Global Consumer Staples

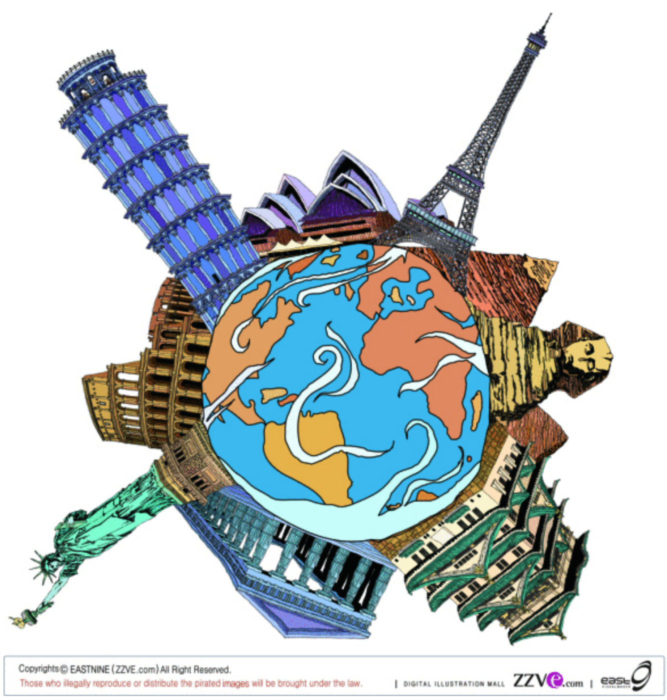
How to Play the Global Growth Gap

- Industry Overview

- **For Consumer Staples Companies, Faster Growth Is Coming from Emerging Markets** — We suspect that for just about every Consumer Staples company, faster growth is coming from the emerging markets as opposed to the developed markets. Looking forward, we suspect this trend will continue, if not accelerate. Indeed, with 55% of the world's GDP growth and 95% of population growth globally coming from emerging markets in Asia, Africa, Latin America, and Eastern Europe over the next 15 years, our companies are keenly focused on shifting their geographic mix to take advantage of the "gap" in growth rates between emerging and developed markets.

- **This Report Highlights the Top Picks from Our Team around the World** — In pulling together the collective research resources of the Citi Global Consumer Staples team, we evaluated an array of both emerging and developed markets to try to assess which categories were growing fastest where, and which companies stand to benefit the most from the outsized growth in emerging markets.

Figure 1. This Report Highlights the Top Picks from Our Team around the World



Source: Getty Images and Citi Research

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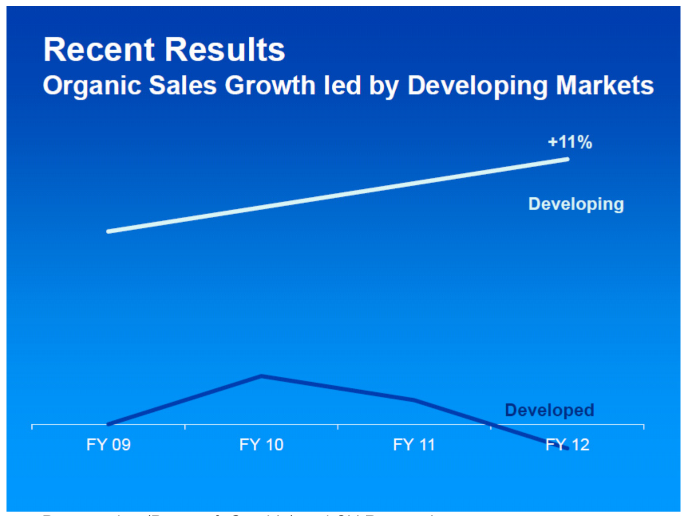
Why Did We Write This Note?

A Picture Tells a Thousand Words

Procter & Gamble (PG) recently used the following chart to describe its growth over the last few years. While PG may be suffering in developed markets more so than some of its competitors owing to company-specific issues, we nonetheless suspect that for just about every Consumer Staples company, faster growth is coming from the emerging markets as opposed to the developed markets.

Figure 2. A Picture Tells a Thousand Words (While This Is Specific to PG, We Think Trends Are Similar for Many Consumer Staples Companies)



Source: Company Presentation (Procter & Gamble) and Citi Research

Looking forward, we suspect this trend will continue, if not accelerate. Indeed, McKinsey estimates that by 2027, 55% of the world's GDP growth and 95% of population growth globally will come from emerging markets in Asia, Africa, Latin America, and Eastern Europe. To be sure, many of our companies have been able to generate robust rates of top line growth in recent years in emerging markets owing to (i) strong economic growth in these countries, (ii) increasing per capita penetration / usage of consumer staples products by consumers in these markets and (iii) broadening geographic distribution of branded consumer staples products within these regions. And importantly, with Consumer Staples companies often realizing lower-than-average manufacturing, labor and media costs in these regions, they have, for the most part, been able to generate at least corporate average, and often greater-than-corporate average, operating margins in emerging markets.

Interestingly, while the multi-national companies are moving quickly to try to shift their revenue mix from being mature-market-centric to emerging-market-centric, in many markets, there exists strong local competition. Indeed, as EL's CEO Fabrizio Freda recently stated: "In Asia, we have very strong competitors. First of all, in Asia at this moment, there is all the international companies are investing a lot and putting a lot of focus. So, our traditional global competitors like L'Oréal, as you know, a very active and very strong in Asia as well. On top of that, many local competitors are very strong in Asia…So, we are very conscious that we have very tough competition. I believe this is one of the toughest competitive environments in the world because it's a combination of some strong local competitors and the focus of all international competitors."

In pulling together the collective research resources of the Citi Global Consumer Staples team, we evaluated an array of both emerging and developed markets to try to assess which categories were growing fastest where, and which companies stand to benefit from the outsized growth in emerging markets. The markets and categories that we analyzed are summarized below.

Figure 3. The Data Supporting Our Analysis

				2011 Category Sales (in U.S. $ mm)				2011 Volumes (in bn of Sticks)
Country	GDP (U.S. $ at PPP in bn) (1)	Real GDP Growth (1)	Population (in mm) (1)	Non-Alcoholic Beverages	Alcoholic Beverages	Food	Home and Personal Care	Tobacco
EMERGING								
China	11,440	9%	1,343	$46,792	$142,508	$110,520	$30,411	2,465
India	4,515	7%	1,205	3,796	37,014	20,167	10,116	111
Indonesia	1,139	7%	248	5,384	1,577	13,415	3,657	294
Russia	2,414	4%	138	12,355	61,768	69,313	11,524	375
Turkey	1,087	9%	80	4,214	10,633	30,953	3,456	91
Brazil	2,324	3%	206	23,478	66,872	97,799	30,988	93
Mexico	1,683	4%	115	25,275	29,669	60,101	9,040	34
Venezuela	379	4%	28	6,453	14,109	12,544	4,341	NA
DEVELOPED								
France	2,246	2%	66	11,471	68,043	75,544	12,599	54
Germany	3,139	3%	81	17,977	72,381	82,891	13,907	84
Italy	1,871	0%	61	7,358	35,609	67,451	9,860	85
Spain	1,432	1%	47	7,297	35,026	37,763	7,748	61
U.K.	2,290	1%	63	14,622	70,230	71,877	13,253	44
Australia	926	2%	22	8,362	25,322	32,941	5,208	20
Japan	4,497	-1%	127	68,688	108,628	132,647	42,766	195
U.S.	15,290	2%	314	93,570	177,422	287,106	45,134	293
TOTALS								
Emerging	24,981	7%	3,363	127,749	364,150	414,812	103,532	3,463
Developed	31,691	1%	782	229,347	592,663	788,222	150,476	837
Total	56,672	4%	4,145	357,095	956,813	1,203,034	254,007	4,300

1) 2011 estimate.

