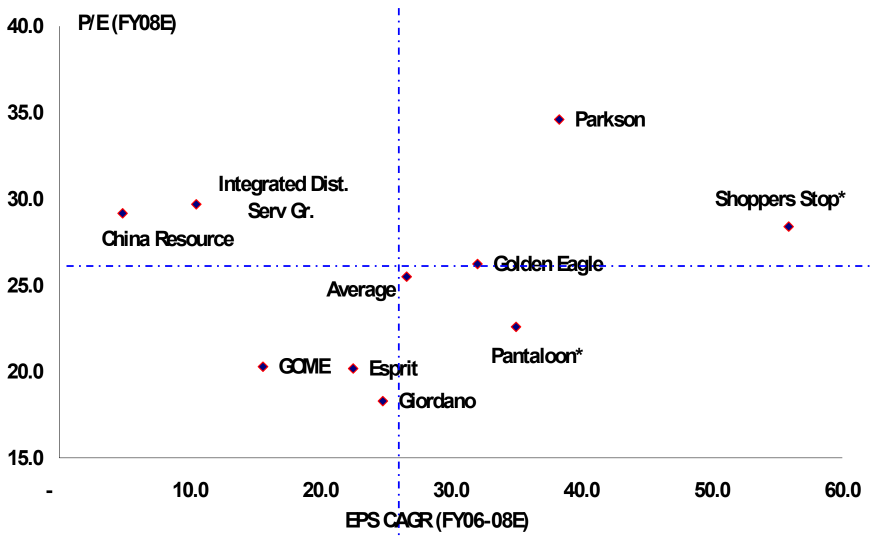
Figure 71. Shoppers Stop – Earnings Revision Table

	Profits (Rs Million)			EPS (Rs)			DPS (Rs)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
FY07E	420.6	369.4	-12.2	12.2	10.7	-12.2	2.2	1.9	-12.3
FY08E	646.0	479.4	-25.8	18.8	13.9	-25.8	3.8	3.1	-18.9

Source: Company Reports and Citigroup Investment Research estimates

Our target multiple is benchmarked against our regional retail universe and Indian market leader, Pantaloon. We believe Shoppers Stop could trade at a 10% premium to its regional peer group given its superior earnings growth profile. We expect a two-year EPS CAGR of 36% for Shopper's Stop, vs. a 30% CAGR for our Asian retail universe. We have assigned a 10% valuation discount for Shopper's Stop to our Pantaloon target valuation, due to limited growth opportunities for Shopper's Stop. Its business is confined to the higher-end lifestyle segment, and, therefore, is likely to offer fewer growth opportunities. We use P/E as our primary valuation methodology given the fair degree of earnings visibility for the company.

Figure 72. Asian Retail Universe – P/E v/s 2-year EPS CAGR



Source: Company reports; Citigroup Investment Research estimates; * P/E adjusted for subsidiary values

Figure 73. Asian Retail Sector – Valuation Summary*

Company	Ticker	Rating	Price	P/E 2007	P/E 2008	EV/EBITDA 2007	EV/EBITDA 2008	Dividend Yield 2008	RoE 2008	RoCE 2008	EPS CAGR 2006-08E
Golden Eagle Retail Group	3308.HK	1M	6.3	37.3	25.8	16.9	11.8	2.1%	40.7%	64.6%	32.0
Parkson Retail Group	3368.HK	2L	56.2	49.6	34.8	25.8	19.7	1.4%	35.0%	46.9%	38.3
China Resources Enterprise	0291.HK	3L	29.9	33.0	31.5	17.1	15.7	2.6%	9.3%	8.0%	4.8
Esprit	0330.HK	1L	92.7	24.8	19.9	17.5	13.8	3.8%	51.8%	64.1%	22.5
GOME	0493.HK	1M	11.7	25.1	20.4	19.1	14.8	1.5%	26.3%	52.7%	30.7
Giordano International	0709.HK	3L	3.7	18.1	17.2	7.8	7.4	5.8%	15.1%	21.7%	24.8
Integrated Distribution Services Group	2387.HK	1L	25.0	45.8	33.8	24.3	19.4	1.8%	22.3%	16.2%	10.5
Pantaloon	PART.BO	1M	399.0	55.1	30.6	25.8	14.4	0.2%	23.4%	18.7%	51.0
Shoppers Stop	SHOP.BO	3M	630.0	58.6	45.2	34.2	25.7	0.5%	15.1%	14.3%	33.0
Average				**38.6**	**28.8**	**20.9**	**15.9**	**2.2%**	**26.5%**	**34.0%**	**27.5**

Source: Company Reports and Citigroup Investment Research.*Priced as of April 18.

We value Shoppers Stop's recently acquired 19% stake in HyperCity at Rs45 per share. Our valuation for HyperCity is based on a 1.2xFY08E sales multiple, which is benchmarked off our regional peer group average. We use a sales multiple to value HyperCity given lack of margin disclosures and also that we believe that HyperCity is an early growth stage and FY08E profits are unlikely to reflect the margin potential of the business. Shopper's Stop has the option to increase its stake in HyperCity. Our sum of the parts table is enumerated below:

Figure 74. Shoppers Stop – Sum of the Parts Valuation

Business	Valuation Methodology	Per Share Value (Rs)
Shoppers Stop	27xFY08E P/E benchmarked off regional retail peer group	376
HyperCity	1.2xFY08E Market Cap/Sales, benchmarked off regional retail peer group and attributing proportionate value to Shoppers Stop 19% stake	45

Source: Company Reports and Citigroup Investment Research estimates

Excessive Expectations from HyperCity Stake

Shopper's Stop has the option to acquire up to 51% stake in its promoter's owned hypermarket store, HyperCity. This allows Shopper's Stop to make the acquisition at cost + annual 10% return or market price, which ever is lower. It recently acquired a 19% stake in HyperCity, for an undisclosed amount. We believe that further acquisition of stake to 51% is imminent, but already factored into valuations. Based on our fair value of Rs376 for the parent company, current stock price seems to imply a per share value of Rs259 per share for a potential 51% stake in HyperCity. Our scenario analysis suggests that the implied per share price for the HyperCity stake not only assumes that acquisition of a 51% stake is imminent, but also implies a premium of 32%-290% over Pantaloon's (leading hypermarket player in India) valuations. Our scenario analysis is enumerated below:

- We have stripped off our target fair value (Rs376) of the parent company from the current stock price of Rs635, implying that residual Rs259 is the option value of Shopper's Stop stake in HyperCity increasing to 51%.
- We assume (based on recent 19% stake purchase and indications from management) this stake will be increased to 51% by 2008. Since we don't have enough disclosures on the cost of HyperCity (while we can estimate store set up cost, we don't have data on overheads), we have not assumed any cost to Shoppers Stop for the stake – so to that extent we are understating the valuation premium being attributed to HyperCity.
- We base our growth assumptions for HyperCity on management guidance of 3-4 stores every year – assuming stores increasing to seven in the worst case and 13 in the best case by FY09E. We also base our net margin assumptions of 3% in worst case (close to Pantaloon's current net margins) and 7% in best case (premium to Shoppers current margins)
- We benchmark implied valuations based on Market Cap / Sales and P/E over Pantaloon's valuations.

Figure 75. Asian Retail Universe – Scenario Analysis: Implied Valuations for HyperCity

	Worst Case	Median Case	Best Case
No of Stores in FY09E	7	9	13
FY09E Sales (Rs Million)	9,375	12,188	18,563
FY09E Net Margin (%)	3%	4%	5%
Implied FY09E Market Cap / Sales (x)	2.7	2.1	1.4
Implied premium to Pantaloon's valuations (%)	**261%**	**177%**	**82%**
Implied FY09E P/E (x)	90	59	30
Implied premium to Pantaloon's valuations (%)	**292%**	**158%**	**32%**

Source: Citigroup Investment Research estimates

Despite our view on valuations, we do not deny the merit of increasing a stake in HyperCity, which will provide Shoppers Stop with exposure to the fast growing Hypermarket format. Now, only one store is located in Mumbai, and it expects to add four stores every year going forward, with a target to increase the total number of stores to 29 by end 2009. HyperCity's product mix includes 30% sales from food items, a fast growing segment. Additionally, private label sales account for 25%, which management is targeting to increase to 30%. We enumerate below our key base case operating assumptions for HyperCity:

Figure 76. HyperCity – Key Operating Parameters (Rupees in Million, Percent)

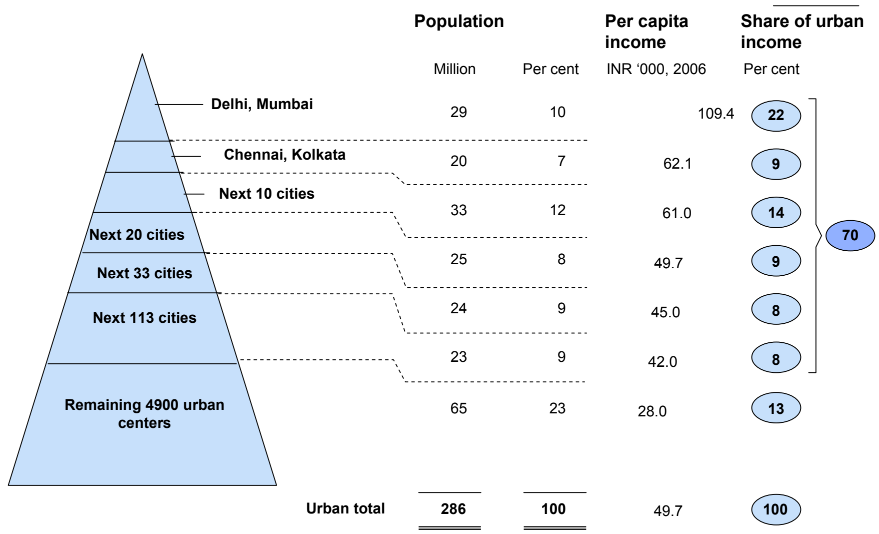
Sales Breakup	FY06	FY07E	FY08E	FY09E
Sales (Rsm)	813	3,250	7,313	12,188
Growth (%)		*300*	*125*	*66.7*
Total Space (Sq Feet)	*125,000*	*375,000*	*750,000*	*1,125,000*
Growth (%)	*nm*	*200.0*	*100.0*	*50.0*
Space Added (Sq. Ft.)		250,000	375,000	375,000
Average Space (Sq Ft)	62,500	250,000	562,500	937,500
No. of Stores	1	3	6	9
Sales / Sq Ft. (Rs)	13,000	13,000	13,000	13,000
Space/Store (Sq ft)	125,000	125,000	125,000	125,000

Source: Company reports; Citigroup Investment Research estimates

Premium Positioning, but Exposed to Competitive Risks

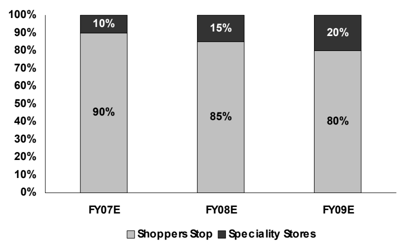
Shopper's Stop department stores are positioned at the premium end, catering to upper-mid and upper income segments. Shoppers Stop's outlets are likely to be concentrated in tier-I cities, where majority of the organized retail expenditure is likely to be concentrated. Top 14 cities in India contribute to almost 45% of total urban income in India and that Shopper's Stop is well positioned to capture this predominantly urban opportunity. However, its formats are also exposed to competitive risks, especially given that mall concentration is likely to be the highest in tier I cities. We expect slowing same store sales growth going forward, driven by rising competitive intensity, and to partly doe to cannibalization by Shopper's own store expansions in these cities.

Figure 77. Urban India – Population and Income Pyramid



Source: Census of India 2001; NCAER "The Great Indian Middle Class"; Market Skyline 2006; McKinsey & Company

Figure 78. Space contribution from Specialty Stores (%)

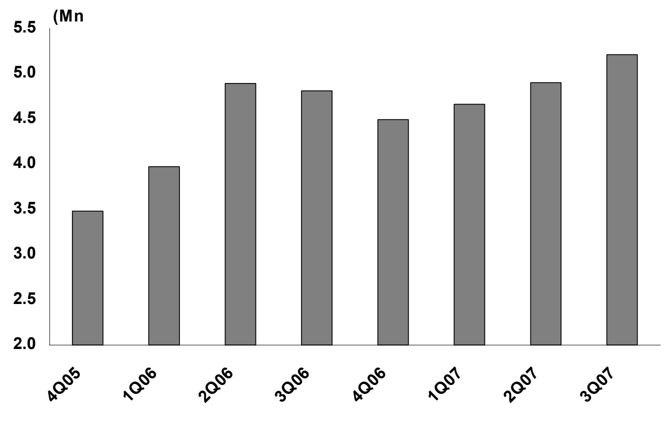


Source: Company Reports and Citigroup Investment Research estimates

Shopper's Stop is expanding its presence in the specialty segment. The company' specialty stores include Crossword (books), Home Stop (furniture and home furnishings), Brio (Café), MAC (Cosmetics) and Mother Care (apparel and accessories). We expect area under specialty formats to increase to 0.5m sq. ft., or almost 20% of total retail area by FY09E. We estimate that sales contribution from the specialty format will be higher than overall company average. We understand from management that these new formats have already turned profitable.

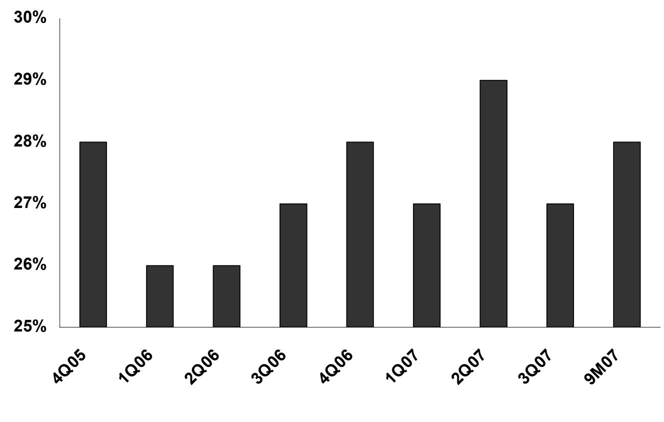
Shoppers Stop operating parameters remain strong and its stores are well managed. This is evident from continuous improvement in trends in footfalls, conversion ratios, ticket size and sales per sq. However, we believe that as competition in tier-I cities picks up, some of these parameters could start to taper.

Figure 79. Shoppers Stop – Customer Entry Trend (Million)



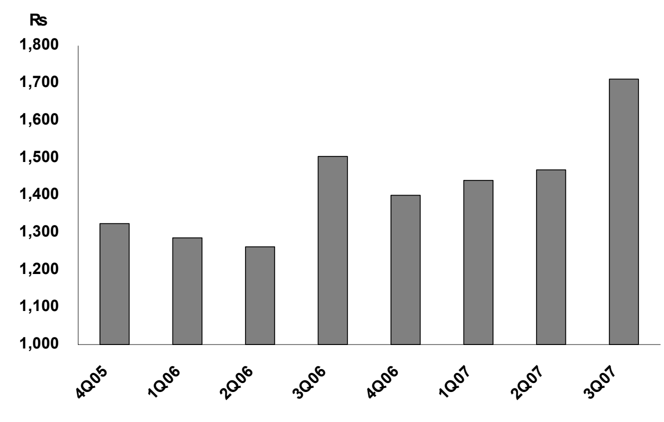
Source: Company reports

Figure 80. Shoppers Stop – Conversion Ratios (Percent)



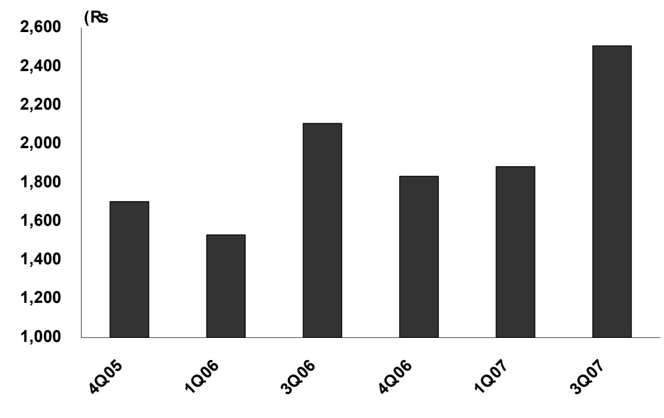
Source: Company reports

Figure 81. Shoppers Stop – Average Ticket Size Trend (Rupees)



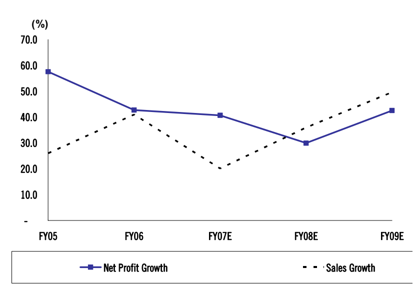
Source: Company reports

Figure 82. Shoppers Stop – Quarterly Same Store Sales Trend (Rupees/Sq. ft.)



