

RESULTS REVIEW

United Breweries Limited

Hold

Share Data

Market Cap	Rs. 74.62 bn
Price	Rs. 345.4
BSE Sensex	17,773.4
Reuters	UBBW.BO
Bloomberg	UBBL IN
Avg. Volume (52 Week)	0.14 mn
52-Week High/Low	Rs.415 /135
Shares Outstanding	216.04 mn

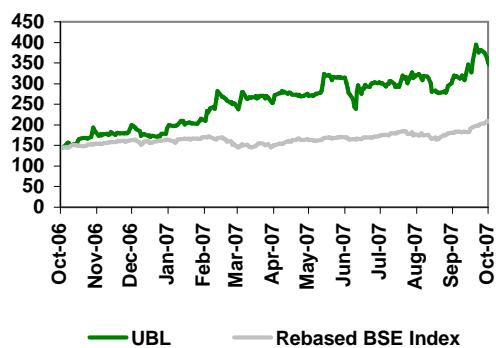
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	4.7	7.0
+/- (%)	119.5%	48.5%
PER (x)	72.8x	49.0x
EV/ Sales (x)	5.3x	4.3x
EV/ EBITDA (x)	35.7x	25.7x

Shareholding Pattern (%)

Promoters	75
FIs	16
Institutions	1
Public & Others	7

Relative Performance



Let the 'froth' settle down

For Q1FY08, United Breweries recorded a growth of 63.3% yoy in topline to Rs. 3,753 mn. Though, volume growth was robust at 16.3%, capped capacity of Hyderabad brewery and increased cost of sales drove down EBITDA margin by 152 bps. Net income increased by 16.1% to Rs. 296 mn.

United Breweries, with its strong brand equity and established strength in distribution network, have continuously exceeded the industry growth rate. The Company intends to ramp up its manufacturing capacity for which it has planned a right issue of Rs. 4,250 mn. It also has plans to launch new products and upgrade its process technology to stave off competition.

At the current market price, the stock is trading at a P/E of 72.8x and 49x FY08E and FY09E, respectively and an EV/EBITDA of 25.7x FY09E. Based on the fundamentals and our analysis of the Company's quarterly results, we expect the Company's net sales to grow at a CAGR of 25% and net profit at 80.6% during FY07-09E. We believe the current stock price reflects all the positives and hence, we maintain **Hold**.

Result Highlights

UBL during the quarter achieved net sales of Rs. 3,753 mn, a growth of 63.3% yoy. The combined volume growth of the Company was reported at 16.3%, a tad higher than the industry growth rate that resulted from the

Key Figures (Standalone)

Quarterly Data	1Q07	4Q07	1Q08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	2,298	3,885	3,753	63.3%	(3.4%)
EBITDA	489	315	742	51.7%	135.3%
Net Profit	255	96	296	16.1%	207.4%

Margins(%)

EBITDA	21.3%	8.1%	19.8%
NPM	11.1%	2.5%	7.9%

Per Share Data (Rs.)

EPS	1.2	2.2	1.4	16.1%	(38.7%)
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commissioning of greenfield breweries in Rajasthan (capacity 7.1 mn p.a.) and Orissa (capacity 1.4 mn p.a.) and the acquisition of KBDL.

Kingfisher Strong and Kingfisher Premium outgrew the industry

Kingfisher Strong, the numero uno brand in strong beer segment, recorded a growth of 29% yoy against the industry growth of 19.5%. It also increased its share in a number of states, namely, Andhra Pradesh, Uttar Pradesh, and Karnataka. The same was true in mild beer segment, with Kingfisher Premium growing at 7.6% against the industry growth of 7%.

Lack of pricing power in 45% of market coupled with increase in raw material costs impacted the operating margins

EBITDA for the quarter increased by 51.7% yoy to Rs. 742 mn. However, EBITDA margin suffered a blow of 152 bps on account of considerable rise in prices of key raw materials such as hops and malt which impacted the cost of sales. Modest price increase in a number of states did not help as 45% of the market still faces government intervention, making price increase impossible in those markets. Lower production at Hyderabad plant, which was temporarily closed during the last quarter, impacted the Company's quarterly results by Rs. 60 mn. However, increased output from the JV brewery of UMBL compensated for the loss by the same amount.

Net profit recorded a growth of 16.1% yoy to Rs. 296 mn. EPS was Rs. 1.36, up from Rs. 1.18 for the same period a year ago.

Key Risks

High raw material costs, competition from major global players, consolidation in the industry, and government regulations are the key risks which may affect the results of the Company.

Outlook and Valuation

Established trade relationships, manufacturing network across all major states, and a strong product portfolio give UBL a competitive advantage

United Breweries has gone from strength to strength. Despite increasing competition from foreign heavyweights, UBL's combined volumes have outpaced the industry growth. Its strong brand portfolio and established strength in the distribution network have not only helped the Company to overcome continued government interference in this sector, but also pass on the increase in the prices of raw materials to its customers to some extent. The Company intends to beef up its manufacturing capacity for which it has planned a right issue of Rs. 4,250 mn. It also has plans to launch a slew of new products and upgrade its process technology to stave off competition.

With rising disposable income and a favorable demographic structure, UBL will leverage the proposed expansion to maintain its leadership in the domestic market.

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Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
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(Figures in Rs mn, except per share data)

(FY07-09E)

Net Sales	5,788	7,991	12,058	15,167	18,834	25.0%
EBITDA	322	1,146	1,461	2,245	3,126	46.3%
Net Profit	(75)	116	467	1,025	1,523	80.6%

Margins(%)

EBITDA	5.6%	14.3%	12.1%	14.8%	16.6%
NPM	(1.3%)	1.5%	3.9%	6.8%	8.1%

Per Share Data (Rs.)

EPS	(0.4)	0.5	2.2	4.7	7.0	80.6%
PER (x)	NM	278.1x	159.8x	72.8x	49.0x	

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