Note: For Totals, Real GDP Growth is a weighted average.

Source: CIA World Factbook, Euromonitor, FactSet, and Citi Research

Our Favorite Names for the Global Growth Gap

In this report, we examine each of the major Consumer Staples industries on a global basis, and have selected the following stocks as a way to “play” the global growth gap.

Figure 4. On the Following Pages, We Dive into Our Favorite Names – Here’s a Preview

Industry	Region/Country	Company	Analyst
Beverages - Non-Alcoholic			
	U.S.	The Coca-Cola Company	Wendy Nicholson
	Latin America	Arca-Contal	Alexander Robarts
	China	Mengniu Dairy	Jasmine Bai
	India	GlaxoSmithKline Consumer	Aditya Mathur
Beverages - Alcoholic			
	U.S.	Brown-Forman	Vivien Azer
	Europe	Pernod	Andrea Pistacchi
	Turkey	Anadolu Efes	Mehmet Colakoglu
	Latin America	AmBev	Alexander Robarts
	China	China Resources Enterprise	Jasmine Bai
Food			
	U.S.	Heinz	David Driscoll
	Europe	Danone	Robert Dickinson
	China	Want Want	Jasmine Bai
	Korea	Hyundai Green Food	Ally Park
Home and Personal Care			
	U.S.	Procter & Gamble	Wendy Nicholson
	Japan	Kao	Nobuyoshi Miura
	China	Hengan International	Jasmine Bai
	India	Dabur	Jamshed Dadabhoy
Tobacco			
	U.S.	Reynolds American	Vivien Azer
	Japan	Japan Tobacco	Nobuyoshi Miura

Note: Please see our Valuations and Risks for these companies beginning on page 62.

Source: Citi Research

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Who We Are

Figure 5. Analysts Who Contributed to This Report

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Source: Citi Research

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A Comment on the Euromonitor Data

Euromonitor's research method is built on a combination of specialist industry knowledge and in-country research expertise. According to Euromonitor, this approach is what enables the firm to build a market consensus view of size, shape and trends across the full distribution universe of each category. Euromonitor factors in whichever channels are relevant, ranging from large-scale grocery to direct sellers, from discount stores to local mom-and-pop outlets, and includes drug stores and department stores where appropriate.

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Beverages – Non-Alcoholic

Figure 6. Emerging Market Non-Alcoholic Beverages Category Trends

		Sales in U.S. $ (mm)	YoY Change in Sales (Local Currency)			
Country	Category	2011	2009/2008	2010/2009	2011/2010	CAGR
China	Bottled Water	7,802	13.0%	15.8%	17.4%	15.4%
	Carbonates	7,952	7.0%	3.0%	16.4%	8.6%
	Cola Carbonates	3,924	3.1%	3.3%	16.4%	7.4%
	Regular Cola Carbonates	3,791	2.8%	3.0%	16.4%	7.2%
	Low Calorie Cola Carbonates	133	12.6%	12.3%	15.9%	13.6%
	Non-Cola Carbonates	4,028	11.1%	2.6%	16.3%	9.9%
	Concentrates	251	3.7%	8.3%	7.4%	6.5%
	Fruit/Vegetable Juice	15,931	12.4%	14.0%	16.4%	14.3%
	RTD Coffee	324	12.5%	17.5%	20.0%	16.6%
	RTD Tea	13,061	18.3%	17.3%	22.3%	19.3%
	Energy Drinks	628	8.7%	13.5%	13.0%	11.7%
	Sports Drinks	843	4.6%	8.3%	12.6%	8.5%
India	Bottled Water	1,411	24.8%	38.7%	32.9%	32.0%
	Carbonates	1,363	19.2%	13.4%	12.1%	14.8%
	Cola Carbonates	562	23.9%	13.8%	10.4%	15.9%
	Regular Cola Carbonates	551	23.9%	13.8%	10.3%	15.9%
	Low Calorie Cola Carbonates	11	22.9%	12.7%	12.9%	16.1%
	Non-Cola Carbonates	801	16.0%	13.1%	13.3%	14.1%
	Concentrates	90	9.0%	14.6%	9.1%	10.9%
	Fruit/Vegetable Juice	868	29.0%	25.6%	27.3%	27.3%
	RTD Coffee	-	NA	NA	NA	NA
	RTD Tea	13	23.2%	37.2%	19.6%	26.4%
	Energy Drinks	41	55.7%	44.5%	39.1%	46.3%
	Sports Drinks	10	37.0%	71.6%	52.8%	53.1%
Indonesia	Bottled Water	1,769	14.3%	12.0%	13.4%	13.2%
	Carbonates	822	12.3%	10.9%	12.2%	11.8%
	Cola Carbonates	252	14.3%	12.2%	9.8%	12.1%
	Regular Cola Carbonates	210	13.1%	11.3%	9.4%	11.3%
	Low Calorie Cola Carbonates	42	20.5%	17.0%	12.1%	16.5%
	Non-Cola Carbonates	570	11.5%	10.4%	13.2%	11.7%
	Concentrates	760	11.8%	11.8%	9.7%	11.1%
	Fruit/Vegetable Juice	146	12.1%	14.9%	24.8%	17.2%
	RTD Coffee	24	19.7%	20.3%	22.7%	20.9%
	RTD Tea	1,215	17.4%	15.1%	11.3%	14.6%
	Energy Drinks	253	6.5%	7.3%	8.5%	7.4%
	Sports Drinks	395	26.0%	18.1%	19.9%	21.3%
Turkey	Bottled Water	1,658	12.1%	8.8%	7.5%	9.4%
	Carbonates	1,457	0.5%	2.1%	3.2%	1.9%
	Cola Carbonates	952	-1.5%	0.4%	1.7%	0.2%
	Regular Cola Carbonates	855	-2.6%	-0.6%	1.0%	-0.8%
	Low Calorie Cola Carbonates	97	12.6%	10.7%	8.4%	10.5%
	Non-Cola Carbonates	505	4.7%	5.5%	6.2%	5.5%
	Concentrates	29	-2.6%	-3.3%	-3.6%	-3.2%
	Fruit/Vegetable Juice	627	8.8%	9.9%	7.6%	8.7%
	RTD Coffee	-	NA	NA	NA	NA
	RTD Tea	89	13.3%	16.2%	14.4%	14.6%
	Energy Drinks	348	21.2%	20.4%	18.4%	20.0%
	Sports Drinks	7	1.7%	1.7%	2.5%	1.9%
Brazil	Bottled Water	2,751	12.4%	14.2%	17.3%	14.6%
	Carbonates	13,565	11.4%	19.0%	15.4%	15.2%
	Cola Carbonates	8,968	12.5%	21.2%	16.9%	16.8%
	Regular Cola Carbonates	7,504	12.0%	21.4%	16.4%	16.5%
	Low Calorie Cola Carbonates	1,464	15.6%	19.9%	19.9%	18.5%
	Non-Cola Carbonates	4,597	9.5%	15.1%	12.4%	12.3%
	Concentrates	2,635	9.0%	10.6%	13.1%	10.9%
	Fruit/Vegetable Juice	2,878	12.1%	18.6%	18.2%	16.3%
	RTD Coffee	3	40.0%	71.4%	20.8%	42.6%
	RTD Tea	305	17.1%	17.1%	20.1%	18.1%
	Energy Drinks	981	69.1%	55.6%	43.3%	55.6%
	Sports Drinks	359	26.1%	24.8%	21.1%	24.0%
Mexico	Bottled Water	5,860	21.9%	12.9%	19.7%	18.1%
	Carbonates	13,833	13.0%	10.0%	12.0%	11.7%
	Cola Carbonates	10,490	13.5%	11.9%	13.3%	12.9%
	Regular Cola Carbonates	9,500	13.4%	10.5%	13.2%	12.4%
	Low Calorie Cola Carbonates	990	15.1%	27.7%	13.9%	18.7%
	Non-Cola Carbonates	3,343	11.5%	4.6%	8.2%	8.1%
	Concentrates	1,943	23.6%	0.2%	2.8%	8.4%
	Fruit/Vegetable Juice	2,384	11.8%	9.8%	10.4%	10.7%
	RTD Coffee	129	12.2%	0.1%	9.8%	7.2%
	RTD Tea	213	37.1%	35.2%	25.4%	32.5%
	Energy Drinks	417	18.8%	13.8%	38.3%	23.2%
	Sports Drinks	497	5.7%	16.5%	13.4%	11.8%
Venezuela	Bottled Water	321	45.1%	32.3%	31.5%	36.2%
	Carbonates	3,830	37.6%	24.0%	29.1%	30.1%
	Cola Carbonates	1,229	32.1%	25.5%	32.7%	30.1%
	Regular Cola Carbonates	1,116	32.1%	25.9%	32.8%	30.2%
	Low Calorie Cola Carbonates	113	32.2%	22.0%	32.2%	28.7%
	Non-Cola Carbonates	2,601	40.2%	23.3%	27.4%	30.1%
	Concentrates	423	61.4%	53.4%	58.8%	57.8%
	Fruit/Vegetable Juice	1,347	46.7%	36.1%	32.4%	38.3%
	RTD Coffee	-	NA	NA	NA	NA
	RTD Tea	104	50.1%	25.2%	30.2%	34.7%
	Energy Drinks	150	75.0%	48.3%	36.4%	52.4%
	Sports Drinks	279	42.8%	36.0%	28.6%	35.7%
Russia	Bottled Water	3,214	-5.5%	26.7%	15.4%	11.4%
	Carbonates	3,515	-8.1%	28.1%	10.4%	9.2%
	Cola Carbonates	2,005	-8.6%	31.2%	15.5%	11.5%
	Regular Cola Carbonates	1,925	-9.0%	31.7%	15.5%	11.4%
	Low Calorie Cola Carbonates	79	2.4%	18.8%	15.6%	12.0%
	Non-Cola Carbonates	1,510	-7.4%	24.5%	4.4%	6.4%
	Concentrates	80	13.7%	8.9%	14.4%	12.3%
	Fruit/Vegetable Juice	4,569	-9.0%	18.0%	11.7%	6.3%
	RTD Coffee	6	-37.3%	-24.4%	9.7%	-19.6%
	RTD Tea	460	-8.0%	12.3%	17.8%	6.7%
	Energy Drinks	483	-13.2%	12.0%	18.6%	4.9%
	Sports Drinks	29	7.2%	7.1%	16.3%	10.1%