Source: Company reports

Figure 83. Shoppers Stop – Sales and Profit Growth Trend (% YoY)



Source: Company Reports and Citigroup Investment Research estimates

EPS CAGR of 36% over FY07E-FY09E

We forecast an EPS CAGR of 36% over FY07E-FY09E drive by sales growth CAGR of 43% during the same period. We expect rising rentals and wage inflation to pare margins, mitigated partly by improving product mix. We estimate retail space for Shoppers Stop to increase from about 1m sq. ft. in FY06 to 2.5m by FY09E. Our space addition estimates are slightly below management guidance, factoring in delays mall developments. Our key sales growth assumptions are enumerated below:

Figure 84. Shoppers Stop – Sales Growth Assumptions (Rupees in Million, Percent)

	FY05	FY06	FY07E	FY08E	FY09E
Gross Retail Sales	**5,000.7**	**6,660.3**	**8,198.9**	**11,148.7**	**16,686.4**
Less: Cost of consignment merchandise	(798)	(582)	(1,599)	(2,174)	(3,254)
As a % of consignment merchandise	*74%*	*70%*	*65%*	*65%*	*65%*
Less: Value Added Tax	(114)	(311)	(328.0)	(445.9)	(667.5)
As a % of gross sales	*2%*	*5%*	*4%*	*4%*	*4%*
Net Retail Sales	**4,089.5**	**5,767.0**	**6,928.1**	**9,420.6**	**14,100.0**
% growth	*26.0*	*41.0*	*20.1*	*36.0*	*49.7*
Other Retail Operating Income	70.6	114.8	131.6	188.4	282.0
Total Retail Sales	**4,160.1**	**5,881.9**	**7,059.7**	**9,609.0**	**14,382.0**
% Growth	*25%*	*41%*	*20%*	*36%*	*50%*
Sales Break Up (%)					
Apparels	*65%*	*65%*	*60%*	*60%*	*60%*
Non-Apparels	*35%*	*35%*	*40%*	*40%*	*40%*
Total Space (Sq. Feet)	**752,848.0**	**950,701.0**	**1,150,701.0**	**1,650,701.0**	**2,500,701.0**
% Change	*7.4%*	*26.3%*	*21.0%*	*43.5%*	*51.5%*
Space Added (Sq. Feet)	52,152.0	197,853.0	200,000.0	500,000.0	850,000.0
Average Space (Sq. Feet)	726,772.0	851,774.5	1,050,701.0	1,400,701.0	2,075,701.0
% Change	*7%*	*26%*	*21%*	*43%*	*51%*
No of Stores	16.0	22.0	22.0	40.0	58.0
Sales / Sq Ft. (Rs)	7,152.0	7,576.0	7,803.3	7,959.3	8,038.9
Merchandise Split					
Own Merchandise	3,916.2	5,828.1	5,739.2	7,804.1	11,680.5
As a % of Sales	*78.3%*	*87.5%*	*70.0%*	*70.0%*	*70.0%*
Consignment Merchandise	1,084.5	832.2	2,459.7	3,344.6	5,005.9
As a % of Sales	*36.8%*	*28.2%*	*30.0%*	*30.0%*	*30.0%*

Source: Company Reports and Citigroup Investment Research estimates

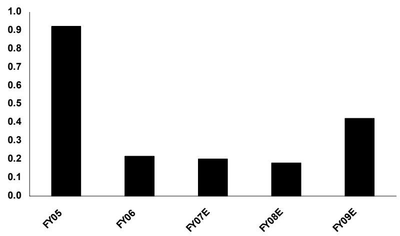
We expect margins will decline going forward due to pressure on rentals and wage cost. However, operating leverage and improving product mix (higher share of non-apparel sales) is likely to mitigate margins pressure to some extent. Our key margin assumptions are enumerated below.

Figure 85. Shoppers Stop – Margin Assumptions (Rupees in Million, Percent)

	FY05	FY06	FY07E	FY08E	FY09E
Total Retail Sales	4,160.1	5,881.9	7,059.7	9,609.0	14,382.0
% Growth	25%	41%	20%	36%	50%
Cost of Goods Sold	(2,623.9)	(3,739.8)	(4,394.6)	(5,998.0)	(8,994.0)
Gross Profit	1,536.1	2,142.0	2,665.1	3,611.1	5,388.0
Gross Margin (%)	30.7%	32.2%	32.5%	32.4%	32.3%
Employee Costs	-288.3	-402.9	-532.9	-724.7	-1,084.6
As % of Sales	5.8%	6.0%	6.5%	6.5%	6.5%
Operating and Administrative Expenses	-920.0	-1,249.4	-1,509.1	-2,057.6	-3,063.0
As % of Sales	18.4%	18.8%	18.4%	18.5%	18.4%
Total Operating Expenses	-1,208.2	-1,652.3	-2,042.0	-2,782.3	-4,147.6
As % of Sales	24.2%	24.8%	24.9%	25.0%	24.9%
EBITDA	327.9	489.8	623.1	828.8	1,240.5
EBITDA Margin (%)	6.6%	7.4%	7.6%	7.4%	7.4%

Source: Company Reports and Citigroup Investment Research estimates

Figure 86. Shoppers Stop – Gearing Trend (%)



Source: Company Reports and Citigroup Investment Research estimates

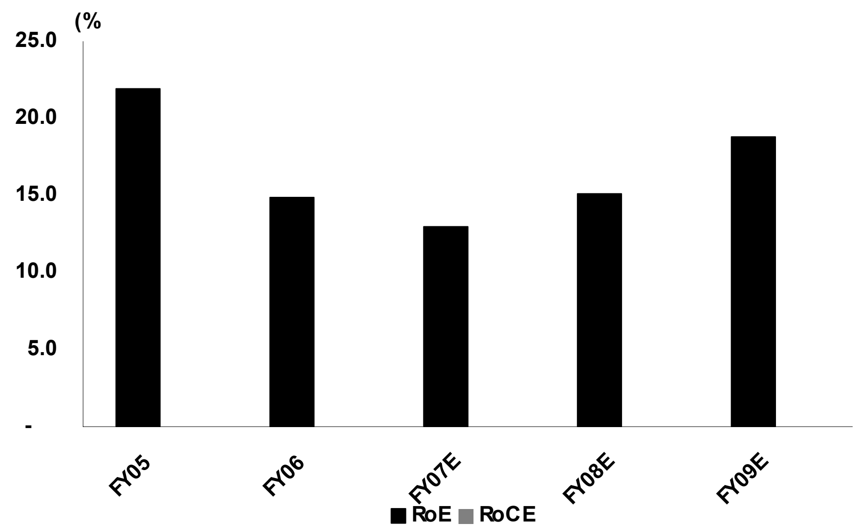
Strong Balance Sheet, Improving Capital Efficiency

Shoppers stop has a strong balance sheet, with low gearing. We expect gearing to remain under manageable levels, even after taking into account store expansion till FY09E. However, even in FY09E, we estimate gearing to be only about 0.5x. We would like to caveat that our estimates do not build in potential fund raising for acquisition of HyperCity stake, and to that extent our debt levels could be understated.

We estimate that typically, each sq. ft. of incremental addition would require about Rs1600 for capital expenditure and about Rs700 in inventories. Shopper's Stop does not carry the inventory of its concessionaries onto its balance sheet, and with rising contribution of concessionaries, we expect per sq. ft. inventories to decline.

We expect ROE and ROCE to continue to improve, driven rising profits and continued improvement in working capital.

Figure 87. Shoppers Stop – ROE and ROCE (Percent)



Source: Citigroup Investment Research estimates

Shoppers Stop

Company description

Shopper's Stop is one of India's largest department-store chains. It opened its first store, retail menswear, in 1991. Since then, it has expanded to 22 stores in large Indian cities, retailing apparel and non-apparel products. The company plans to expand its reach from 0.1m sq feet now to almost 2.5m sq. ft. by FY08E by entering new cities and having 39 stores by FY08E. Its subsidiary, Crossword (which it acquired in FY00), has the largest bookstore chain in India with 26 stores. It is also expanding its presence in other specialty formats through brands such as Home Stop (furniture and home furnishings), Brio (Café), MAC (Cosmetics) and Mother Care (apparel and accessories)

Investment thesis

We rate Shopper's Stop Sell/Medium Risk (3M). Current valuations not only seem to be factoring in growth but are also building in high expectations from a potential 51% stake acquisition in HyperCity. As such, the risk-reward balance seems unfavorable. In addition, Shopper's Stop is likely to have difficulty expanding beyond tier-one cities as it caters to the 'lifestyle' higher-income segment. The department-store segment is the most crowded of India's retail formats, and competes with specialty and single brand stores.

Valuation

We value Shoppers Stop using sum of the parts valuation, factoring in the value its 19% stake in HyperCity. Our sum of the parts valuations returns a target price of Rs421 per share, valuing the parent company at Rs376 and the HyperCity stake at Rs45 per share. We value the parent Shoppers Stop based on 27x FY08E P/E, for a target price of Rs376. Our target multiple is benchmarked against our regional retail universe and Indian market leader Pantaloon. We believe Shoppers Stop could trade at 10% premium to its regional peers given its superior earnings growth profile. We expect two-year EPS CAGR of 36% vs. a 30% CAGR for our Asian retail universe. We assign a 10% valuation discount for Shopper's Stop to our Pantaloon target valuation, due to limited growth opportunities for Shopper's Stop. Its business is confined to the higher-end lifestyle segment, likely to offer fewer growth opportunities. We use P/E as our primary valuation methodology given the fair degree of earnings visibility. Our valuation for HyperCity is based on a 1.2xFY08E sales multiple, benchmarked off our regional peer group average.

Risks

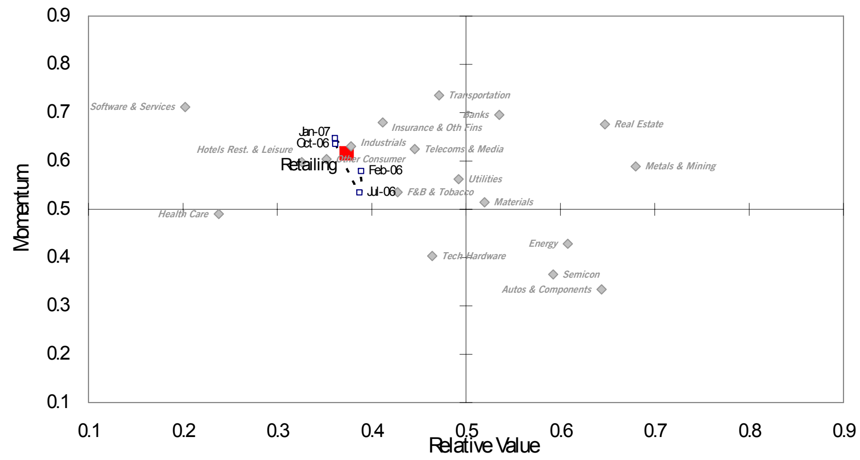
We assign a Medium Risk rating to Shopper's Stop based on our quantitative risk-rating system. Key upside risks to our target price and estimates include: 1) Better-than-expected margins; 2) better-than-expected sales growth; 3) Any potential acquisitions, including increasing its stake in HyperCity. Key downside risks to our target price include: 1) intensifying competition; 2) execution risks; and 3) increasing competition from global retailers.

Quant View

Retailing – Glamour

- Retailing falls in the Glamour quadrant this month. Though relative value is stretched, composite momentum is above-average for the sector. Earnings revisions have recently turned negative for Retailing, but improving price momentum is supportive.
- Glamour stocks continue to outperform in this sector. Taking a 24-month horizon for example, the Glamour quadrant has returned 18.2%, 40.3%, and 40.2% over the past three months and one and two years respectively.
- Our preferred return measure, the spread between average performance in the Attractive and Unattractive sectors, has returned 14.3% over he last year.

Figure 88. Aggregate Sector Evolution



Source: FactSet; IBES; Worldscope; Citigroup Investment Research

Figure 89. Stars: Extreme Corner of Attractive Quadrant

Ticker	Name	Comp	Value	Mom	Pmom	ERR	Price
LDHB MK	Lion Diversified Holdings	1(1)	⇔	⇔	⇧	⇔	7.10
116 HK	Chow Sang Sang Int	1(1)	⇧	⇔	⇩	⇔	5.45
AEON MK	AEONM	1(1)	⇧	⇔	⇧	⇩⇩⇩	8.05

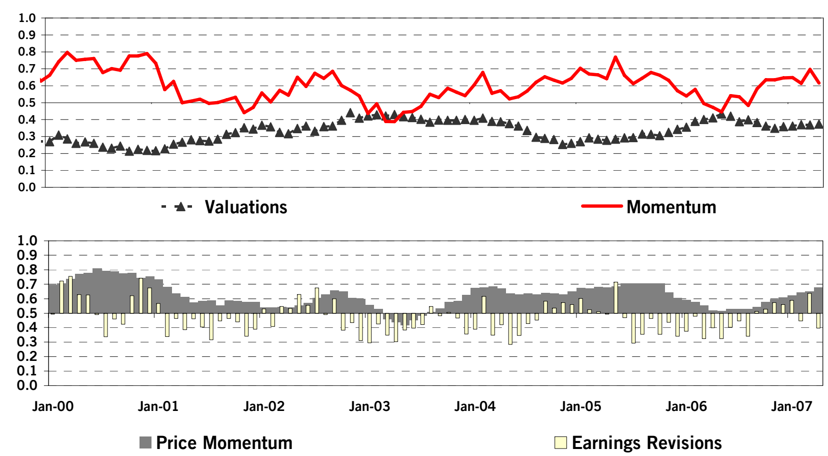
Source: FactSet; IBES; Worldscope; Citigroup Investment Research

Figure 91. Dogs: Extreme Corner of Unattractive Quadrant

Ticker	Name	Comp	Val	Mom	Price	ERR	Price
493 HK	Gome Electrical Appliances	5(4)	⇔	⇔	⇧	⇩⇩⇩	8.93