Note: Data is "off-trade," i.e., represents sales through retail outlets.

Source: Euromonitor, FactSet and Citi Research

Figure 7. Developed Market Non-Alcoholic Beverages Category Trends

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
France	Bottled Water	3,952	1.3%	0.1%	2.4%	1.3%
	Carbonates	3,282	4.0%	4.2%	4.7%	4.3%
	Cola Carbonates	2,564	4.1%	4.7%	5.1%	4.6%
	Regular Cola Carbonates	1,777	4.0%	4.0%	4.4%	4.1%
	Low Calorie Cola Carbonates	787	4.2%	6.4%	6.6%	5.7%
	Non-Cola Carbonates	718	3.7%	2.6%	3.5%	3.3%
	Concentrates	662	9.0%	1.0%	2.9%	4.3%
	Fruit/Vegetable Juice	3,077	6.4%	3.6%	4.4%	4.8%
	RTD Coffee	13	0.0%	1.1%	3.4%	1.5%
	RTD Tea	215	0.9%	6.4%	9.9%	5.7%
	Energy Drinks	260	36.2%	10.9%	9.7%	18.3%
	Sports Drinks	10	5.0%	6.3%	4.5%	5.3%
Germany	Bottled Water	5,291	2.0%	1.6%	1.3%	1.6%
	Carbonates	5,719	1.4%	2.4%	4.0%	2.6%
	Cola Carbonates	3,210	5.2%	3.4%	5.4%	4.7%
	Regular Cola Carbonates	1,855	-3.0%	0.9%	2.3%	0.1%
	Low Calorie Cola Carbonates	1,355	21.0%	7.4%	10.0%	12.6%
	Non-Cola Carbonates	2,510	-2.9%	1.1%	2.3%	0.2%
	Concentrates	236	-2.0%	-1.5%	-1.3%	-1.6%
	Fruit/Vegetable Juice	4,358	-5.8%	-2.1%	0.6%	-2.5%
	RTD Coffee	385	4.8%	12.0%	11.7%	9.5%
	RTD Tea	569	1.6%	3.5%	4.0%	3.0%
	Energy Drinks	1,019	30.6%	19.3%	17.6%	22.4%
	Sports Drinks	400	-2.4%	-3.1%	-0.7%	-2.1%
Italy	Bottled Water	2,827	1.4%	0.9%	2.7%	1.7%
	Carbonates	2,116	2.7%	2.2%	3.3%	2.7%
	Cola Carbonates	1,185	4.3%	3.3%	4.4%	4.0%
	Regular Cola Carbonates	1,003	4.2%	3.2%	4.2%	3.9%
	Low Calorie Cola Carbonates	182	5.3%	3.7%	5.2%	4.7%
	Non-Cola Carbonates	931	0.8%	0.9%	1.9%	1.2%
	Concentrates	142	-0.3%	1.5%	2.9%	1.4%
	Fruit/Vegetable Juice	1,495	3.2%	2.1%	2.7%	2.7%
	RTD Coffee	3	5.6%	0.0%	5.3%	3.6%
	RTD Tea	467	6.2%	0.1%	1.7%	2.6%
	Energy Drinks	95	1.1%	4.7%	5.4%	3.7%
	Sports Drinks	214	1.5%	-2.1%	-1.1%	-0.6%
Spain	Bottled Water	2,240	-4.6%	-4.4%	-4.0%	-4.3%
	Carbonates	3,131	-0.5%	-1.9%	-1.2%	-1.2%
	Cola Carbonates	2,146	0.8%	-1.0%	-0.5%	-0.2%
	Regular Cola Carbonates	1,589	1.0%	-1.0%	-0.7%	-0.2%
	Low Calorie Cola Carbonates	557	0.3%	-0.9%	0.1%	-0.2%
	Non-Cola Carbonates	985	-3.2%	-3.9%	-2.9%	-3.3%
	Concentrates	40	-0.4%	-0.7%	0.7%	-0.1%
	Fruit/Vegetable Juice	1,052	0.7%	-0.1%	0.2%	0.3%
	RTD Coffee	19	13.2%	4.7%	3.0%	6.8%
	RTD Tea	133	-3.7%	0.2%	1.1%	-0.8%
	Energy Drinks	151	-7.7%	2.6%	1.6%	-1.3%
	Sports Drinks	532	3.9%	5.8%	4.9%	4.9%

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
U.K.	Bottled Water	2,649	1.0%	3.6%	1.5%	2.0%
	Carbonates	4,755	2.6%	6.1%	2.5%	3.7%
	Cola Carbonates	2,833	1.8%	6.6%	2.8%	3.7%
	Regular Cola Carbonates	1,390	2.5%	4.4%	2.2%	3.0%
	Low Calorie Cola Carbonates	1,443	1.1%	8.7%	3.3%	4.4%
	Non-Cola Carbonates	1,922	3.7%	5.5%	2.2%	3.8%
	Concentrates	1,065	5.4%	3.0%	2.2%	3.5%
	Fruit/Vegetable Juice	4,114	-4.8%	2.1%	-1.1%	-1.3%
	RTD Coffee	18	52.8%	72.7%	21.1%	47.3%
	RTD Tea	18	-4.2%	34.8%	21.5%	16.2%
	Energy Drinks	1,465	6.9%	11.5%	14.5%	10.9%
	Sports Drinks	538	-1.9%	10.5%	8.1%	5.4%
U.S.	Bottled Water	17,597	1.6%	-1.3%	2.2%	0.8%
	Carbonates	39,224	-1.0%	-0.8%	1.7%	-0.1%
	Cola Carbonates	19,452	-1.6%	-3.2%	0.0%	-1.6%
	Regular Cola Carbonates	11,039	-4.6%	-3.8%	-0.8%	-3.1%
	Low Calorie Cola Carbonates	8,413	2.7%	-2.4%	1.0%	0.4%
	Non-Cola Carbonates	19,772	-0.3%	1.7%	3.4%	1.6%
	Concentrates	1,339	5.9%	2.7%	1.0%	3.2%
	Fruit/Vegetable Juice	15,909	-0.7%	-1.2%	-1.9%	-1.3%
	RTD Coffee	1,188	-2.5%	1.3%	4.4%	1.0%
	RTD Tea	3,889	7.9%	9.4%	5.3%	7.5%
	Energy Drinks	7,199	-0.3%	10.0%	13.4%	7.6%
	Sports Drinks	7,224	-11.2%	7.8%	12.3%	2.4%
Japan	Bottled Water	7,309	-1.6%	2.7%	8.8%	3.2%
	Carbonates	8,503	3.1%	2.8%	1.4%	2.5%
	Cola Carbonates	3,295	3.2%	4.6%	0.1%	2.6%
	Regular Cola Carbonates	1,596	-11.8%	0.8%	-3.8%	-5.1%
	Low Calorie Cola Carbonates	1,699	26.9%	8.7%	3.9%	12.8%
	Non-Cola Carbonates	5,208	3.1%	1.7%	2.3%	2.4%
	Concentrates	490	-3.0%	12.2%	-1.5%	2.3%
	Fruit/Vegetable Juice	9,918	-8.9%	2.4%	-0.3%	-2.4%
	RTD Coffee	18,487	-1.5%	6.1%	-2.1%	0.8%
	RTD Tea	17,093	-2.5%	1.1%	-0.7%	-0.7%
	Energy Drinks	2,112	-3.1%	1.9%	-2.9%	-1.4%
	Sports Drinks	4,778	-8.5%	13.8%	0.0%	1.3%
Australia	Bottled Water	881	12.1%	6.3%	4.4%	7.6%
	Carbonates	3,828	0.9%	0.8%	1.9%	1.2%
	Cola Carbonates	2,533	-0.4%	-0.2%	1.0%	0.1%
	Regular Cola Carbonates	1,677	0.9%	0.7%	1.4%	1.0%
	Low Calorie Cola Carbonates	856	-2.7%	-2.0%	0.2%	-1.5%
	Non-Cola Carbonates	1,294	3.7%	2.9%	3.8%	3.4%
	Concentrates	294	1.9%	1.0%	2.0%	1.6%
	Fruit/Vegetable Juice	1,479	1.6%	1.9%	0.7%	1.4%
	RTD Coffee	589	8.0%	7.0%	6.6%	7.2%
	RTD Tea	120	20.5%	18.8%	15.2%	18.2%
	Energy Drinks	725	19.3%	22.0%	21.6%	21.0%
	Sports Drinks	448	4.5%	2.8%	4.6%	4.0%

Note: Data is “off-trade,” i.e., represents sales through retail outlets.

Source: Euromonitor, FactSet and Citi Research

Beverages – Non-Alcoholic: A Few Takeaways from the Data

Comments on Category Size:

- In the eight emerging market countries we analyzed, Carbonated soft drinks was the largest non-alcoholic beverage category in only three countries (in Brazil, Mexico, Venezuela—each by a fairly wide margin).

- The Low Calorie Carbonates craze is largely a developed market phenomenon. Specifically, in no emerging markets other than Indonesia and Brazil does the Low Calorie segment generate more than 15% of Regular Cola sales (its 17% in Indonesia and 16% in Brazil). However, in the U.K. and Japan, the Low Calorie segment is actually larger than the Regular Cola segment.

- The Ready to Drink Coffee category generates less than $100 million in sales in 10 of the countries we tracked, but in Japan, the RTD Coffee category generated $18 billion in sales—just slightly more than the $17 billion of sales for RTD Tea in Japan.

- The Energy Drinks and Sports Drinks categories are more developed in Latin America than they are in Asia or emerging Europe, but overall, these categories are largely undeveloped in emerging markets. Mature markets vary considerably —with the Energy Drinks category roughly 3x the size of the Sports Drinks category in the U.K, both categories nearly even with each other in the U.S., and in Japan, the Sports Drinks category is roughly 2x the size of the Energy Drinks category.

- The Concentrates category includes both liquid (based most commonly on fruit juices; diluted with water before consumption) and powder concentrates (granules and blocks/bars/cubes (also includes powdered ice teas); also diluted with water before consumption). In emerging markets, Concentrates have a three-year CAGR of high single-digits to low teens across-the-board with the exceptions of Venezuela, where the rate is much higher, and Turkey, where the rate is negative. In contrast, Concentrates have grown at a three-year CAGR of mid to low single-digits, to even a slight negative, in all of the developed markets.

- In China, the Non-Cola Carbonates category is bigger than the Cola segment and the Fruit/Vegetable Juice category is larger than the Bottled Water and Carbonated soft drinks categories *combined*. Also in China, the Ready to Drink Tea category is 2x the size of either bottled water or carbonated soft drinks. The RTD Tea category in China is also larger than the total sum of dollar sales for the category in all of the seven other emerging markets AND the seven developed markets we looked at, excluding Japan.

- India is enormously under-developed, as even though its population is more than 15x that of Turkey, sales generated in 2011 in the majority of the categories were higher in Turkey than in India.

- Among the developed markets, the Carbonates market in the U.S. is larger than all of the other seven developed markets we analyzed. However, the RTD Coffee and RTD Tea categories are bigger in Japan than they are in the U.S. (in the case of RTD Tea, by a factor of more than 4x).