Source: FactSet; IBES; Worldscope; Citigroup Investment Research

Figure 90. Momentum Components and Relative Value Scores



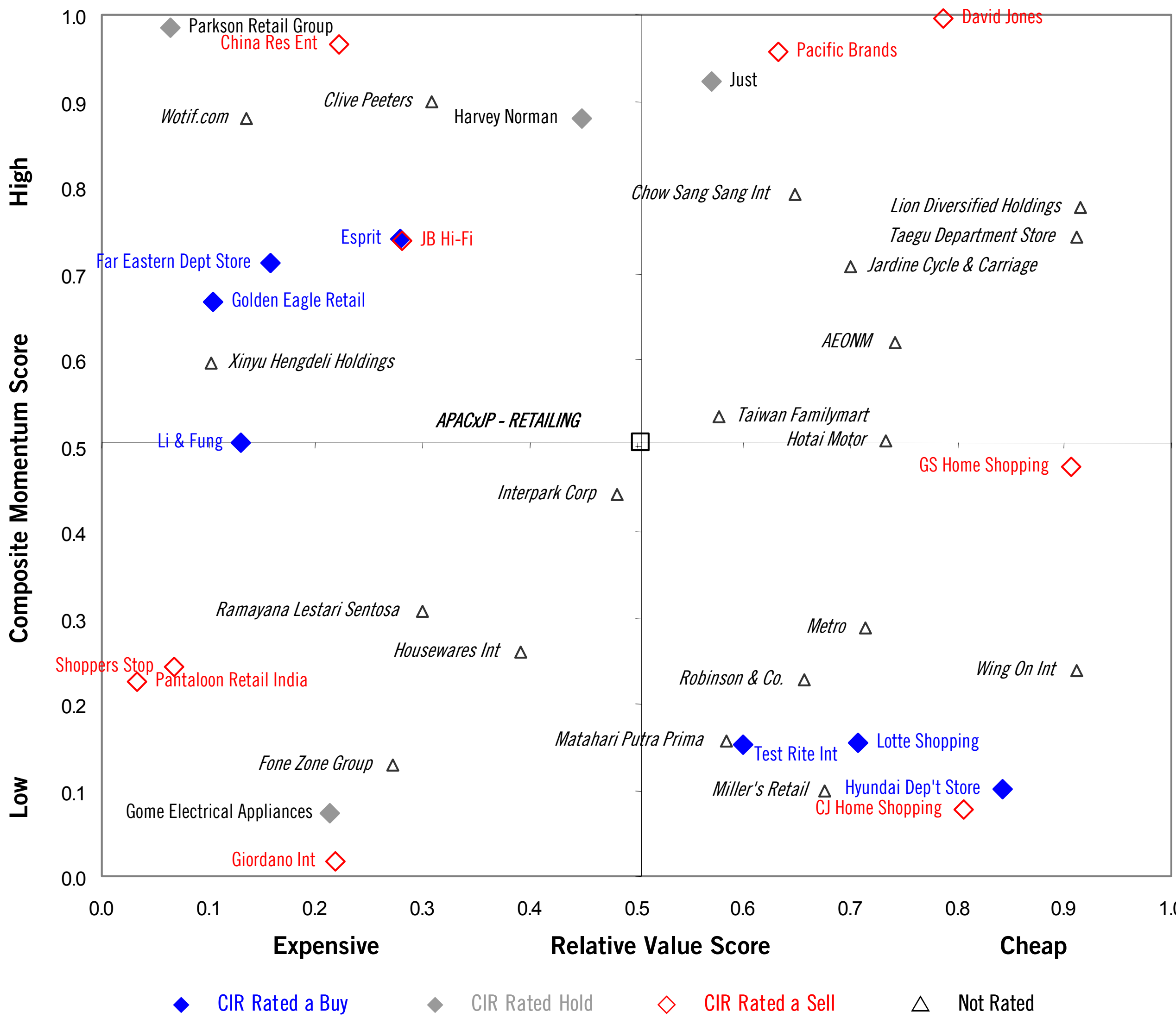
Source: FactSet; IBES; Worldscope; Citigroup Investment Research

Glamour

	Return	IR
1m	7.3	—
3m	18.2	—
12m	40.3	3.43
2y (p.a)	40.2	2.97
5y (p.a)	21.9	1.22

Attractive

	Return	IR
1m	4.3	—
3m	13.7	—
12m	24.9	1.7
2y (p.a)	27.9	1.9
5y (p.a)	31.2	1.7



Unattractive

	Return	IR
1m	5.0	—
3m	-1.2	—
12m	10.6	0.60
2y (p.a)	10.2	0.73
5y (p.a)	9.7	0.62

Contrarian

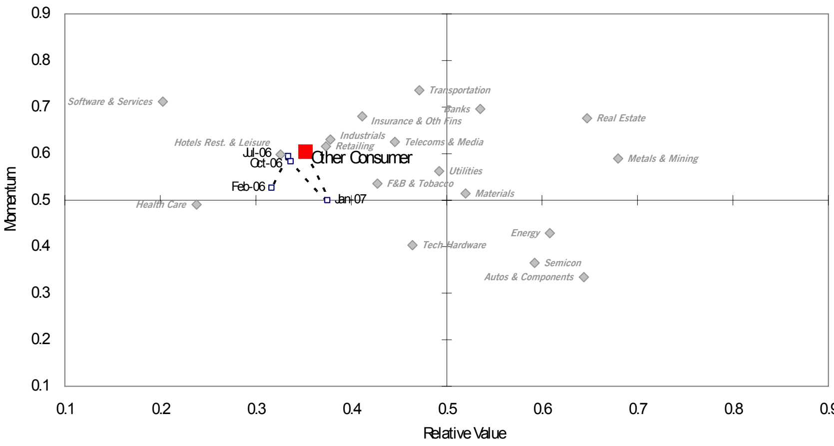
	Return	IR
1m	2.2	—
3m	5.5	—
12m	19.3	1.44
2y (p.a)	19.8	1.69
5y (p.a)	12.7	0.69

Source: Factset; IBES; Worldscope; Citigroup Investment Research estimates

Other Consumer – Glamour

- Relative value is a negative for this sector again this month, as it has been for some time. Composite momentum continues to be supportive for the Other Consumer sector, with price momentum in particular improving and very robust.
- Within the Other Consumer sector, Glamour continues to be the strongest-performing quadrant with a return of 7% over the month, compared with 2.6% for the Attractive quadrant. Over the past 12 months, stocks in the Attractive quadrant have returned 34.3% on average.
- Our preferred return measure, the Attractive-Unattractive return spread, was disappointing, down 1.2% last month. This compares with out performance of 27.7% over the past 12 months
- Contrarian stock pick: Hindustan Lever is again one of our Quant Dogs for the Other Consumer sector, ranking poorly on both relative value and momentum. However, the stock is rated a Buy by our fundamental analyst.

Figure 92. Aggregate Sector Evolution



Source: FactSet; IBES; Worldscope; Citigroup Investment Research

Figure 93. Stars: Extreme Corner of Attractive Quadrant

Ticker	Name	Comp	Value	Mom	Pmom	ERR	Price
CSCF SP	China Sky Chemical Fibre	1(1)	⇔	⇔	⇧⇧	⇔	1.38
8938 TT	Advanced Int Multitech	1(1)	⇔	⇔	⇧	⇔	67.80
PNL MK	Padiberas Nasional	1(1)	⇔	⇔	⇧	⇔	2.00

Source: FactSet; IBES; Worldscope; Citigroup Investment Research

Figure 94. Momentum Components and Relative Value Scores

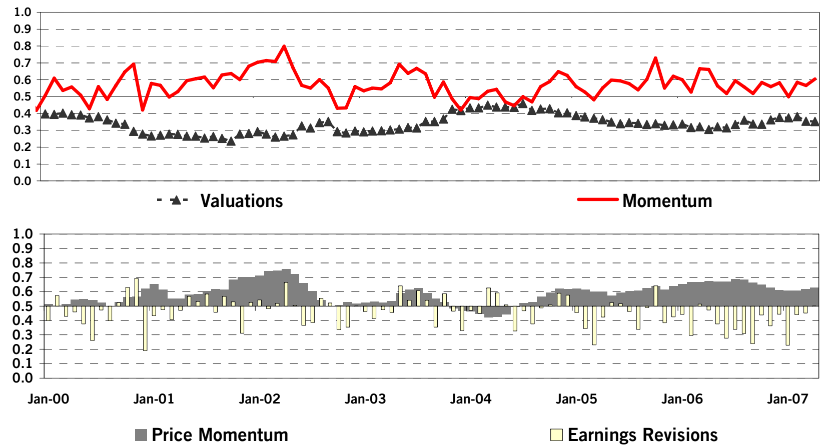


Figure 95. Dogs: Extreme Corner of Unattractive Quadrant

Ticker	Name	Comp	Val	Mom	Price	ERR	Price
HLVR IN	Hindustan Lever	5(5)	⇩	⇔	⇧	⇧⇧⇧	198
ABS AU	ABC Learning Centres	5(5)	⇩	⇔	⇧⇧	⇧⇧⇧	7.17
CLGT IN	Colgate-Palmolive India	5(5)	⇩	⇔	⇧	⇧⇧⇧	327
GCPL IN	Godrej Consumer Products	5(5)	⇩	⇔	⇧	⇩	144

Source: FactSet; IBES; Worldscope; Citigroup Investment Research

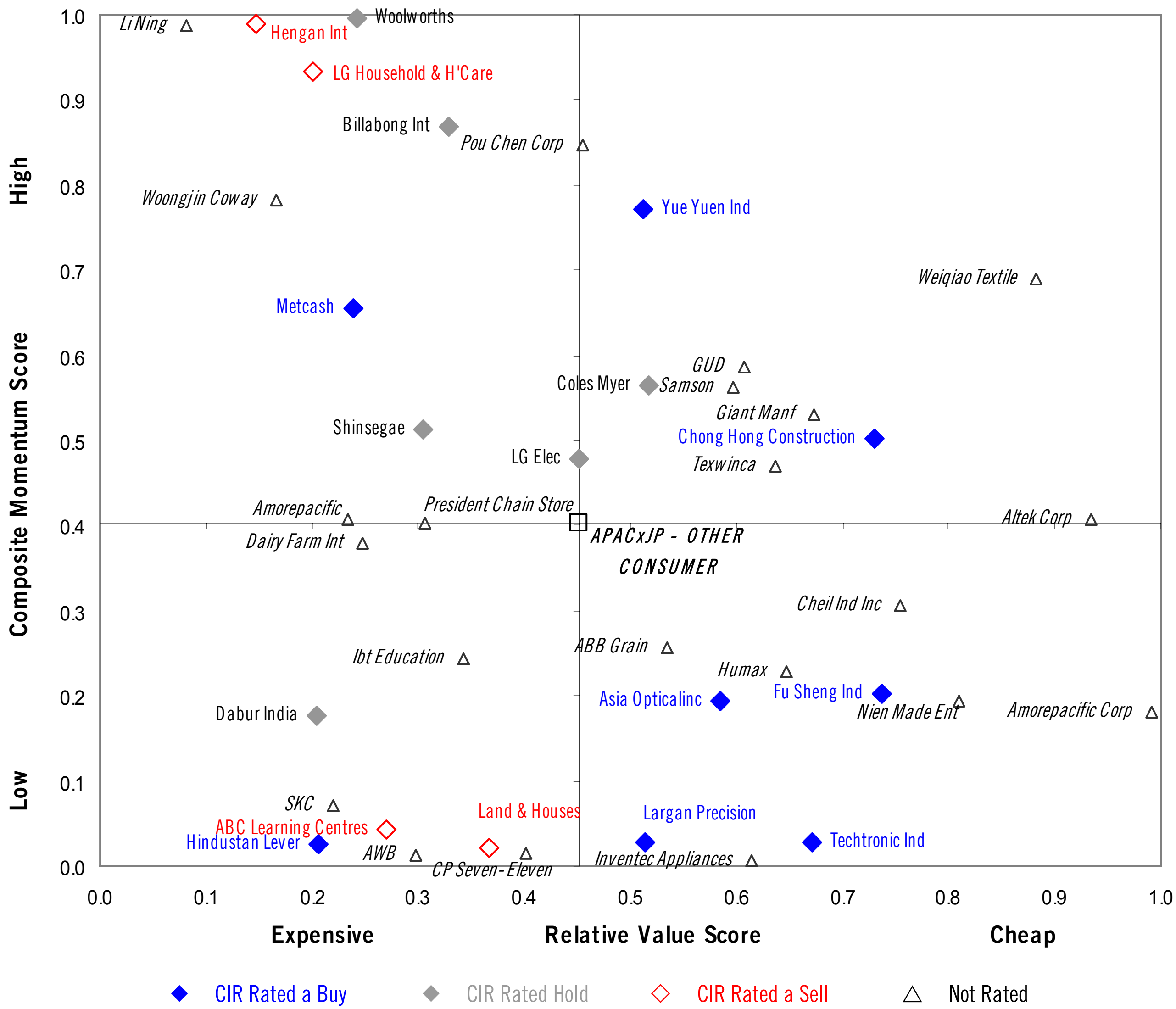
Source: FactSet; IBES; Worldscope; Citigroup Investment Research

Glamour

	Return	IR
1m	6.9	—
3m	14.4	—
12m	38.7	2.84
2y (p.a)	53.8	3.80
5y (p.a)	26.9	1.76

Attractive

	Return	IR
1m	2.6	—
3m	8.5	—
12m	34.3	2.07
2y (p.a)	32.4	2.10
5y (p.a)	23.0	1.50



Unattractive

	Return	IR
1m	3.8	—
3m	9.8	—
12m	6.7	0.52
2y (p.a)	6.5	0.50
5y (p.a)	0.9	0.06

Contrarian

	Return	IR
1m	3.0	—
3m	3.2	—
12m	6.4	0.54
2y (p.a)	9.8	0.87
5y (p.a)	13.0	0.78

Source: Factset; IBES; Worldscope; Citigroup Investment Research estimates

Company Snapshots – Top Picks

Company Focus

Li & Fung (0494.HK)

Buy: Gearing Up for the Next Three-year Plan

Buy/Low Risk	**1L**
Price (18 Apr 07)	HK$24.95
Target price	HK$31.00
Expected share price return	24.2%
Expected dividend yield	2.7%
Expected total return	**26.9%**
Market Cap	HK$85,109M
	US$10,897M

Price Performance (RIC: 0494.HK, BB: 494 HK)

Statistical Abstract

Year to 31 Dec	Net Profit (HK$M)	Diluted EPS (HK$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	1,791	0.61	19.5	40.8	15.8	38.4	2.0
2006A	2,202	0.67	10.2	37.0	9.9	34.2	2.2
2007E	2,774	0.81	20.7	30.6	10.3	33.6	2.6
2008E	3,503	1.03	26.3	24.3	9.5	40.8	3.3
2009E	4,139	1.21	18.2	20.5	8.7	44.3	3.9

Source: Powered bv dataCentral

- Recent results underwhelmed the market. We remain buyers of the stock as the outlook into the next three-year plan (2008-10) looks positive. Near-term, visibility through the next 6-8 months shows no slowdown. More volume coming from tier one clients is leading to better discounts and firmer commissions.

- We believe Li & Fung is likely to expand its portfolio of consumer goods beyond hard goods and apparel to include softer items such as foods and pharmaceutical goods. This would be an interesting, if untried development that would open a very large new addressable market.

- Li & Fung remains a core holding to any Hong Kong portfolio, in our view. Active M&A, organic growth through higher value added services and on-going integration of prior acquisitions should drive attractive growth through the next three-year plan

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	40.8	37.0	30.6	24.3	20.5
EV/EBITDA adjusted (x)	44.7	35.3	27.7	21.9	18.6
P/BV (x)	15.8	9.9	10.3	9.5	8.7
Dividend yield (%)	2.0	2.2	2.6	3.3	3.9
Per Share Data (HK$)					
EPS adjusted	0.61	0.67	0.81	1.03	1.21
EPS reported	0.61	0.67	0.81	1.03	1.21
BVPS	1.58	2.53	2.42	2.62	2.87
DPS	0.50	0.55	0.65	0.82	0.97
Profit & Loss (HK$M)					
Net sales	55,617	68,010	94,790	116,198	130,528
Operating expenses	-53,733	-65,598	-91,755	-112,383	-126,039
EBIT	**1,885**	**2,412**	**3,035**	**3,814**	**4,490**
Net interest expense	48	-50	-26	-15	0
Non-operating/exceptionals	9	11	0	0	0
Pre-tax profit	**1,942**	**2,373**	**3,009**	**3,800**	**4,489**
Tax	-151	-172	-235	-296	-350
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**1,791**	**2,202**	**2,774**	**3,503**	**4,139**
Adjusted earnings	1,791	2,202	2,774	3,503	4,139
Adjusted EBITDA	1,885	2,412	3,035	3,814	4,490
Growth Rates (%)					
Sales	17.9	22.3	39.4	22.6	12.3
EBIT adjusted	21.1	28.0	25.8	25.7	17.7
EBITDA adjusted	21.1	28.0	25.8	25.7	17.7
EPS adjusted	19.5	10.2	20.7	26.3	18.2
Cash Flow (HK$M)					
Operating cash flow	**728**	**1,597**	**4,793**	**3,544**	**4,146**
Depreciation/amortization	0	0	0	0	0
Net working capital	-1,062	-604	2,019	41	6
Investing cash flow	**-1,793**	**1,221**	**-1,716**	**-970**	**-1,192**
Capital expenditure	-1,716	-1,970	-898	-673	-842
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-140**	**-893**	**-5,022**	**-2,817**	**-3,312**
Borrowings	1,515	1,019	-2,777	0	0
Dividends paid	-1,704	-1,874	-2,219	-2,803	-3,311
Change in cash	**-1,205**	**1,925**	**-1,945**	**-243**	**-358**
Balance Sheet (HK$M)					
Total assets	**15,268**	**22,045**	**21,650**	**25,176**	**27,875**
Cash & cash equivalent	1,248	3,394	1,710	1,778	1,770
Accounts receivable	8,648	10,610	11,375	13,944	15,663
Net fixed assets	1,713	1,796	2,693	3,367	4,208
Total liabilities	**10,643**	**13,778**	**13,412**	**16,238**	**18,108**
Accounts payable	7,065	9,620	11,011	13,486	15,125
Total Debt	1,758	2,777	0	0	0
Shareholders' funds	**4,625**	**8,267**	**8,238**	**8,939**	**9,767**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	3.4	3.5	3.2	3.3	3.4
ROE adjusted	38.4	34.2	33.6	40.8	44.3
ROIC adjusted	38.3	31.1	35.3	45.8	49.2
Net debt to equity	11.0	-7.5	-20.8	-19.9	-18.1
Total debt to capital	27.5	25.1	0.0	0.0	0.0

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Company Focus

Hindustan Lever (HLL.BO)

Buy: An Unjustified De-rating on an Improving Trajectory

Buy/Low Risk	**1L**
Price (19 Apr 07)	Rs205.10
Target price	Rs253.00
Expected share price return	23.4%
Expected dividend yield	3.6%
Expected total return	**26.9%**
Market Cap	Rs452,621M
	US$10,814M

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

Statistical Abstract

Year to 31 Dec	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	14,082	6.40	17.6	32.1	19.6	64.0	2.6
2006A	18,554	8.43	31.8	24.3	18.4	78.0	3.3
2007E	18,837	8.56	1.5	24.0	17.8	75.6	3.5
2008E	22,375	10.16	18.8	20.2	17.2	86.9	4.2
2009E	25,856	11.75	15.6	17.5	16.6	96.7	4.9

Source: Powered bv dataCentral

- Sales growth to remain robust: Management is confident of sustaining growth — Management expects sector growth momentum to continue, and indicated that double digit growth for HLL will sustain going forward. HLL has gained market share in most of its key segments in 4Q06, which bodes well. The company is rolling out its water business nationally in 2007, which should add to growth

- Margins in 2007 to look up - Despite raw material cost pressure, we expect margins to pick up, driven by 1) price hikes 2) improving product mix 3) paring of advertising budgets and 4) rising foods business profitability. A potential detergent price hike led by P&G could provide significant upside to margins

- Potential acquisition in foods segment - HLL is looking to increase its presence in the foods segment - a potential acquisition in this space could kick start the foods expansion

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	32.1	24.3	24.0	20.2	17.5
EV/EBITDA adjusted (x)	29.9	25.9	21.4	17.7	15.0
P/BV (x)	19.6	18.4	17.8	17.2	16.6
Dividend yield (%)	2.6	3.3	3.5	4.2	4.9
Per Share Data (Rs)					
EPS adjusted	6.40	8.43	8.56	10.16	11.75
EPS reported	6.40	8.43	8.56	10.16	11.75
BVPS	10.47	11.15	11.50	11.91	12.39
DPS	5.39	6.74	7.27	8.64	9.98
Profit & Loss (RsM)					
Net sales	110,605	121,034	135,406	150,816	166,166
Operating expenses	-97,416	-105,855	-116,965	-128,409	-139,869
EBIT	**13,189**	**15,179**	**18,441**	**22,407**	**26,297**
Net interest expense	-192	-107	-54	-54	-54
Non-operating/exceptionals	3,048	3,545	3,722	3,909	4,104
Pre-tax profit	**16,046**	**18,617**	**22,109**	**26,262**	**30,347**
Tax	-2,500	-3,220	-3,272	-3,887	-4,491
Extraord./Min.Int./Pref.div.	536	3,157	0	0	0
Reported net income	**14,082**	**18,554**	**18,837**	**22,375**	**25,856**
Adjusted earnings	14,082	18,554	18,837	22,375	25,856
Adjusted EBITDA	14,434	16,481	19,811	23,845	27,803
Growth Rates (%)					
Sales	11.4	9.4	11.9	11.4	10.2
EBIT adjusted	0.2	15.1	21.5	21.5	17.4
EBITDA adjusted	0.4	14.2	20.2	20.4	16.6
EPS adjusted	17.6	31.8	1.5	18.8	15.6
Cash Flow (RsM)					
Operating cash flow	**24,786**	**17,756**	**21,418**	**26,328**	**29,921**
Depreciation/amortization	1,245	1,302	1,370	1,438	1,506
Net working capital	9,460	-2,099	1,211	2,515	2,559
Investing cash flow	**1,509**	**-714**	**-3,349**	**-4,865**	**-5,119**
Capital expenditure	-645	-1,000	-1,000	-1,000	-1,000
Acquisitions/disposals	2,154	286	-2,349	-3,865	-4,119
Financing cash flow	**-27,530**	**-16,720**	**-18,069**	**-21,462**	**-24,801**
Borrowings	-14,142	31	0	0	0
Dividends paid	-13,388	-16,750	-18,069	-21,462	-24,801
Change in cash	**-1,235**	**323**	**0**	**0**	**0**
Balance Sheet (RsM)					
Total assets	**64,809**	**70,265**	**75,527**	**82,237**	**89,147**
Cash & cash equivalent	3,550	6,000	6,000	6,001	6,001
Accounts receivable	10,623	13,027	14,498	16,079	17,673
Net fixed assets	14,835	14,534	14,164	13,726	13,221
Total liabilities	**41,752**	**45,728**	**50,222**	**56,020**	**61,876**
Accounts payable	29,594	31,383	34,734	38,332	41,956
Total Debt	569	600	600	600	600
Shareholders' funds	**23,056**	**24,537**	**25,305**	**26,217**	**27,271**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.0	13.6	14.6	15.8	16.7
ROE adjusted	64.0	78.0	75.6	86.9	96.7
ROIC adjusted	nm	na	na	na	na
Net debt to equity	-12.9	-22.0	-21.3	-20.6	-19.8
Total debt to capital	2.4	2.4	2.3	2.2	2.2

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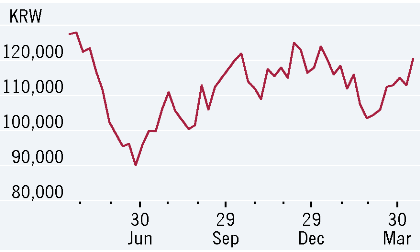
Company Focus

Hite Brewery (000140.KS)

Buy: Better Earnings and Asset Values Upside Visibility

Buy/Medium Risk	1M
Price (18 Apr 07)	W124,500
Target price	W155,000
Expected share price return	24.5%
Expected dividend yield	0.9%
Expected total return	**25.4%**
Market Cap	W2,639,052M
	US$2,841M

Price Performance (RIC: 000140.KS, BB: 000140 KS)



Statistical Abstract

Year to 31 Dec	Net Profit (WB)	Diluted EPS (W)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2004A	110	5,741	-3.4	21.7	2.6	12.7	0.9
2005A	65	3,216	-44.0	38.7	2.7	7.1	0.9
2006E	106	4,865	51.3	25.6	2.7	11.0	0.9
2007E	195	8,961	84.2	13.9	1.8	15.7	1.2
2008E	254	11,664	30.2	10.7	1.6	16.1	1.4

Source: Powered bv dataCentral

- SotP valuation to better reflect the impact of Jinro on Hite Group's NAV as Jinro's IPO nears (Fair NAV breakdown of W3.4tn from W2.5tn in beer and W0.8bn in soju)
- Margin upside in 2007 with the integration of a logistics center and a slowdown in marketing costs
- The bottoming in market share losses in soju with more aggressive marketing against its rival's products

Fiscal year end 31-Dec	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	21.7	38.7	25.6	13.9	10.7
EV/EBITDA adjusted (x)	12.7	14.7	11.7	8.7	6.7
P/BV (x)	2.6	2.7	2.7	1.8	1.6
Dividend yield (%)	0.9	0.9	0.9	1.2	1.4
Per Share Data (W)					
EPS adjusted	5,741	3,216	4,865	8,961	11,664
EPS reported	5,741	3,216	4,865	8,961	11,664
BVPS	47,318	45,676	46,318	67,544	77,408
DPS	1,100	1,100	1,100	1,500	1,800
Profit & Loss (WB)					
Net sales	861	853	897	947	991
Operating expenses	-686	-719	-715	-702	-706
EBIT	**175**	**134**	**182**	**245**	**285**
Net interest expense	-31	-51	-86	-70	-53
Non-operating/exceptionals	9	9	62	95	118
Pre-tax profit	**154**	**92**	**158**	**269**	**351**
Tax	-43	-27	-52	-74	-96
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**110**	**65**	**106**	**195**	**254**
Adjusted earnings	110	65	106	195	254
Adjusted EBITDA	245	207	256	316	354
Growth Rates (%)					
Sales	4.7	-1.0	5.2	5.6	4.7
EBIT adjusted	-18.5	-23.6	36.5	34.1	16.6
EBITDA adjusted	-11.6	-15.8	23.9	23.3	12.1
EPS adjusted	-3.4	-44.0	51.3	84.2	30.2
Cash Flow (WB)					
Operating cash flow	**182**	**116**	**81**	**167**	**194**
Depreciation/amortization	71	73	74	71	69
Net working capital	-27	-65	-36	-4	-11
Investing cash flow	**-78**	**-1,113**	**190**	**-50**	**-50**
Capital expenditure	-62	-56	-50	-50	-50
Acquisitions/disposals	1	-1,039	240	0	0
Financing cash flow	**-100**	**994**	**-271**	**-117**	**-144**
Borrowings	-60	625	-164	-399	-127
Dividends paid	-21	-21	-24	-33	-39
Change in cash	**4**	**-3**	**0**	**0**	**0**
Balance Sheet (WB)					
Total assets	**1,852**	**2,867**	**2,657**	**2,737**	**2,849**
Cash & cash equivalent	19	13	13	13	13
Accounts receivable	328	299	287	289	297
Net fixed assets	1,290	1,288	1,265	1,244	1,225
Total liabilities	**939**	**1,940**	**1,648**	**1,265**	**1,162**
Accounts payable	50	38	39	40	42
Total Debt	601	1,226	1,062	664	537
Shareholders' funds	**912**	**927**	**1,009**	**1,472**	**1,687**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	28.5	24.2	28.5	33.3	35.7
ROE adjusted	12.7	7.1	11.0	15.7	16.1
ROIC adjusted	9.6	8.1	9.9	12.7	14.4
Net debt to equity	63.8	131.0	104.0	44.2	31.1
Total debt to capital	39.7	57.0	51.3	31.1	24.1

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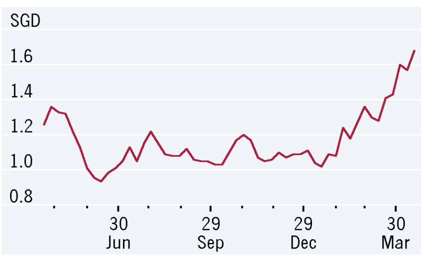
Company Focus

Noble Group (NOBG.SI)

Buy: Re-rating Set to Continue

Buy/High Risk	1H
Price (19 Apr 07)	S$1.62
Target price	S$2.28
Expected share price return	39.1%
Expected dividend yield	1.5%
Expected total return	**40.6%**
Market Cap	S$3,915M
	US$2,590M

Price Performance (RIC: NOBG.SI, BB: NOBL SP)



Statistical Abstract

Year to 31 Dec	Net Profit (US$M)	Diluted EPS (US$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	240	0.10	-23.9	10.7	3.0	31.5	2.2
2006A	133	0.06	-44.9	19.3	2.7	14.7	1.3
2007E	172	0.07	28.8	15.0	2.4	16.7	1.7
2008E	239	0.10	39.0	10.8	2.0	20.1	2.3
2009E	291	0.12	21.8	8.9	1.7	20.9	2.8

Source: Powered bv dataCentral

- Noble has been busy reinvesting excess returns generated from its shipping activities into core supply chain infrastructure that is set to deliver visible, sustainable earnings. Key investments include elevation and port capacity in South America (mainly for soybeans) and crush capacity in China/India (crush into animal feed and edible oils for distribution).
- 4Q06 saw a significant turnaround in margins from a poor first three quarters of the year. Market sentiment towards the counter was weak, but is now improving. We believe the re-rating is set to continue.
- Trading on 14x FY07F and 10x FY08F, our target price of S$2.28 is based on 3.3x FY07F price-to-book.

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	10.7	19.3	15.0	10.8	8.9
EV/EBITDA adjusted (x)	8.3	11.6	10.7	8.8	7.9
P/BV (x)	3.0	2.7	2.4	2.0	1.7
Dividend yield (%)	2.2	1.3	1.7	2.3	2.8
Per Share Data (US$)					
EPS adjusted	0.10	0.06	0.07	0.10	0.12
EPS reported	0.10	0.06	0.07	0.10	0.12
BVPS	0.36	0.40	0.46	0.53	0.62
DPS	0.02	0.01	0.02	0.02	0.03
Profit & Loss (US$M)					
Net sales	11,691	13,765	16,340	19,448	22,755
Operating expenses	-11,371	-13,514	-16,031	-19,043	-22,273
EBIT	**320**	**252**	**310**	**405**	**482**
Net interest expense	-67	-79	-91	-102	-113
Non-operating/exceptionals	11	-3	-4	-4	-5
Pre-tax profit	**264**	**169**	**215**	**299**	**364**
Tax	-24	-36	-43	-60	-73
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**240**	**133**	**172**	**239**	**291**
Adjusted earnings	240	133	172	239	291
Adjusted EBITDA	332	270	337	440	524
Growth Rates (%)					
Sales	35.6	17.7	18.7	19.0	17.0
EBIT adjusted	-3.8	-21.3	22.9	30.7	19.0
EBITDA adjusted	-3.1	-18.6	24.8	30.5	19.1
EPS adjusted	-23.9	-44.9	28.8	39.0	21.8
Cash Flow (US$M)					
Operating cash flow	**55**	**-497**	**-134**	**-103**	**-66**
Depreciation/amortization	12	19	28	36	43
Net working capital	-197	-649	-333	-377	-399
Investing cash flow	**-135**	**-240**	**82**	**-107**	**-109**
Capital expenditure	-26	-212	-106	-107	-109
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**411**	**523**	**51**	**210**	**174**
Borrowings	451	553	90	264	240
Dividends paid	-53	-30	-39	-54	-66
Change in cash	**330**	**-214**	**-1**	**0**	**0**
Balance Sheet (US$M)					
Total assets	**2,849**	**3,811**	**4,303**	**5,031**	**5,796**
Cash & cash equivalent	686	496	495	495	495
Accounts receivable	1,196	1,795	2,124	2,528	2,958
Net fixed assets	97	277	355	427	493
Total liabilities	**1,993**	**2,860**	**3,219**	**3,763**	**4,303**
Accounts payable	900	1,214	1,413	1,678	1,962
Total Debt	1,017	1,570	1,660	1,924	2,164
Shareholders' funds	**856**	**964**	**1,096**	**1,281**	**1,506**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	2.8	2.0	2.1	2.3	2.3
ROE adjusted	31.5	14.7	16.7	20.1	20.9
ROIC adjusted	30.4	14.4	12.6	13.6	13.6
Net debt to equity	38.7	111.5	106.3	111.6	110.9
Total debt to capital	54.3	62.0	60.2	60.0	59.0

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Powered by: dataCentral

Company Focus

Golden Eagle Retail Group (3308.HK)

Buy: A Fast-growing Regional Department Store Operator

Buy/Medium Risk	**1M**
Price (18 Apr 07)	HK$6.26
Target price	HK$7.10
Expected share price return	15.4%
Expected dividend yield	1.5%
Expected total return	**16.9%**
Market Cap	HK$11,374M
	US$1,456M

Price Performance (RIC: 3308.HK, BB: 3308 HK)

Statistical Abstract

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2004A	92	0.055	na	113.7	nm	na	0.0
2005A	226	0.134	145.7	46.3	28.0	nm	0.0
2006E	271	0.137	2.6	45.1	12.8	43.2	1.2
2007E	327	0.166	20.6	37.4	10.8	34.0	1.5
2008E	473	0.240	44.6	25.9	8.8	40.7	2.1

Source: Powered by dataCentral

- Strong earng growth — Expect to deliver an earnings CAGR of 32% p.a. for 2006-08E on strong SSS growth as well as new store openings.
- Lifestyle play — Operating in Jiangsu, one of the wealthiest provinces in urban per capita income, will also benefit from the trend in lifestyle upgrading together with income rise.
- Lowering risk — Concessionaire sales model offers much less risk, and the asset-intense strategy to own most of the underlying retail premises offers long-term protection from rental inflation.