Comments on Category Growth:

- While carbonated soft drinks sales growth slowed in most regions in 2010, category growth reaccelerated in 2011 in five out of the eight emerging market regions we tracked. Looking at the developed markets, category growth for carbonated soft drinks accelerated in five out of the eight countries in 2011.

- In China, while Fruit/Vegetable Juice and RTD Tea are already the largest categories, in 2011, they continued to grow strongly, +16% and +22%, respectively.

- In Latin America, despite per capita consumption levels of Carbonates already being at very high levels, the Carbonates category grew double-digits, both in 2011 and on a 3-year CAGR basis, in each of Mexico, Brazil and Venezuela.

- Of all the Latin American countries, Venezuela posted the strongest growth across the non-alcoholic beverage industry—with category growth ranging from a low of 30% for Carbonates to a high of 59% for Concentrates.

- In India, while growth in Energy Drinks and Sports Drinks was strongest on a CAGR basis, these categories remain very small. And, while Fruit/Vegetable Juice and Carbonates each saw strong growth over the last three years (of 27% and 15%, respectively), the Bottled Water segment in India remains the largest beverage category. Further, growth in the Bottled Water segment in India remains robust, +33% in 2011 and +32% over the last three years.

- In Japan, every category posted slower growth in 2011 than it did in 2010, with the exception of bottled water, which category grew 9% in 2011, up from 3% in 2010. We wonder if this isn't in part due to the impact of the tsunami that occurred in March 2011, which disrupted the supply of safe water throughout parts of the country.

- In the developed markets, very few country/category combinations saw double-digit growth in 2011. A few that did: 1) Energy Drinks in Australia, the U.K., Germany, U.S., and France; 2) Low Calorie Carbonates in Germany; 3) RTD Tea in the U.K. and Australia; and 4) RTD Coffee in the U.K. and Germany.

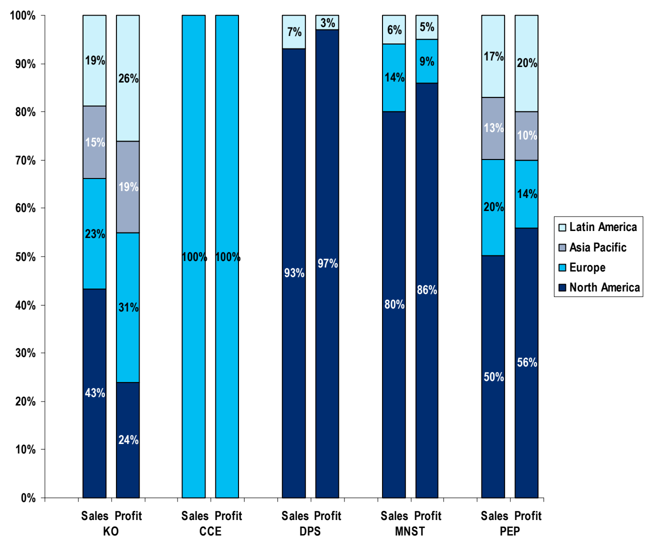
- While growth in Energy Drinks in the U.S. accelerated sequentially in each of 2010 and 2011, the overall 3-year CAGR of 8% is less than the CAGR seen in the Australia, Germany, France, or the U.K. (in each case, to lesser category development). The Energy Drink category has declined in Japan and Spain over the last three years.

U.S. Beverages – Non-Alcoholic

Analyst:
Wendy Nicholson

Of the companies we cover, **both The Coca-Cola Company (KO) and PepsiCo (PEP) have large international operations.**

Figure 8. KO and PEP Are the Most Global of the U.S. Non-Alcoholic Beverage Companies



Source: Company Reports and Citi Research

Figure 9. KO: Our Favorite Non-Alcoholic Beverage Play on the Global Growth Gap

Local Currency Sales Growth	2010-2011
KO - Total Company	**6.9%**
Eurasia & Africa	19.4%
Europe	-0.8%
Latin America	12.6%
North America	7.2%
Pacific	9.6%
Bottling Investments	1.2%
Segment Operating Margin	**2011**
KO - Total Company	**23.7%**
Eurasia & Africa	38.8%
Europe	56.9%
Latin America	60.1%
North America	13.7%
Pacific	38.3%
Bottling Investments	3.9%

Note: North America sales are pro forma for the CCE transaction.

Source: Company Reports and Citi Research

KO (KO.N; US$38.44; 1) is our favorite play on the global growth gap owing not only to its large size in many of the fastest-growing markets but also due to its strong local currency sales growth and profit margins in many of the faster-growing markets (as shown above in Figure 8). One factor that helps KO compete more effectively in these markets than its competitors is the breadth of its product offering (as KO is a player not only in the Carbonates category but also in the RTD Coffee, RTD Tea, Juice, and Bottled Water segments). KO benefits in particular in several large emerging markets from both its strong bottler relationships as well as its first-mover advantage (as KO entered Latin America earlier and in a bigger way than PEP did, and as a result, commands very strong market shares and in turn, very high profit margins, in those Latin American markets where per capita consumption levels are very high).

In terms of PEP, the second-largest drinks company we cover, the company has become more aggressive with respect to its international expansion strategy over the last few years, both by acquiring Wimm-Bill-Dann in 2010 (a large Russian juice, dairy and baby food company) and entering into a joint venture with Tingyi in 2012 (a move designed to boost PEP's distribution presence in China). Hopefully, in coming years, PEP will be able to expand its presence in these markets and in doing so, benefit from the stronger growth that is generated in these emerging markets. **However, for now, we prefer KO over PEP as a way to play the faster growth in the emerging markets in the non-alcoholic beverages category.**

Latin America Beverages – Non-Alcoholic

Analyst:
Alexander Robarts

Arca-Contal (AC.MX; P$89.88; 1) is our best pick in our Latin American non-alcoholic beverages category. As the fourth largest Coke bottler in the world, AC is not only one of two Latam beverage stocks (the other is Grupo Modelo) that has achieved operating leverage in 1H12, but has the best prospects for posting ongoing consolidated margin expansion in 2H12 and 2013, helped by net merger-related operating synergies. We expect these synergies (totaling US$111 million) to have a 13% boost to AC's pro forma annual EBITDA, which is the biggest impact on EBITDA among the five Latam beverage companies with deal-related synergies. We are bullish on these synergies because we assign low execution risk and since only 20% have been achieved. For more details, please refer to our recent initiation report, entitled "Beverage Sector – Initiation of Coverage - In Search of Operating Leverage…" and published July 20, 2012.

Figure 10. Recent Latam Acquisitions in the Beverage Sector (2012E-2014E Synergies)

Acquirer	Target	Expected Synergies 2012 (US$M)	As a % of 2012E EBITDA [a]	Expected Synergies 2013/2014 (US$M)
AmBev	CND	40	0.5%	30
Andina	Polar	0	3%	30
Arca	Contal	70	13%	41
Concha y Toro	Fetzer Vineyards	4	3%	4
KOF	Tampico / CIMSA / Queretaro	39	4%	26

Source: Citi Research

In addition, AC derives almost 40% of its consolidated EBITDA from northern Mexico, which is home to the country's export-led manufacturing recovery. As such, AC offers a direct consumer play on one of the most dynamic regions of Latin America. The 2Q12 results highlight the more robust consumption growth in AC's franchise territory versus KOF's central Mexico franchise territory. Both bottlers increased average selling prices per unit case 7% YoY. KOF's Mexico and Central American organic volumes fell 1%, while AC's Mexican organic volumes grew 1.7% YoY. The northern Mexican states have the highest per-capita soft drink levels in the country, and we see faster-than-expected volume growth in 2H12 as an upside risk to our earnings estimates.