Fiscal year end 31-Dec	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	113.7	46.3	45.1	37.4	25.9
EV/EBITDA adjusted (x)	na	32.0	24.4	16.9	11.8
P/BV (x)	nm	28.0	12.8	10.8	8.8
Dividend yield (%)	0.0	0.0	1.2	1.5	2.1
Per Share Data (Rmb)					
EPS adjusted	0.055	0.134	0.137	0.166	0.240
EPS reported	0.055	0.134	0.137	0.166	0.240
BVPS	-0.193	0.221	0.485	0.575	0.705
DPS	0.000	0.000	0.075	0.090	0.130
Profit & Loss (RmbM)					
Net sales	489	748	951	1,241	1,702
Operating expenses	-334	-405	-539	-702	-951
EBIT	**155**	**343**	**412**	**539**	**751**
Net interest expense	-26	-13	-3	-23	-15
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**129**	**330**	**408**	**517**	**736**
Tax	-38	-102	-139	-189	-261
Extraord./Min.Int./Pref.div.	1	-2	2	-1	-2
Reported net income	**92**	**226**	**271**	**327**	**473**
Adjusted earnings	92	226	271	327	473
Adjusted EBITDA	186	374	448	586	812
Growth Rates (%)					
Sales	na	53.0	27.1	30.6	37.1
EBIT adjusted	na	121.1	20.0	31.0	39.2
EBITDA adjusted	na	100.7	19.8	30.8	38.6
EPS adjusted	na	145.7	2.6	20.6	44.6
Cash Flow (RmbM)					
Operating cash flow	**313**	**296**	**505**	**605**	**881**
Depreciation/amortization	31	31	36	46	61
Net working capital	139	-10	195	206	328
Investing cash flow	**9**	**-85**	**90**	**-258**	**-311**
Capital expenditure	-9	-90	-615	-291	-352
Acquisitions/disposals	0	3	0	0	0
Financing cash flow	**94**	**62**	**350**	**-148**	**-200**
Borrowings	118	94	-932	0	0
Dividends paid	0	0	-69	-148	-200
Change in cash	**-3**	**117**	**945**	**199**	**369**
Balance Sheet (RmbM)					
Total assets	**1,191**	**2,034**	**2,889**	**3,360**	**4,065**
Cash & cash equivalent	103	220	1,164	1,363	1,732
Accounts receivable	0	0	0	0	0
Net fixed assets	928	903	1,482	1,726	2,017
Total liabilities	**1,421**	**1,653**	**2,004**	**2,310**	**2,777**
Accounts payable	389	409	591	776	1,070
Total Debt	838	932	0	0	0
Shareholders' funds	**-230**	**380**	**886**	**1,050**	**1,289**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	38.1	50.0	47.1	47.2	47.7
ROE adjusted	na	nm	43.2	34.0	40.7
ROIC adjusted	na	32.2	32.2	51.7	75.0
Net debt to equity	na	187.4	-131.4	-129.8	-134.5
Total debt to capital	137.8	71.0	0.0	0.0	0.0

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Company Focus

ITC (ITC.BO)

Sell: Parliament Paves Way for VAT on Cigarettes

Sell/Low Risk	3L
Price (19 Apr 07)	Rs157.45
Target price	Rs130.00
Expected share price return	-17.4%
Expected dividend yield	1.9%
Expected total return	-15.5%
Market Cap	Rs592,362M
	US$14,153M

Price Performance (RIC: ITC.BO, BB: ITC IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	21,914	5.89	37.3	26.8	7.4	30.6	1.3
2006A	22,354	6.00	2.0	26.2	6.5	26.4	1.5
2007E	27,345	7.34	22.3	21.4	5.6	27.9	1.9
2008E	32,309	8.68	18.2	18.1	4.7	28.2	2.1
2009E	37,646	10.11	16.5	15.6	4.0	27.9	2.2

Source: Powered by dataCentral

- VAT overhang to continue — With four states already having declared a 12.5% VAT on cigarettes, we expect most other states to follow suit. Continued news flow on 12.5% VAT being imposed by various states is likely to keep the stock performance under check.

- VAT pass through would impact cigarette volumes — We estimate that if ITC were to pass on the VAT through price hikes (which is the most likely scenario) cigarette volume growth would likely become flat (or even degrow. We estimate that with volumes remaining flat, our FY08E EPS estimate could be lower by 15%, not yet incorporated in our earnings model.

- Valuations look expensive — We believe that at about 18xFY08E P/E, valuations are expensive, especially in the context of risk to earnings. ITC stock currently trades at the higher end of its historical P/E band, and risk of de-rating is high. Maintain Sell, with price target of Rs130.

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	26.8	26.2	21.4	18.1	15.6
EV/EBITDA adjusted (x)	19.8	16.6	13.7	11.5	9.7
P/BV (x)	7.4	6.5	5.6	4.7	4.0
Dividend yield (%)	1.3	1.5	1.9	2.1	2.2
Per Share Data (Rs)					
EPS adjusted	5.89	6.00	7.34	8.68	10.11
EPS reported	5.89	6.00	7.34	8.68	10.11
BVPS	21.21	24.34	28.30	33.21	39.37
DPS	2.07	2.33	3.00	3.33	3.50
Profit & Loss (RsM)					
Net sales	76,395	97,905	119,715	140,650	163,346
Operating expenses	-51,598	-67,955	-83,752	-98,218	-114,078
EBIT	**24,797**	**29,950**	**35,963**	**42,432**	**49,268**
Net interest expense	-424	-119	-100	-100	-100
Non-operating/exceptionals	5,901	2,411	3,200	3,824	4,612
Pre-tax profit	**30,274**	**32,242**	**39,064**	**46,156**	**53,780**
Tax	-8,360	-9,888	-11,719	-13,847	-16,134
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**21,914**	**22,354**	**27,345**	**32,309**	**37,646**
Adjusted earnings	21,914	22,354	27,345	32,309	37,646
Adjusted EBITDA	27,926	33,274	39,661	46,637	53,940
Growth Rates (%)					
Sales	18.1	28.2	22.3	17.5	16.1
EBIT adjusted	17.0	20.8	20.1	18.0	16.1
EBITDA adjusted	18.3	19.2	19.2	17.6	15.7
EPS adjusted	37.3	2.0	22.3	18.2	16.5
Cash Flow (RsM)					
Operating cash flow	**14,340**	**19,507**	**26,641**	**33,965**	**38,730**
Depreciation/amortization	3,129	3,323	3,698	4,205	4,673
Net working capital	-12,059	-2,739	-4,402	-2,550	-3,589
Investing cash flow	**-13,548**	**-1,797**	**-16,500**	**-17,500**	**-17,500**
Capital expenditure	-8,777	-5,382	-8,500	-8,500	-8,500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-3,886**	**-9,658**	**-13,050**	**-14,006**	**-14,706**
Borrowings	1,245	-1,256	-1,197	0	0
Dividends paid	-8,830	-9,804	-12,605	-14,006	-14,706
Change in cash	**-3,093**	**8,052**	**-2,909**	**2,459**	**6,524**
Balance Sheet (RsM)					
Total assets	**115,509**	**130,840**	**156,903**	**182,687**	**212,982**
Cash & cash equivalent	1,058	9,110	6,201	8,659	15,183
Accounts receivable	5,278	5,480	8,200	9,634	11,188
Net fixed assets	41,369	44,051	48,853	53,148	56,976
Total liabilities	**36,553**	**40,226**	**51,548**	**59,029**	**66,385**
Accounts payable	19,256	21,890	32,013	37,562	43,646
Total Debt	2,454	1,197	0	0	0
Shareholders' funds	**78,956**	**90,615**	**105,354**	**123,657**	**146,596**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	36.6	34.0	33.1	33.2	33.0
ROE adjusted	30.6	26.4	27.9	28.2	27.9
ROIC adjusted	45.9	42.5	44.5	45.7	47.6
Net debt to equity	1.8	-8.7	-5.9	-7.0	-10.4
Total debt to capital	3.0	1.3	0.0	0.0	0.0

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Company Focus

Tingyi (0322.HK)

Sell: Overvalued Relative to Growth; Noodle Business a Drag

Sell/Low Risk	3L
Price (17 Apr 07)	HK$8.35
Target price	HK$4.86
Expected share price return	-41.6%
Expected dividend yield	1.2%
Expected total return	**-40.5%**
Market Cap	HK$46,698M
	US$5,978M

Price Performance (RIC: 0322.HK, BB: 322 HK)

Statistical Abstract

Year to 31 Dec	Net Profit (US$M)	Diluted EPS (US$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2004A	286	0.05	699.7	20.9	7.5	41.8	1.1
2005A	124	0.02	-56.9	48.4	6.9	14.8	2.2
2006E	153	0.03	23.6	39.1	6.7	17.3	1.2
2007E	179	0.03	17.4	33.3	6.0	18.9	1.2
2008E	197	0.04	9.9	30.3	5.3	18.5	1.2

Source: Powered bv dataCentral

- Margins under pressure — Despite improving revenue mix toward the higher-margin beverage segment, margins were still under pressure due to raw material costs
- Premium unjustified — Earnings growth outlook is slower than 20%+ for the regional peers in 2007E. Premium is not justified.
- Competitors gaining ground — Coca Cola is rapidly gaining market share of diluted juice products, while Uni-President joined hands with a local noodles player to produce beverages.

Fiscal year end 31-Dec	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	20.9	48.4	39.1	33.3	30.3
EV/EBITDA adjusted (x)	57.4	23.3	18.7	15.5	13.7
P/BV (x)	7.5	6.9	6.7	6.0	5.3
Dividend yield (%)	1.1	2.2	1.2	1.2	1.2
Per Share Data (US$)					
EPS adjusted	0.05	0.02	0.03	0.03	0.04
EPS reported	0.05	0.02	0.03	0.03	0.04
BVPS	0.14	0.16	0.16	0.18	0.20
DPS	0.01	0.02	0.01	0.01	0.01
Profit & Loss (US$M)					
Net sales	1,467	1,846	2,392	2,881	3,321
Operating expenses	-1,449	-1,684	-2,175	-2,609	-3,016
EBIT	**18**	**161**	**217**	**272**	**305**
Net interest expense	-13	-5	-6	-5	-1
Non-operating/exceptionals	291	32	37	38	40
Pre-tax profit	**296**	**188**	**248**	**306**	**345**
Tax	-9	-17	-26	-35	-41
Extraord./Min.Int./Pref.div.	-1	-47	-70	-91	-106
Reported net income	**286**	**124**	**153**	**179**	**197**
Adjusted earnings	286	124	153	179	197
Adjusted EBITDA	107	260	328	396	443
Growth Rates (%)					
Sales	16.4	25.8	29.6	20.4	15.3
EBIT adjusted	-55.4	803.4	34.6	25.3	12.1
EBITDA adjusted	-7.6	141.5	26.2	20.8	12.0
EPS adjusted	699.7	-56.9	23.6	17.4	9.9
Cash Flow (US$M)					
Operating cash flow	**119**	**310**	**261**	**390**	**431**
Depreciation/amortization	90	98	110	123	138
Net working capital	45	-61	9	8	0
Investing cash flow	**208**	**-169**	**-198**	**-169**	**-318**
Capital expenditure	-136	-193	-201	-173	-163
Acquisitions/disposals	-31	-2	0	0	0
Financing cash flow	**-294**	**-112**	**-130**	**-70**	**-71**
Borrowings	-230	-49	0	0	0
Dividends paid	-63	-64	-130	-70	-71
Change in cash	**34**	**30**	**-67**	**150**	**42**
Balance Sheet (US$M)					
Total assets	**1,402**	**1,549**	**1,746**	**2,038**	**2,353**
Cash & cash equivalent	126	152	85	235	440
Accounts receivable	71	85	120	144	166
Net fixed assets	933	991	1,086	1,139	1,168
Total liabilities	**517**	**539**	**643**	**735**	**818**
Accounts payable	188	206	294	348	399
Total Debt	200	153	153	153	153
Shareholders' funds	**885**	**1,010**	**1,103**	**1,303**	**1,535**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	7.3	14.1	13.7	13.7	13.3
ROE adjusted	41.8	14.8	17.3	18.9	18.5
ROIC adjusted	1.0	15.5	18.3	20.8	22.6
Net debt to equity	8.4	0.0	6.1	-6.3	-18.7
Total debt to capital	18.4	13.1	12.1	10.5	9.0

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Company Focus

Tsingtao (0168.HK)

Sell: Challenging year ahead

Sell/Medium Risk	3M
Price (17 Apr 07)	HK$13.72
Target price	HK$10.90
Expected share price return	-17.1%
Expected dividend yield	1.2%
Expected total return	-15.9%
Market Cap	HK$21,325M
	US$2,730M

Price Performance (RIC: 0168.HK, BB: 168 HK)

Statistical Abstract

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2004A	285	0.220	2.5	61.6	3.0	6.2	1.1
2005A	307	0.234	6.4	58.0	3.6	6.3	1.2
2006E	384	0.294	25.3	46.3	3.3	7.5	1.2
2007E	455	0.347	18.4	39.1	3.2	8.3	1.2
2008E	524	0.401	15.4	33.9	3.0	9.0	1.2

Source: Powered by dataCentral

- Underperforming CRE and Yanjing — Based on a 9% volume growth during the first nine months in 2006, the estimated annualized volume growth of Tsingtao has been slower than CRE's 34% (of which 29% was organic) and Yanjing's 14%. We reiterate our rating of Sell/Medium Risk and target price of HK$10.90

- Olympic spending to surge — Tsingtao plans to raise its marketing expenditure significantly in the run up to next year's Beijing Olympics, with the main focus on promoting the core Tsingtao brand. Such effort is partly aimed to help to phase out most of the fringe brands, leaving probably three sub-brands in addition to the core brand. In the near term, volume growth may be affected.

- Valuation premium — Following the 4Q06 rally due to A share reform, Tsingtao is currently trading on P/Es of 39x 2007 which is higher than CRE's 33x and Yanjing Brewery's 35x. Margin improvement this year should be hindered by recent hike in barley and transportation costs.

Fiscal year end 31-Dec	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	61.6	58.0	46.3	39.1	33.9
EV/EBITDA adjusted (x)	16.5	15.5	14.4	12.6	11.2
P/BV (x)	3.0	3.6	3.3	3.2	3.0
Dividend yield (%)	1.1	1.2	1.2	1.2	1.2
Per Share Data (Rmb)					
EPS adjusted	0.220	0.234	0.294	0.347	0.401
EPS reported	0.220	0.234	0.294	0.347	0.401
BVPS	4.485	3.789	4.060	4.297	4.586
DPS	0.150	0.160	0.160	0.160	0.160
Profit & Loss (RmbM)					
Net sales	8,621	10,020	11,275	12,686	14,819
Operating expenses	-8,050	-9,457	-10,583	-11,877	-13,900
EBIT	**571**	**562**	**692**	**809**	**919**
Net interest expense	-56	-26	-58	-58	-53
Non-operating/exceptionals	-25	-4	0	0	0
Pre-tax profit	**490**	**532**	**634**	**751**	**866**
Tax	-186	-188	-225	-266	-307
Extraord./Min.Int./Pref.div.	-19	-37	-25	-30	-35
Reported net income	**285**	**307**	**384**	**455**	**524**
Adjusted earnings	285	307	384	455	524
Adjusted EBITDA	1,104	1,146	1,192	1,319	1,441
Growth Rates (%)					
Sales	28.4	16.2	12.5	12.5	16.8
EBIT adjusted	8.4	-1.5	23.1	16.8	13.6
EBITDA adjusted	5.3	3.8	4.0	10.6	9.3
EPS adjusted	2.5	6.4	25.3	18.4	15.4
Cash Flow (RmbM)					
Operating cash flow	**1,117**	**869**	**294**	**861**	**962**
Depreciation/amortization	533	583	500	510	522
Net working capital	477	208	-424	44	64
Investing cash flow	**-500**	**-200**	**-300**	**-400**	**-400**
Capital expenditure	-500	-200	-300	-400	-400
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**0**	**0**	**0**	**0**	**0**
Borrowings	0	0	0	0	0
Dividends paid	-219	-219	-219	-219	-219
Change in cash	**617**	**669**	**-6**	**461**	**562**
Balance Sheet (RmbM)					
Total assets	**9,821**	**9,575**	**10,996**	**11,683**	**12,638**
Cash & cash equivalent	1,363	1,266	2,022	2,483	3,045
Accounts receivable	752	508	1,175	1,296	1,484
Net fixed assets	5,635	5,683	4,840	4,733	4,612
Total liabilities	**4,522**	**4,042**	**5,108**	**5,485**	**6,063**
Accounts payable	1,102	1,057	1,993	2,181	2,468
Total Debt	1,570	1,099	1,099	1,099	1,099
Shareholders' funds	**5,298**	**5,533**	**5,889**	**6,198**	**6,576**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	12.8	11.4	10.6	10.4	9.7
ROE adjusted	6.2	6.3	7.5	8.3	9.0
ROIC adjusted	7.7	7.8	10.4	12.9	15.2
Net debt to equity	3.9	-3.0	-15.7	-22.3	-29.6
Total debt to capital	22.9	16.6	15.7	15.1	14.3

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Company Focus

LG Household & Health Care (051900.KS)

Sell: Valuation Stretched with Optimism Priced In

Sell/Low Risk	3L
Price (18 Apr 07)	W133,000
Target price	W97,000
Expected share price return	-27.1%
Expected dividend yield	0.9%
Expected total return	**-26.2%**
Market Cap	W2,077,220M US$2,236M

Price Performance (RIC: 051900.KS, BB: 051900 KS)

Statistical Abstract

Year to 31 Dec	Net Profit (WB)	Diluted EPS (W)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	72	4,470	99.3	29.8	6.0	22.3	0.8
2006A	53	3,237	-27.6	41.1	6.7	15.5	0.8
2007E	87	5,408	67.1	24.6	5.4	24.3	0.9
2008E	105	6,562	21.3	20.3	4.4	23.9	1.0
2009E	128	8,003	22.0	16.6	3.6	23.8	1.0

Source: Powered bv dataCentral

- Tougher going ahead — Under-delivery in home and personal care margins due to external factors could be possible after easy upsides achieved via internal product mix reshuffling since 2005
- Higher costs — Operational costs to serve prestige cosmetics channels could rise amid ongoing severer competition.
- Bubbling multiples — Thin liquidity amid some M&A rumors in the press could have created some bubbles in current multiples, thus if any earnings downside risks, or if any capital management mistakes, the speed of de-rating could be faster than other peers in the sector

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	29.8	41.1	24.6	20.3	16.6
EV/EBITDA adjusted (x)	22.1	17.2	13.6	11.3	9.3
P/BV (x)	6.0	6.7	5.4	4.4	3.6
Dividend yield (%)	0.8	0.8	0.9	1.0	1.0
Per Share Data (W)					
EPS adjusted	4,470	3,237	5,408	6,562	8,003
EPS reported	4,611	3,385	5,576	6,744	8,185
BVPS	22,015	19,722	24,772	30,216	37,101
DPS	1,000	1,050	1,200	1,300	1,300
Profit & Loss (WB)					
Net sales	968	1,033	1,163	1,294	1,421
Operating expenses	-897	-938	-1,036	-1,141	-1,238
EBIT	**70**	**95**	**127**	**153**	**184**
Net interest expense	-2	-3	1	-2	-1
Non-operating/exceptionals	0	-10	-7	-5	-5
Pre-tax profit	**69**	**81**	**121**	**146**	**177**
Tax	-29	-29	-34	-41	-50
Extraord./Min.Int./Pref.div.	32	0	0	0	0
Reported net income	**72**	**53**	**87**	**105**	**128**
Adjusted earnings	70	50	84	102	125
Adjusted EBITDA	96	122	154	181	213
Growth Rates (%)					
Sales	1.6	6.7	12.6	11.3	9.9
EBIT adjusted	29.3	34.3	34.2	20.4	20.3
EBITDA adjusted	17.7	27.3	26.5	17.5	17.7
EPS adjusted	99.3	-27.6	67.1	21.3	22.0
Cash Flow (WB)					
Operating cash flow	**54**	**71**	**94**	**114**	**139**
Depreciation/amortization	25	28	28	29	30
Net working capital	-24	-9	-20	-20	-19
Investing cash flow	**-8**	**-35**	**-40**	**-40**	**-40**
Capital expenditure	-35	-35	-40	-40	-40
Acquisitions/disposals	27	0	0	0	0
Financing cash flow	**-39**	**-72**	**-38**	**-57**	**-30**
Borrowings	-24	3	-20	-37	-9
Dividends paid	-13	-16	-19	-20	-20
Change in cash	**7**	**-36**	**16**	**17**	**69**
Balance Sheet (WB)					
Total assets	**619**	**628**	**617**	**669**	**770**
Cash & cash equivalent	27	8	24	41	110
Accounts receivable	110	137	116	129	142
Net fixed assets	307	298	310	322	332
Total liabilities	**265**	**309**	**231**	**198**	**192**
Accounts payable	62	80	49	52	56
Total Debt	89	90	79	42	32
Shareholders' funds	**354**	**318**	**386**	**471**	**578**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.9	11.8	13.3	14.0	15.0
ROE adjusted	22.3	15.5	24.3	23.9	23.8
ROIC adjusted	11.7	18.7	25.2	27.6	30.8
Net debt to equity	17.4	25.8	14.3	0.2	-13.5
Total debt to capital	20.1	22.1	17.0	8.2	5.2

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791

Powered by: dataCentral

Asia Consumer Sector Valuation

Figure 96. Asia ex-Japan – Consumer Companies: Valuation Analysis

Pricing as at 12-Apr-07

			Mkt Cap	Citigroup	Price	Target Price	Chg to TP	P/E		P/B		DY		EPS Growth	
HONG KONG	RIC	Analyst	(US$m)	Ratings	(Local)	(Local)	(%)	07E	08E	07E	08E	07E	08E	07E	08E
Esprit	0330.HK	Peter Williamson, CFA	15,087	1L	95.80	100.00	4%	25.6	20.6	11.4	10.0	2.9%	3.6%	20.2%	24.0%
Li & Fung	0494.HK	Peter Williamson, CFA	11,568	1L	26.50	31.00	17%	32.6	25.8	11.0	10.1	2.5%	3.1%	20.1%	26.3%
Yue Yuen Industrial (Holdings)	0551.HK	Eddie Lau	5,801	3L	27.25	26.60	-2%	15.0	13.4	2.5	2.3	3.4%	3.8%	11.2%	12.2%
EganaGoldpfeil (Holdings)	0048.HK	Christopher K Leung	1,089	1M	5.83	7.20	23%	21.7	16.9	3.3	2.9	1.5%	2.0%	12.8%	28.1%
Integrated Distribution Services Group	2387.HK	Peter Williamson, CFA	833	1L	21.00	19.60	-7%	38.5	28.5	6.7	6.1	1.6%	2.1%	-9.8%	35.4%
Giordano International	0709.HK	Peter Williamson, CFA	744	3L	3.90	3.00	-23%	19.0	18.1	2.7	2.7	5.3%	5.5%	47.2%	5.2%
Weighted average								**26.2**	**21.1**	**9.2**	**8.3**	**2.8%**	**3.4%**	**18.3%**	**22.8%**
SINGAPORE/MALAYSIA															
BAT	BATO.KL	Chi-Chang Teh, CFA	3,811	1L	46.00	48.00	4%	15.5	15.1	21.9	18.8	7.9%	8.1%	24.6%	3.3%
Olam International	OLAM.SI	Peter Williamson, CFA	3,479	1M	3.40	2.49	-27%	49.6	40.6	9.8	8.7	1.0%	1.2%	30.3%	24.2%
Noble Group	NOBG.SI	Peter Williamson, CFA	2,529	1H	1.59	2.28	43%	14.7	10.6	2.3	2.0	1.7%	2.4%	28.8%	39.0%
OSIM International	OSIL.SI	Kevin Chong	339	3M	0.95	0.96	1%	11.9	9.4	2.5	2.1	1.3%	1.4%	34.1%	27.2%
Weighted average								**26.9**	**22.5**	**12.2**	**10.6**	**3.8%**	**4.1%**	**27.9%**	**20.1%**
CHINA – H Share															
Tingyi	0322.HK	Sandy Chen	5,675	3L	7.93	4.86	-39%	31.6	28.8	5.6	5.0	1.3%	1.3%	17.4%	9.9%
Mengniu Dairy	2319.HK	Sandy Chen	4,352	1L	24.85	27.00	9%	39.2	30.2	9.4	7.4	0.5%	0.7%	42.1%	29.7%
Parkson Retail Group	3368.HK	Sandy Chen	3,949	2L	55.90	54.00	-3%	49.4	34.6	13.2	11.1	1.0%	1.5%	38.3%	42.8%
GOME	0493.HK	Sandy Chen	3,581	1M	9.15	13.75	50.2%	21.1	18.8	2.4	2.2	1.4%	1.6%	22.9%	12.2%
Hengan International Group	1044.HK	Clement Wong	3,527	3L	25.50	18.00	-29%	32.4	27.1	9.3	8.1	2.0%	2.5%	14.2%	19.3%
Tsingtao	0168.HK	Charles Cheung	2,730	3M	13.80	10.90	-21%	39.3	34.0	3.2	3.0	1.2%	1.2%	22.0%	15.5%
Li Ning	2331.HK	Sandy Chen	2,270	1L	17.18	18.50	8%	44.2	32.8	11.2	9.4	0.9%	1.4%	44.4%	34.8%
Prime Success International Group	0210.HK	Christopher K Leung	1,947	1L	9.29	9.50	2%	29.5	21.9	11.4	8.4	1.1%	1.5%	48.7%	34.9%
China Yurun Food Group	1068.HK	Sandy Chen	1,854	1L	9.98	10.20	2%	24.4	19.3	4.6	3.9	1.0%	1.3%	22.4%	26.5%
Huabao International Holdings	0336.HK	Clement Wong	1,652	3S	4.24	5.20	23%	21.3	20.4	15.8	10.2	1.5%	1.7%	81.1%	4.0%
Golden Eagle Retail Group	3308.HK	Sandy Chen	1,490	1M	6.41	7.10	11%	38.2	26.4	11.0	9.0	1.4%	2.1%	24.3%	44.7%
Global Bio-chem Technology Group	0809.HK	Eddie Lau	846	1M	2.85	2.80	-2%	9.9	8.3	1.2	1.0	1.7%	2.0%	44.8%	19.6%
Lianhua Supermarket	0980.HK	Sandy Chen	837	1M	10.52	13.30	26%	19.1	16.6	2.8	2.5	1.5%	1.6%	23.7%	15.1%
Wumart	8277.HK	Sandy Chen	603	3H	6.88	6.75	-2%	23.9	19.9	3.2	2.8	0.7%	0.8%	46.4%	20.5%
China Flavors & Fragrances	3318.HK	Clement Wong	188	2S	3.30	3.80	15%	15.6	13.7	2.8	2.4	1.9%	2.2%	14.6%	14.3%
Weighted average								**33.2**	**26.7**	**7.9**	**6.5**	**1.2%**	**1.5%**	**31.6**	**23.1%**
CHINA – A Share															
Wuliangye Yibin	000858.SZ	Joye Qiao	12,269	2M	34.96	36.60	5%	60.4	42.4	9.8	8.1	0.2%	0.2%	38.3%	42.6%
Kweichow Moutai	600519.SS	Joye Qiao	12,074	1L	98.84	119.80	21%	45.6	29.3	12.8	9.8	0.7%	1.0%	40.1%	56.0%
Luzhou Laojiao	000568.SZ	Joye Qiao	3,618	1M	32.08	37.34	16%	51.1	29.8	11.5	9.7	1.1%	1.8%	67.4%	71.8%
Shanxi Fenjiu	600809.SS	Joye Qiao	1,995	3H	35.61	32.95	-7%	41.6	28.8	11.9	9.9	1.3%	1.8%	46.1%	44.5%
Weighted average								**52.3**	**34.9**	**11.3**	**9.1**	**0.6%**	**0.8%**	**43.0%**	**51.5**
TAIWAN															
Uni-President Enterprises	1216.TW	Andre Chang	3,166	1M	31.25	36.00	15%	16.3	18.0	2.1	2.1	2.6%	4.9%	89.3%	-9.8%
Far Eastern Department Stores	2903.TW	Andre Chang	747	1M	22.95	26.00	13%	32.0	18.2	1.0	0.9	1.5%	1.6%	3.8%	75.6%
Test Rite	2908.TW	Andre Chang	258	1L	19.00	22.00	16%	10.5	7.9	2.2	1.5	3.9%	6.8%	72.7%	32.8%
Weighted average								**18.7**	**17.4**	**1.9**	**1.9**	**2.4%**	**4.4%**	**72.9%**	**8.1%**
THAILAND															
Thai Beverage	TBEV.SI	Peter Williamson, CFA	4,132	3L	0.25	0.24	-4%	11.3	10.6	2.2	2.0	4.4%	4.7%	15.4%	8.0%
Weighted average								**11.3**	**10.6**	**2.2**	**2.0**	**4.4%**	**4.7%**	**15.4%**	**8.0%**

Figure 96. Asia ex-Japan – Consumer Companies: Valuation Analysis (cont'd)