In South America, Arca operates in a highly profitable and rapidly growing Ecuadorean franchise and Argentina, which faces a challenging operating environment. Ecuador is AC's most profitable franchise territory with an EBITDA margin of almost 20%. This reflects Ecuador's highly fragmented market, a high market share, and young populations coupled with still low per-capita soft drink levels. While Argentina is a concern, we note that AC has boosted its Argentina EBITDA margin levels by more than 500bps to just under 16% since it acquired that franchises in 2008. This level of EBITDA margin is the highest among the three publicly-listed Coke bottlers operating in Argentina.

Asia Pacific Beverages – Non-Alcoholic

Analysts:
Eddie Lau
Jasmine Bai
Aditya Mathur

Mengniu Dairy (2319.HK; HK$23.50; 1) and GlaxoSmithKline Consumer (GLSM.BO; Rs2,918.05; 1) are two of the key picks in the Asia Pacific non-alcoholic beverage category. Key issue facing the China liquid milk sector is the supply of quality raw milk. Mengniu, under a new CEO installed by its major shareholder COFCO, plans to focus on products SKU, restructure distribution and improve quality control through investment in cattle farms. Its 1H12 results, where core earnings dropped 12% YoY and were in line with our estimate, showed a clear trend of product mix upgrade. We forecast sales in 2H12 to show YoY growth with steady gross margin. While we expect the company to spend more for better quality raw milk and branding, we forecast 17% EPS CAGR FY11-14E. Currently 84%-85% of Mengniu's raw milk comes from large scale farms. It plans to invest Rmb3-3.5bn by 2015 to build six 100%-owned ranches and to take minority stakes in others.

GSK Consumer is the market leader in the malted food drinks market in India with around 65%-70% market share. Its key brand, Horlicks, which contributes around 65%-70% of group revenue, has successfully transitioned from being perceived as a milk substitute to a milk additive / modifier. Its strategies of (a) multiple line extensions, (b) product renovation, (c) product upgrade, (d) targeted and clinically researched advertising, and (e) distribution expansion are drivers of mid- to high-teens revenue growth over the medium term. Its 2QCY12 profits beat estimates on stronger than expected 380bps improvement in gross margin from product mix and benign input cost, while revenue was up 13% YoY. We forecast EPS CAGR of 18.7% FY11-14E.

The beverage market in China continues to be very dynamic. RTD tea, which has the highest ASP and is the most profitable beverage product, continues to lose market share to other smaller categories. This has a negative impact to both sales value and margin of RTD tea leader Tingyi. Excluding contribution from PepsiCo Bottling, Tingyi's beverage sales fell 5% YoY in 2Q12 from a 27% decline in RTD tea sales. While we expect YoY growth trend should start to improve in 3Q12 on low RTD tea base, we are still cautious on the beverage segment unless we see consumers shifting back to RTD tea or other high ASP/margin products. PepsiCo bottling losses improved in 2Q12 from 1Q12, and we expect profits in 3Q12 on high season but back to losses in 4Q12. We hold the view that margin upside will be limited for the bottling business and sales upside is the key.

Compared to Tingyi, Want Want's beverage performance was surprisingly strong in 1H12, up 28% YoY. This was driven by strong growth of 'Hot-Kid milk' and flavored milk rose to 89.1% of Want Want's 1H12 beverage revenue, up from 85.7% in 1H11. The 10% ASP hike seems to have no significant impact to volume so far. Want Want should see better gross margin for its beverage segment in 2H12 on falling milk powder cost. Uni-President China's milk tea revenue grew 91% YoY in 1H12 and accounted for 30% of its beverage segment EBIT. Its RTD tea sales were flat but momentum on its peer juice is still strong. Growth in milk tea sales will slow in FY13 and we like to see new products to drive sales. Its RTD coffee and mid- to high-end bottled water are still too small to be meaningful to its total beverage earnings.

Beverages – Alcoholic

Figure 11. Emerging Market Alcoholic Beverages Category Trends

Country	Category	Sales in U.S. $ (mm)	YoY Change in Sales (Local Currency)			
		2011	2009/2008	2010/2009	2011/2010	CAGR
China	Beer	55,636	7.8%	11.2%	11.4%	10.1%
	Wine	33,150	16.5%	20.6%	21.9%	19.6%
	Spirits	53,722	6.7%	14.4%	13.2%	11.4%
	Brandy and Cognac	5,290	13.1%	18.3%	17.9%	16.4%
	Rum	55	16.9%	10.8%	10.1%	12.6%
	Whiskies	2,296	-18.7%	24.0%	18.1%	6.0%
	Bourbon / Other U.S. Whiskey	242	6.8%	1.4%	20.0%	9.1%
	Blended Scoth Whiskey	1,962	-22.7%	28.3%	18.3%	5.5%
	Vodka	141	1.7%	3.2%	3.4%	2.8%
	Tequila and Mezcal	18	13.4%	14.3%	14.8%	14.1%
	Other Spirits	45,922	7.6%	13.7%	12.4%	11.2%
India	Beer	5,525	15.9%	19.2%	19.2%	18.1%
	Wine	264	4.9%	13.0%	9.1%	9.0%
	Spirits	31,225	12.2%	13.7%	17.7%	14.5%
	Brandy and Cognac	3,777	17.0%	15.6%	26.2%	19.5%
	Rum	4,332	8.2%	11.1%	14.4%	11.2%
	Whiskies	21,689	12.2%	13.8%	16.9%	14.3%
	Bourbon / Other U.S. Whiskey	NA	NA	NA	NA	NA
	Blended Scoth Whiskey	592	19.6%	27.1%	24.3%	23.6%
	Vodka	1,072	24.5%	23.1%	26.2%	24.6%
	Tequila and Mezcal	NA	NA	NA	NA	NA
	Other Spirits	356	0.4%	2.5%	1.8%	1.6%
Indonesia	Beer	1,307	6.0%	27.1%	3.3%	11.6%
	Wine	227	15.8%	37.5%	11.1%	20.9%
	Spirits	43	7.1%	14.0%	2.9%	7.9%
	Brandy and Cognac	7	8.2%	17.3%	21.0%	15.3%
	Rum	1	0.0%	4.8%	3.4%	2.7%
	Whiskies	9	4.5%	11.0%	4.8%	6.7%
	Bourbon / Other U.S. Whiskey	3	2.9%	8.8%	5.1%	5.6%
	Blended Scoth Whiskey	5	8.0%	13.0%	5.2%	8.7%
	Vodka	2	4.6%	12.3%	5.5%	7.4%
	Tequila and Mezcal	2	4.9%	14.1%	8.9%	9.2%
	Other Spirits	22	8.5%	14.8%	-3.3%	6.4%
Turkey	Beer	6,430	1.4%	2.3%	2.1%	1.9%
	Wine	1,397	-3.0%	-2.2%	0.0%	-1.8%
	Spirits	2,806	6.3%	0.5%	0.4%	2.3%
	Brandy and Cognac	32	-6.4%	-4.4%	-3.6%	-4.8%
	Rum	48	-7.0%	-8.1%	-6.5%	-7.2%
	Whiskies	226	-3.7%	0.3%	-0.3%	-1.3%
	Bourbon / Other U.S. Whiskey	29	-1.4%	-0.6%	0.0%	-0.7%
	Blended Scoth Whiskey	192	-2.2%	0.5%	-0.3%	-0.7%
	Vodka	550	27.2%	10.8%	9.2%	15.4%
	Tequila and Mezcal	9	-1.9%	0.0%	0.0%	-0.6%
	Other Spirits	1,941	4.4%	-1.5%	-1.6%	0.4%