	RIC	Analyst	Mkt Cap (US$m)	Citigroup Ratings	Price (Local)	Target Price (Local)	Chg to TP (%)	P/E 07E	P/E 08E	P/B 07E	P/B 08E	DY 07E	DY 08E	EPS Growth 07E	EPS Growth 08E
INDONESIA															
Gudang Garam	GGRM.JK	Ella Nusantoro	2,323	3L	11,000.00	9,600.00	-13%	15.9	13.0	1.5	1.4	2.5%	3.2%	32.9%	22.6%
Kalbe Farma	KLBF.JK	Ella Nusantoro	1,393	3L	1,250.00	1,225.00	-2%	16.4	14.1	3.4	2.8	1.2%	1.6%	10.3%	15.7%
Weighted average								16.1	13.4	2.2	1.9	2.0%	2.6%	24.4%	20.0%
KOREA															
Shinsegae	004170.KS	Ally Park	11,579	2L	572,000	560,000	-2%	19.4	16.2	3.2	2.7	0.2%	0.2%	21.0%	20.0%
Lotte Shopping	023530.KS	Ally Park	10,349	1M	332,000	430,000	30%	12.2	10.2	1.2	1.1	0.2%	0.2%	20.0%	19.9%
KT&G	033780.KS	Ally Park	10,065	2L	63,600	62,000	-3%	14.8	13.9	2.7	2.5	3.8%	3.8%	-0.1%	6.7%
CJ Corp	001040.KS	Ally Park	3,122	1L	95,800	149,000	56%	12.2	10.5	1.6	1.4	2.1%	2.5%	17.9%	16.8%
Hite Brewery	000140.KS	Ally Park	2,662	1M	117,000	155,000	32%	13.1	10.0	1.7	1.5	1.3%	1.5%	88.5%	30.4%
LG Household & Health Care	051900.KS	Ally Park	2,246	3L	134,000	97,000	-28%	24.8	20.4	5.4	4.4	0.9%	1.0%	71.0%	21.6%
Hyundai Department Store	069960.KS	Ally Park	1,944	1M	79,900	116,000	45%	9.3	8.5	1.4	1.2	1.3%	1.3%	15.0%	9.6%
ORION	001800.KS	Ally Park	1,498	3M	235,000	230,000	-2%	17.7	15.9	2.7	2.4	0.8%	0.9%	-37.6%	11.8%
CJ Home Shopping	035760.KQ	Ally Park	786	3H	67,000	73,000	9%	11.0	9.1	1.4	1.3	3.4%	3.4%	34.9%	21.9%
GS Home Shopping	028150.KQ	Ally Park	511	3H	73,200	70,000	-4%	8.8	8.7	1.4	1.3	4.1%	4.1%	8.1%	1.3%
Binggrae	005180.KS	Ally Park	434	2M	41,000	43,000	5%	9.6	8.8	1.5	1.3	2.4%	4.1%	11.8%	9.4%
Weighted average								15.3	13.1	2.4	2.1	1.4%	1.5%	20.1%	16.5%
INDIA															
ITC	ITC.BO	Princy Singh	13,760	3L	156.10	130.00	-17%	21.3	18.0	5.5	4.7	1.9%	2.1%	19.9%	24.8%
Hindustan Lever	HLL.BO	Princy Singh	10,716	1L	207.25	253.00	22%	24.2	20.4	18.0	17.4	3.5%	4.2%	6.7%	19.7%
Zee Telefilms	ZEE.BO	Princy Singh	2,573	1L	253.35	277.00	9%	41.7	27.5	8.8	7.5	0.2%	1.5%	23.2%	60.5%
Nestle India	NEST.BO	Princy Singh	2,319	3L	1,026.35	916.00	-11%	25.8	22.5	23.7	21.3	3.1%	3.5%	21.5%	15.2%
Dabur India	DABU.BO	Princy Singh	1,900	2L	94.00	93.33	-1%	28.0	23.1	16.3	16.5	1.6%	2.0%	31.8%	28.4%
United Spirits	UNSP.BO	Princy Singh	1,861	1L	840.60	1,080.00	28%	34.7	23.7	6.5	5.4	0.1%	0.1%	180.5%	54.3%
Asian Paints	ASPN.BO	Princy Singh	1,784	1L	793.80	960.00	21%	27.1	22.6	10.3	8.6	1.9%	2.3%	47.4%	26.7%
Pantaloon	PART.BO	Princy Singh	1,305	1M	395.95	500.00	26%	45.9	30.9	13.2	9.4	0.1%	0.2%	54.3%	54.6%
Colgate Palmolive (India)	COLG.BO	Princy Singh	1,126	1L	353.30	413.00	17%	23.6	19.7	16.1	14.6	2.8%	4.0%	44.9%	26.8%
HT Media	HTML.BO	Princy Singh	991	1L	180.65	190.00	5%	40.1	24.3	5.6	4.7	0.6%	0.9%	175.0%	74.4%
Tata Tea	TTTE.BO	Princy Singh	873	1L	631.25	960.00	52%	10.9	9.9	1.9	1.7	2.8%	3.0%	6.5%	16.6%
Britannia Industries	BRIT.BO	Princy Singh	689	1L	1,230.45	1,720.00	40%	14.3	12.1	4.0	3.1	1.3%	1.5%	13.5%	25.1%
Bajaj Hindusthan	BJHN.BO	Princy Singh	684	1M	206.50	300.00	45%	18.0	9.0	1.9	1.6	0.4%	0.8%	-11.9%	103.9%
GlaxoSmithKline Consumer	GLSM.BO	Princy Singh	512	1L	519.95	675.00	30%	15.4	13.4	4.0	3.6	3.6%	4.1%	17.4%	15.7%
Shoppers Stop	SHOP.BO	Princy Singh	500	3M	620.15	421.00	-32%	50.7	33.0	6.8	5.9	0.4%	0.6%	55.1%	62.3%
Balrampur Chini Mills	BACH.BO	Princy Singh	424	1M	72.85	107.00	47%	18.2	8.2	1.9	1.6	0.9%	2.1%	-70.9%	127.1%
Weighted average								25.8	20.3	11.0	10.0	2.1%	2.5%	29.6%	31.4%
Weighted Average by countries		Korea	21.3%		China	31.7%	Indonesia	1.8%							
(based on Mkt Cap)		India	19.9%		Singapore/Malaysia	4.8%	Taiwan	1.9%							
		HK	16.5%		Thailand	2.0%									
Regional Average								25.4	20.7	7.4	6.5	1.9%	2.3%	26.7%	22.5%

Source: Citigroup Investment Research estimates

Appendix A-1

Analyst Certification

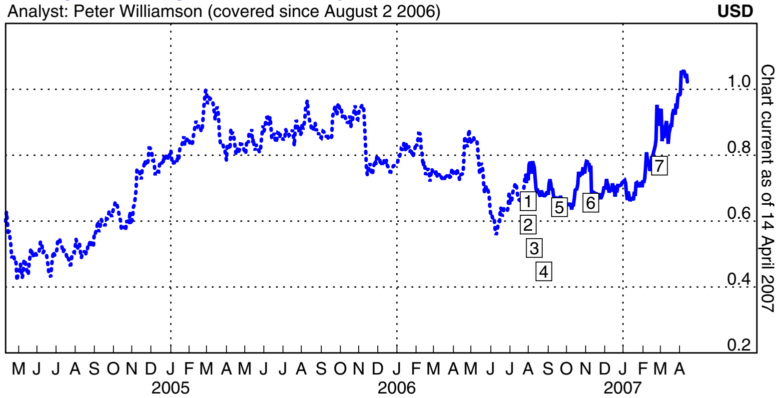
We, Peter Williamson, CFA, Sandy Chen, Ally Park, Princy Singh, Ella Nusantoro, Andre Chang and Stanley Chan, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Noble Group (NOBG.SI)

Ratings and Target Price History - Fundamental Research

Analyst: Peter Williamson (covered since August 2 2006)



Covered
Not covered

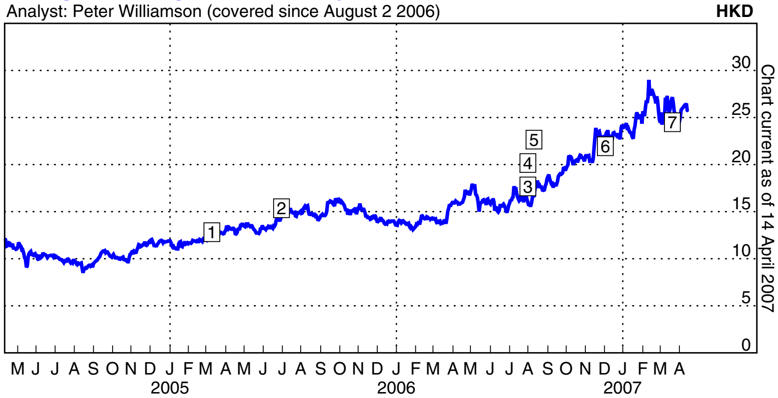
#	Date	Rating	Target Price	Closing Price
1:	1 Aug 06	1H	1.01	0.73
2:	1 Aug 06	1H	1.01	0.73
3:	10 Aug 06	1H	1.01	0.76
4:	25 Aug 06	1H	*1.02	0.68
5:	20 Sep 06	1H	*1.01	0.66
6:	9 Nov 06	1H	*1.53	0.77
7:	28 Feb 07	1H	*1.49	0.89

*Indicates change.

Li & Fung (0494.HK)

Ratings and Target Price History - Fundamental Research

Analyst: Peter Williamson (covered since August 2 2006)



Covered
Not covered

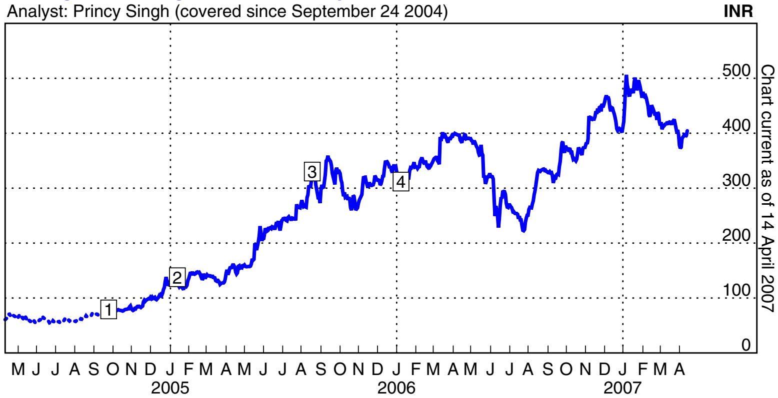
#	Date	Rating	Target Price	Closing Price
1:	10 Mar 05	1L	*16.50	12.45
2:	30 Jun 05	1L	*19.00	14.68
3:	1 Aug 06	*2L	*17.10	15.98
4:	1 Aug 06	2L	17.10	15.98
5:	10 Aug 06	2L	17.10	16.54
6:	4 Dec 06	*1L	*27.35	23.00
7:	21 Mar 07	1L	*31.00	27.15

*Indicates change.

Pantaloon (PART.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh (covered since September 24 2004)



Covered
Not covered

#	Date	Rating	Target Price	Closing Price
1:	24 Sep 04	1H	98.25	68.94
2:	13 Jan 05	*3H	*121.19	125.88
3:	18 Aug 05	3H	*185.64	330.20
4:	9 Jan 06	3H	*212.00	323.20

*Indicates change.

Shoppers Stop (SHOP.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh (covered since August 18 2005)

Covered
Not covered

#	Date	Rating	Target Price	Closing Price
1:	18 Aug 05	3S	270.00	370.35

*Indicates change.

Shinsegae (004170.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)

Covered
Not covered

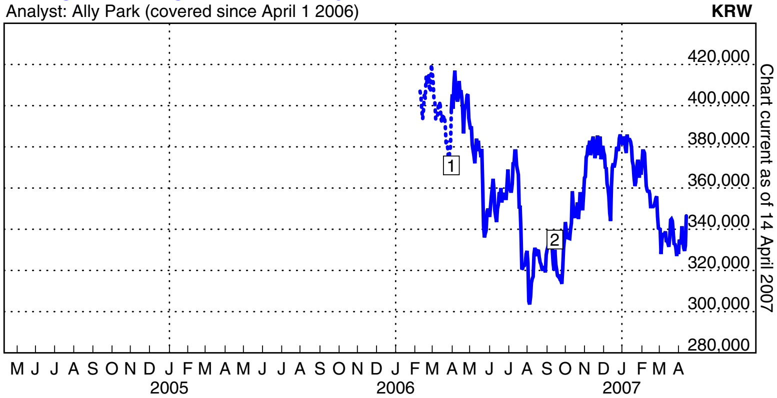
#	Date	Rating	Target Price	Closing Price
1:	31 May 04	1M	*350,000.00	263,500.00
2:	22 Feb 05	*1L	*370,000.00	302,500.00
3:	19 May 05	1L	*450,000.00	320,500.00
4:	1 Apr 06	*2L	*456,000.00	450,000.00
5:	8 Nov 06	2L	*560,000.00	534,000.00

*Indicates change.

Lotte Shopping (023530.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since April 1 2006)



Covered
Not covered

#	Date	Rating	Target Price	Closing Price
1:	31 Mar 06	1M	460,000.00	398,000.00
2:	14 Sep 06	1M	*430,000.00	330,000.00

*Indicates change.

KT&G (033780.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)

Covered
Not covered

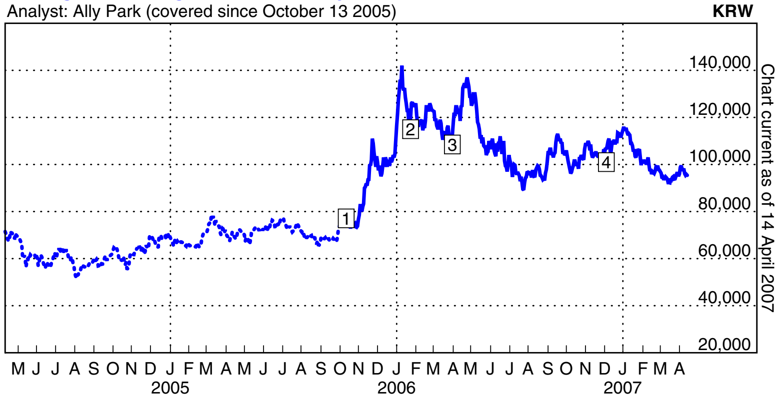
#	Date	Rating	Target Price	Closing Price
1:	31 May 04	1L	25,000.00	26,200.00
2:	31 May 04	1L	*30,000.00	26,200.00
3:	2 Aug 04	1L	*31,000.00	28,100.00
4:	25 Nov 04	1L	*35,000.00	32,800.00
5:	31 Jan 05	*2L	*33,000.00	31,500.00
6:	27 Apr 05	2L	*36,000.00	35,000.00
7:	28 Jul 05	2L	*43,000.00	42,550.00
8:	25 Jan 06	2L	*50,000.00	45,900.00
9:	31 Mar 06	2L	*58,000.00	54,800.00
10:	24 Jan 07	2L	*62,000.00	56,800.00

*Indicates change.

CJ Corp (001040.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since October 13 2005)



Covered
Not covered

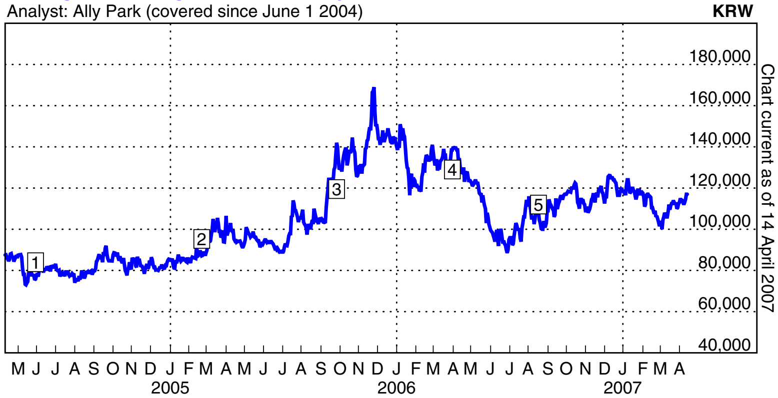
#	Date	Rating	Target Price	Closing Price
1:	12 Oct 05	1L	95,000.00	75,000.00
2:	24 Jan 06	1L	*154,000.00	120,000.00
3:	31 Mar 06	1L	*144,000.00	112,500.00
4:	5 Dec 06	1L	*149,000.00	106,500.00

*Indicates change.

Hite Brewery (000140.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)



Covered
Not covered

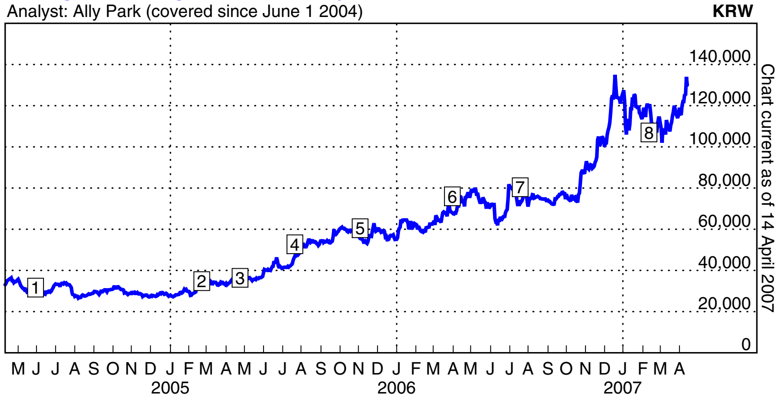
#	Date	Rating	Target Price	Closing Price
1:	31 May 04	3M	*74,000.00	75,800.00
2:	22 Feb 05	*3L	*90,000.00	87,100.00
3:	27 Sep 05	*1M	*177,000.00	142,000.00
4:	31 Mar 06	1M	*167,000.00	138,500.00
5:	17 Aug 06	1M	*155,000.00	108,000.00

*Indicates change.

LG Household & Healthcare (051900.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)



Covered
Not covered

#	Date	Rating	Target Price	Closing Price
1:	31 May 04	*2L	33,000.00	30,400.00
2:	22 Feb 05	*1L	*36,000.00	32,150.00
3:	25 Apr 05	1L	*43,000.00	33,500.00
4:	21 Jul 05	1L	*54,000.00	46,900.00
5:	3 Nov 05	1L	*70,000.00	55,500.00
6:	31 Mar 06	1L	*78,000.00	68,000.00
7:	19 Jul 06	1L	*92,000.00	74,000.00
8:	12 Feb 07	*3L	*97,000.00	120,000.00

*Indicates change.

Hyundai Department Store (069960.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)

Covered
Not covered

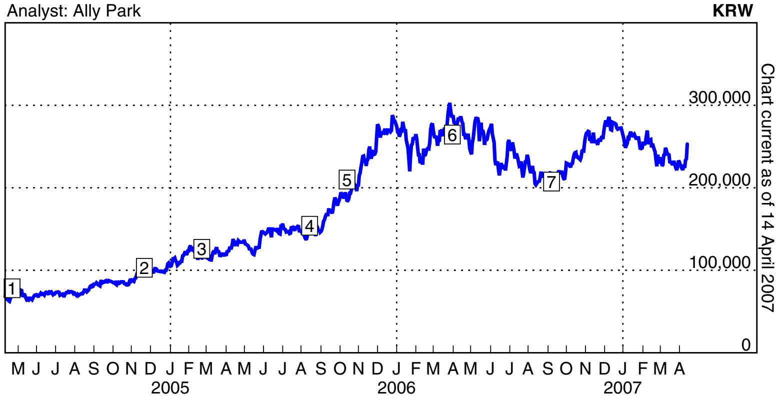
#	Date	Rating	Target Price	Closing Price
1:	31 May 04	*3H	*27,000.00	27,000.00
2:	22 Feb 05	*1M	*56,000.00	41,200.00
3:	8 Aug 05	1M	*73,000.00	55,500.00
4:	7 Nov 05	1M	*91,000.00	77,400.00
5:	31 Mar 06	*2M	*102,000.00	90,800.00
6:	18 Aug 06	*1M	*116,000.00	72,500.00

*Indicates change.

Orion (001800.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park



Covered
Not covered

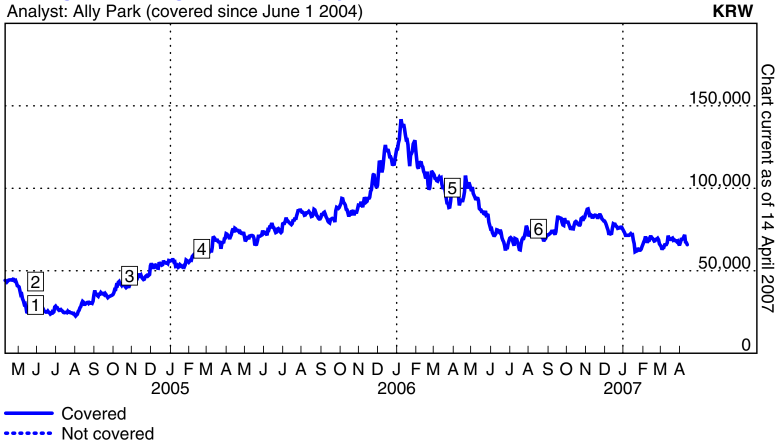
#	Date	Rating	Target Price	Closing Price
1:	15 Apr 04	2H	*75,000.00	NA
2:	22 Nov 04	*1M	*125,000.00	96,800.00
3:	22 Feb 05	1M	*142,000.00	115,000.00
4:	15 Aug 05	*1L	*175,000.00	NA
5:	13 Oct 05	1L	*210,000.00	183,500.00
6:	31 Mar 06	*3L	210,000.00	287,000.00
7:	7 Sep 06	*3M	*230,000.00	211,000.00

*Indicates change.

CJ HomeShopping (035760.KQ)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)



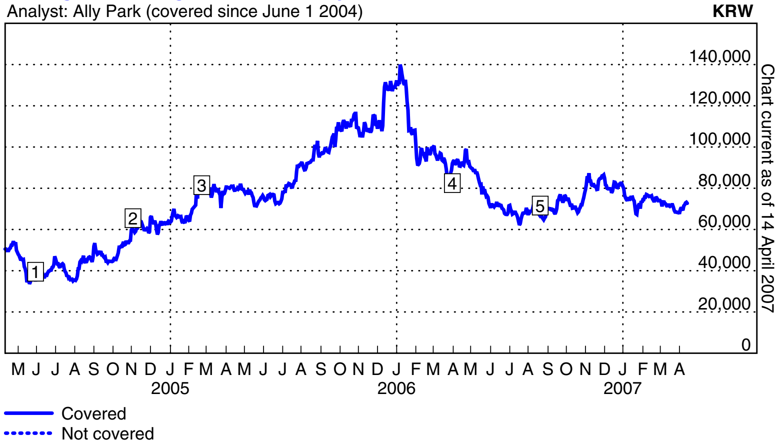
#	Date	Rating	Target Price	Closing Price
1:	31 May 04	*3H	*28,382.21	28,354.62
2:	31 May 04	3H	28,382.21	28,354.62
3:	28 Oct 04	3H	*40,681.17	41,208.71
4:	22 Feb 05	3H	*66,225.17	62,002.10
5:	31 Mar 06	3H	*88,930.94	99,241.17
6:	17 Aug 06	3H	*73,000.00	75,000.00

*Indicates change.

GS Home Shopping (028150.KQ)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)



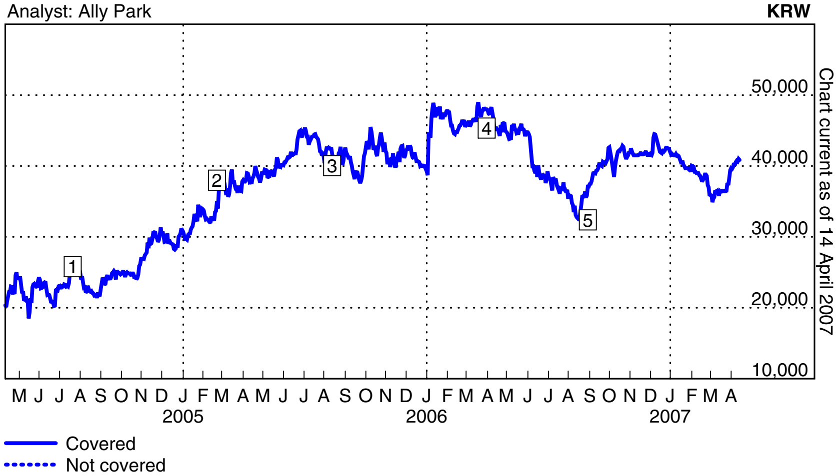
#	Date	Rating	Target Price	Closing Price
1:	31 May 04	3H	*34,000.00	35,000.00
2:	3 Nov 04	3H	*50,000.00	60,000.00
3:	22 Feb 05	3H	*83,000.00	81,500.00
4:	31 Mar 06	3H	*92,000.00	92,000.00
5:	21 Aug 06	3H	*70,000.00	66,500.00

*Indicates change.

Binggrae (005180.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park



#	Date	Rating	Target Price	Closing Price
1:	21 Jul 04	2H	*29,000.00	25,300.00
2:	22 Feb 05	*2M	*38,000.00	35,000.00
3:	12 Aug 05	2M	*48,000.00	41,700.00
4:	31 Mar 06	2M	*54,000.00	48,000.00
5:	30 Aug 06	2M	*43,000.00	37,100.00

*Indicates change.

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Citigroup Investment Research Ratings Distribution

Data current as of 31 March 2007	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (3215)	45%	40%	15%
% of companies in each rating category that are investment banking clients	45%	42%	32%
Apparel/Footwear/Textiles -- Europe (2)	50%	50%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Apparel/Footwear/Textiles -- North America (9)	44%	44%	11%
% of companies in each rating category that are investment banking clients	50%	0%	0%
Auto Manufacturers -- Japan (12)	58%	33%	8%
% of companies in each rating category that are investment banking clients	57%	50%	0%
Auto Manufacturers -- North America (10)	40%	30%	30%
% of companies in each rating category that are investment banking clients	50%	67%	0%
Beverages -- Europe (11)	18%	82%	0%
% of companies in each rating category that are investment banking clients	50%	67%	0%

Beverages -- Japan (3)	0%	33%	67%
% of companies in each rating category that are investment banking clients	0%	100%	100%
Beverages -- North America (8)	25%	50%	25%
% of companies in each rating category that are investment banking clients	100%	75%	50%
Building Products -- North America (4)	50%	50%	0%
% of companies in each rating category that are investment banking clients	100%	50%	0%
China -- Asia Pacific (88)	72%	15%	14%
% of companies in each rating category that are investment banking clients	44%	46%	42%
Commodity Agriculture -- Australia/New Zealand (1)	0%	0%	100%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Consumer Electronics -- Japan (7)	29%	57%	14%
% of companies in each rating category that are investment banking clients	100%	50%	100%
Cosmetics -- Japan (10)	50%	40%	10%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Electrical Equipment -- Australia/New Zealand (1)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Electrical Equipment -- Japan (9)	44%	56%	0%
% of companies in each rating category that are investment banking clients	25%	20%	0%
Emerging Europe/Middle East/Africa (130)	45%	33%	22%
% of companies in each rating category that are investment banking clients	43%	42%	28%
Emerging Growth -- Australia/New Zealand (30)	13%	67%	20%
% of companies in each rating category that are investment banking clients	25%	5%	0%
Emerging Growth -- Japan (12)	83%	17%	0%
% of companies in each rating category that are investment banking clients	10%	0%	0%
Emerging Growth--Healthy Lifestyles -- North America (1)	100%	0%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Energy Merchants -- North America (7)	29%	71%	0%
% of companies in each rating category that are investment banking clients	50%	60%	0%
Engineering -- Europe (32)	28%	66%	6%
% of companies in each rating category that are investment banking clients	33%	48%	50%
Food Distribution Services -- Japan (1)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Food Distribution Services -- North America (4)	50%	50%	0%
% of companies in each rating category that are investment banking clients	0%	50%	0%
Food Manufacturers -- Australia/New Zealand (1)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	100%	0%
Food Manufacturers -- Europe (15)	47%	40%	13%
% of companies in each rating category that are investment banking clients	43%	67%	0%
Food Manufacturers -- Japan (8)	13%	50%	38%
% of companies in each rating category that are investment banking clients	0%	25%	0%
Food Manufacturers -- North America (11)	55%	45%	0%
% of companies in each rating category that are investment banking clients	83%	60%	0%
Gaming Equipment -- Japan (1)	100%	0%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Home Furnishings -- Europe (1)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Home and Personal Care -- Europe (6)	33%	67%	0%
% of companies in each rating category that are investment banking clients	0%	25%	0%
Home and Personal Care -- North America (13)	23%	69%	8%
% of companies in each rating category that are investment banking clients	67%	67%	0%
Homebuilding -- North America (15)	80%	20%	0%
% of companies in each rating category that are investment banking clients	58%	100%	0%
Hong Kong -- Asia Pacific (99)	58%	13%	29%
% of companies in each rating category that are investment banking clients	42%	38%	38%
Imaging & Visual Media -- Japan (2)	50%	50%	0%
% of companies in each rating category that are investment banking clients	0%	100%	0%
Imaging & Visual Media -- North America (8)	38%	50%	13%
% of companies in each rating category that are investment banking clients	67%	25%	0%
India -- Asia Pacific (130)	58%	14%	28%
% of companies in each rating category that are investment banking clients	42%	50%	42%
Indonesia -- Asia Pacific (22)	50%	9%	41%
% of companies in each rating category that are investment banking clients	64%	100%	22%

Internet -- North America (16)	44%	50%	6%
% of companies in each rating category that are investment banking clients	29%	50%	0%
Latin America (111)	44%	32%	23%
% of companies in each rating category that are investment banking clients	57%	42%	46%
Leisure Products -- Europe (1)	100%	0%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Leisure Products -- Japan (4)	75%	25%	0%
% of companies in each rating category that are investment banking clients	33%	100%	0%
Leisure Time -- Europe (16)	56%	44%	0%
% of companies in each rating category that are investment banking clients	44%	14%	0%
Leisure Time -- Japan (8)	63%	25%	13%
% of companies in each rating category that are investment banking clients	20%	0%	0%
Luxury Goods -- Europe (4)	75%	25%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Machinery -- Japan (28)	39%	61%	0%
% of companies in each rating category that are investment banking clients	18%	47%	0%
Malaysia -- Asia Pacific (40)	68%	5%	28%
% of companies in each rating category that are investment banking clients	22%	0%	18%
Multi-industry -- North America (14)	29%	64%	7%
% of companies in each rating category that are investment banking clients	100%	56%	100%
Natural Products -- North America (2)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Paper & Forest Products -- North America (16)	38%	44%	19%
% of companies in each rating category that are investment banking clients	50%	29%	67%
Retailing--Broadlines -- Australia/New Zealand (4)	0%	75%	25%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Retailing--Broadlines -- Europe (19)	42%	47%	11%
% of companies in each rating category that are investment banking clients	50%	11%	50%
Retailing--Broadlines -- Japan (7)	29%	71%	0%
% of companies in each rating category that are investment banking clients	50%	20%	0%
Retailing--Broadlines -- North America (13)	46%	46%	8%
% of companies in each rating category that are investment banking clients	33%	33%	0%
Retailing--Department Stores -- Europe (1)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	100%	0%
Retailing--Department Stores -- Japan (5)	40%	60%	0%
% of companies in each rating category that are investment banking clients	100%	0%	0%
Retailing--Drugstores -- Japan (5)	60%	40%	0%
% of companies in each rating category that are investment banking clients	67%	0%	0%
Retailing--Hardlines -- Europe (1)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Retailing--Hardlines -- North America (13)	69%	31%	0%
% of companies in each rating category that are investment banking clients	33%	50%	0%
Retailing--Softlines -- North America (17)	47%	41%	12%
% of companies in each rating category that are investment banking clients	25%	43%	0%
Retailing--Specialty -- Australia/New Zealand (7)	0%	57%	43%
% of companies in each rating category that are investment banking clients	0%	25%	0%
Retailing--Specialty -- Europe (4)	50%	50%	0%
% of companies in each rating category that are investment banking clients	50%	0%	0%
Retailing--Specialty -- Japan (16)	31%	56%	13%
% of companies in each rating category that are investment banking clients	20%	33%	50%
Retailing--Supermarkets -- Australia/New Zealand (2)	50%	50%	0%
% of companies in each rating category that are investment banking clients	0%	100%	0%
Retailing--Supermarkets -- Europe (9)	44%	11%	44%
% of companies in each rating category that are investment banking clients	25%	100%	50%
Semiconductor Equipment -- Japan (2)	100%	0%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Singapore -- Asia Pacific (48)	50%	17%	33%
% of companies in each rating category that are investment banking clients	54%	25%	19%
Small/Mid-Cap Entertainment Services -- North America (2)	50%	50%	0%
% of companies in each rating category that are investment banking clients	100%	100%	0%
South Korea -- Asia Pacific (75)	48%	27%	25%
% of companies in each rating category that are investment banking clients	14%	25%	5%

Taiwan -- Asia Pacific (91)	66%	20%	14%
% of companies in each rating category that are investment banking clients	17%	6%	23%
Telecommunications Equipment -- North America (19)	53%	42%	5%
% of companies in each rating category that are investment banking clients	30%	38%	0%
Telecommunications Services -- Europe (21)	33%	52%	14%
% of companies in each rating category that are investment banking clients	57%	55%	33%
Thailand -- Asia Pacific (41)	49%	20%	32%
% of companies in each rating category that are investment banking clients	20%	25%	23%
Tobacco -- Europe (3)	67%	33%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Tobacco -- North America (5)	40%	40%	20%
% of companies in each rating category that are investment banking clients	100%	100%	100%
ePayments -- North America (10)	50%	50%	0%
% of companies in each rating category that are investment banking clients	20%	20%	0%
Citigroup Investment Research Quantitative World Radar Screen Model Coverage (6249)	32%	40%	28%
% of companies in each rating category that are investment banking clients	30%	25%	23%
Citigroup Investment Research Quantitative Decision Tree Model Coverage (330)	48%	0%	52%
% of companies in each rating category that are investment banking clients	47%	0%	50%
Citigroup Investment Research Quantitative European Value & Momentum Screen (602)	30%	41%	30%
% of companies in each rating category that are investment banking clients	51%	40%	35%
Citigroup Investment Research Asia Quantitative Radar Screen Model Coverage (1861)	20%	60%	20%
% of companies in each rating category that are investment banking clients	23%	19%	17%
Citigroup Investment Research Quant Emerging Markets Radar Screen Model Coverage (1252)	20%	60%	20%
% of companies in each rating category that are investment banking clients	27%	26%	31%
Citigroup Investment Research Australia Quantitative Top 100 Model Coverage (99)	29%	40%	30%
% of companies in each rating category that are investment banking clients	41%	43%	40%
Citigroup Investment Research Australia Quantitative Bottom 200 Model Coverage (168)	30%	40%	30%
% of companies in each rating category that are investment banking clients	8%	10%	6%
Citigroup Investment Research Australia Quantitative Scoring Stocks Model Coverage (10)	50%	0%	50%
% of companies in each rating category that are investment banking clients	40%	0%	20%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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CBR risk ratings are approximately equivalent to the following matrix:

Low Risk -- Triple A to Low Double A
Low to Medium Risk -- High Single A through High Triple B
Medium to High Risk -- Mid Triple B through High Double B
High to Speculative Risk -- Mid Double B and Below

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