Country	Category	Sales in U.S. $ (mm)	YoY Change in Sales (Local Currency)			
		2011	2009/2008	2010/2009	2011/2010	CAGR
Brazil	Beer	45,028	13.0%	15.1%	21.7%	16.5%
	Wine	6,515	29.4%	6.3%	19.6%	18.1%
	Spirits	15,330	2.7%	6.1%	9.4%	6.0%
	Brandy and Cognac	892	-4.2%	10.4%	7.7%	4.4%
	Rum	385	-3.4%	2.6%	12.5%	3.7%
	Whiskies	2,413	-1.4%	14.2%	20.1%	10.6%
	Bourbon / Other U.S. Whiskey	11	20.9%	11.5%	19.4%	17.2%
	Blended Scoth Whiskey	1,869	-2.0%	18.0%	23.6%	12.7%
	Vodka	2,460	8.0%	7.8%	19.0%	11.5%
	Tequila and Mezcal	25	12.2%	19.0%	21.1%	17.3%
	Other Spirits	9,154	3.3%	3.7%	4.7%	3.9%
Mexico	Beer	21,400	5.6%	3.9%	10.0%	6.5%
	Wine	1,425	2.0%	12.5%	10.3%	8.2%
	Spirits	6,844	0.6%	8.9%	6.6%	5.3%
	Brandy and Cognac	978	-0.6%	-1.7%	5.8%	1.1%
	Rum	704	-1.1%	1.8%	4.8%	1.8%
	Whiskies	1,290	19.3%	51.1%	13.0%	26.8%
	Bourbon / Other U.S. Whiskey	44	20.2%	22.4%	12.5%	18.3%
	Blended Scoth Whiskey	1,233	19.4%	52.5%	13.1%	27.2%
	Vodka	488	1.0%	4.0%	7.4%	4.1%
	Tequila and Mezcal	3,109	-2.8%	4.9%	4.9%	2.2%
	Other Spirits	275	0.3%	-4.0%	4.1%	0.1%
Venezuela	Beer	9,154	36.7%	32.1%	34.2%	34.3%
	Wine	381	31.5%	50.8%	17.9%	32.7%
	Spirits	4,575	44.8%	47.1%	35.8%	42.5%
	Brandy and Cognac	88	33.1%	33.3%	34.9%	33.8%
	Rum	898	38.1%	124.5%	47.5%	66.0%
	Whiskies	2,592	40.7%	37.3%	29.8%	35.9%
	Bourbon / Other U.S. Whiskey	0	22.2%	27.3%	21.4%	23.6%
	Blended Scoth Whiskey	2,503	39.9%	36.8%	29.6%	35.4%
	Vodka	115	81.7%	43.5%	52.4%	58.4%
	Tequila and Mezcal	11	45.8%	46.0%	37.0%	42.9%
	Other Spirits	872	62.0%	34.2%	41.7%	45.5%
Russia	Beer	28,436	8.7%	10.8%	10.2%	9.9%
	Wine	11,265	4.0%	23.5%	7.5%	11.4%
	Spirits	22,067	-2.1%	2.5%	11.5%	3.8%
	Brandy and Cognac	5,117	0.8%	0.2%	12.2%	4.3%
	Rum	167	-8.5%	20.2%	10.2%	6.6%
	Whiskies	1,303	-5.7%	41.5%	17.8%	16.3%
	Bourbon / Other U.S. Whiskey	63	-3.6%	13.0%	9.7%	6.1%
	Blended Scoth Whiskey	1,070	-6.3%	47.1%	18.6%	17.8%
	Vodka	14,023	-2.5%	-0.4%	11.2%	2.6%
	Tequila and Mezcal	181	-7.4%	18.9%	12.0%	7.2%
	Other Spirits	1,275	-5.3%	13.2%	7.1%	4.7%

Source: Euromonitor, FactSet and Citi Research

Figure 12. Developed Market Alcoholic Beverages Category Trends

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
France	Beer	9,569	0.7%	-0.7%	1.5%	0.5%
	Wine	35,086	-1.5%	2.0%	2.0%	0.8%
	Spirits	23,388	2.9%	2.4%	2.5%	2.6%
	Brandy and Cognac	329	-5.8%	1.5%	0.6%	-1.3%
	Rum	1,724	8.1%	4.3%	4.1%	5.5%
	Whiskies	7,636	3.6%	3.6%	3.4%	3.5%
	Bourbon / Other U.S. Whiskey	355	4.4%	3.1%	3.2%	3.6%
	Blended Scoth Whiskey	6,175	4.1%	3.8%	3.5%	3.8%
	Vodka	1,723	15.4%	13.2%	13.0%	13.9%
	Tequila and Mezcal	113	13.2%	3.8%	3.3%	6.7%
	Other Spirits	11,863	0.8%	0.2%	0.3%	0.5%
Germany	Beer	34,521	-0.5%	-2.7%	-1.8%	-1.7%
	Wine	17,469	1.1%	1.0%	1.6%	1.2%
	Spirits	20,391	-1.5%	-0.9%	0.5%	-0.6%
	Brandy and Cognac	2,997	-5.4%	-4.8%	-3.9%	-4.7%
	Rum	1,130	0.8%	1.6%	3.0%	1.8%
	Whiskies	2,117	-0.7%	-0.2%	1.1%	0.1%
	Bourbon / Other U.S. Whiskey	733	2.5%	2.8%	3.1%	2.8%
	Blended Scoth Whiskey	842	-3.6%	-2.7%	-1.2%	-2.5%
	Vodka	1,634	3.2%	3.2%	4.3%	3.6%
	Tequila and Mezcal	296	0.2%	1.7%	2.7%	1.5%
	Other Spirits	12,217	-1.3%	-0.7%	0.9%	-0.4%
Italy	Beer	10,566	-4.1%	0.8%	3.9%	0.1%
	Wine	18,213	-2.3%	-4.9%	-0.9%	-2.7%
	Spirits	6,830	-3.7%	-1.2%	-0.4%	-1.8%
	Brandy and Cognac	329	-6.9%	-5.9%	-5.0%	-5.9%
	Rum	961	-2.2%	-0.6%	-0.4%	-1.1%
	Whiskies	436	-8.7%	-7.2%	-5.6%	-7.2%
	Bourbon / Other U.S. Whiskey	140	-6.4%	-6.8%	-6.7%	-6.6%
	Blended Scoth Whiskey	183	-11.3%	-9.2%	-5.9%	-8.8%
	Vodka	287	-0.4%	2.1%	1.2%	1.0%
	Tequila and Mezcal	58	-4.6%	-4.0%	-3.4%	-4.0%
	Other Spirits	4,759	-3.4%	-0.4%	0.4%	-1.2%
Spain	Beer	19,478	-4.9%	-2.4%	-1.3%	-2.9%
	Wine	6,429	-3.4%	-5.0%	-3.8%	-4.1%
	Spirits	9,119	-4.4%	-4.3%	-2.9%	-3.9%
	Brandy and Cognac	754	-4.9%	-4.2%	-3.9%	-4.3%
	Rum	1,714	-0.7%	-2.3%	-1.2%	-1.4%
	Whiskies	3,024	-5.6%	-6.4%	-4.6%	-5.6%
	Bourbon / Other U.S. Whiskey	122	-4.4%	-3.3%	-2.4%	-3.4%
	Blended Scoth Whiskey	2,382	-5.7%	-7.0%	-5.0%	-5.9%
	Vodka	439	0.7%	-2.8%	-1.0%	-1.0%
	Tequila and Mezcal	71	-1.9%	-1.4%	0.0%	-1.1%
	Other Spirits	3,118	-5.6%	-3.5%	-2.1%	-3.8%

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
U.K.	Beer	30,476	-3.5%	-0.2%	-0.2%	-1.3%
	Wine	22,240	3.4%	2.4%	4.5%	3.4%
	Spirits	17,515	1.3%	2.2%	3.0%	2.2%
	Brandy and Cognac	1,139	1.0%	1.1%	1.0%	1.0%
	Rum	1,613	3.0%	2.6%	4.2%	3.2%
	Whiskies	5,322	0.6%	1.7%	2.0%	1.4%
	Bourbon / Other U.S. Whiskey	1,212	1.1%	2.7%	3.5%	2.4%
	Blended Scoth Whiskey	3,388	0.2%	1.2%	1.3%	0.9%
	Vodka	5,180	3.0%	2.8%	2.7%	2.8%
	Tequila and Mezcal	161	2.9%	2.8%	5.1%	3.6%
	Other Spirits	4,101	-0.7%	2.3%	4.8%	2.1%
U.S.	Beer	86,072	-0.4%	-1.1%	0.9%	-0.2%
	Wine	34,312	-1.9%	3.2%	2.5%	1.2%
	Spirits	57,038	0.5%	2.6%	3.7%	2.2%
	Brandy and Cognac	5,716	-3.8%	1.2%	4.3%	0.5%
	Rum	6,450	1.0%	-0.4%	1.1%	0.5%
	Whiskies	15,029	2.0%	5.0%	3.1%	3.3%
	Bourbon / Other U.S. Whiskey	5,936	0.9%	6.2%	2.8%	3.3%
	Blended Scoth Whiskey	2,654	0.6%	0.1%	-1.2%	-0.2%
	Vodka	16,244	2.8%	5.0%	7.2%	5.0%
	Tequila and Mezcal	3,974	0.4%	3.6%	4.7%	2.9%
	Other Spirits	9,625	-2.8%	-2.0%	0.0%	-1.6%
Japan	Beer	58,049	-0.9%	-5.9%	-7.4%	-4.8%
	Wine	23,186	-4.0%	-5.4%	-1.8%	-3.8%
	Spirits	27,393	-1.5%	2.9%	1.2%	0.9%
	Brandy and Cognac	764	-16.7%	-7.0%	-4.7%	-9.6%
	Rum	258	0.5%	0.0%	2.5%	1.0%
	Whiskies	9,296	2.4%	19.9%	8.1%	9.9%
	Bourbon / Other U.S. Whiskey	501	-0.3%	-0.8%	7.0%	1.9%
	Blended Scoth Whiskey	1,040	-18.0%	3.5%	2.5%	-4.5%
	Vodka	829	-0.7%	0.2%	-0.8%	-0.5%
	Tequila and Mezcal	308	3.1%	5.6%	0.0%	2.9%
	Other Spirits	15,939	-2.3%	-3.7%	-2.1%	-2.7%
Australia	Beer	13,337	0.7%	-3.5%	-1.3%	-1.4%
	Wine	7,363	1.7%	-1.3%	-2.0%	-0.5%
	Spirits	4,623	6.0%	0.8%	2.2%	2.9%
	Brandy and Cognac	141	-3.3%	-3.1%	-0.2%	-2.2%
	Rum	439	6.8%	4.6%	4.3%	5.2%
	Whiskies	2,572	6.2%	-1.0%	0.3%	1.8%
	Bourbon / Other U.S. Whiskey	1,182	12.5%	-3.2%	-0.6%	2.7%
	Blended Scoth Whiskey	1,227	0.8%	0.7%	0.8%	0.8%
	Vodka	729	10.1%	9.9%	9.1%	9.7%
	Tequila and Mezcal	55	4.5%	4.3%	3.5%	4.1%
	Other Spirits	687	3.4%	-2.5%	1.5%	0.8%

Source: Euromonitor, FactSet and Citi Research

Beverages – Alcoholic: A Few Takeaways from the Data

Comments on Category Size:

- Beer is by far the most popular alcoholic beverage category among both the developed and emerging markets that we analyzed, and was the single biggest category in all but India (where spirits dominate) and France and Italy (where wine is most popular).
- In emerging markets, distilled spirits are often the second largest alcoholic beverage category (with the exception of Indonesia, where alcoholic beverage consumption is low, given that the populous is largely Muslim).
- In many of the emerging markets that we analyzed, local spirits tend to dominate. For instance, in China and Russia, the distilled spirits categories are nearly as big as the beer category, which we attribute to the predominance of local spirits, namely baijiu in China, and vodka in Russia. Further, in Mexico, tequila is the most popular, while in Brazil, cachaça is the distilled spirit of choice. Further, the popularity of local whiskies in India makes distilled spirits the largest alcoholic beverage category in the country.
- In emerging markets, we see outsized consumption of wine in countries that produce the product (e.g., France, Italy and Australia), as well as in the U.K., which is a notable importer of Australian wine.

Comments on Category Growth:

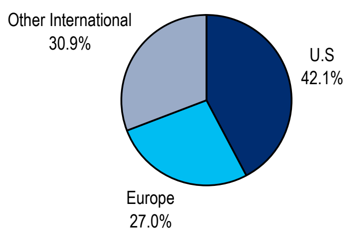
- In several emerging markets, we see double-digit category growth across many of the alcoholic beverage sub-segments, which contrasts notably with the growth rates seen in developed markets, where these categories tend to be more mature, and do not benefit from an emerging middle class.
- In China, despite being the second biggest alcoholic beverage market in the world (with sales totaling $143 billion), each of the beer, wine and spirits categories have grown at a double-digit CAGR, led by wine, which category is growing off the smallest base.
- The beer category has come under the most pressure in developed markets over the last few years, with category sales having declined in the U.K., U.S., Germany, Japan, Spain, and Australia, while only having posted modest compound annual growth in France (+0.5%) and Italy (+0.1%).
- In the U.S., distilled spirits have been the fastest growing category over the last few years (+2.2% CAGR), led by vodka (+5.0%), bourbon (+3.3%) and tequila (+2.9%).
- In Japan, the second largest beer market in the world, beer sales have declined at a -4.8% CAGR, which represents the steepest decline in beer sales seen across the markets that we analyzed.
- Wine sales in developed markets have been mixed over the last few years, having declined in roughly half of the markets that we looked at, including Japan, Italy, Spain, and Australia.

U.S. Beverages – Alcoholic

Analyst:
Vivien Azer

Of the companies that we cover, both Brown-Forman and Beam have notable international exposure, representing between 50%-60% of sales for the companies.

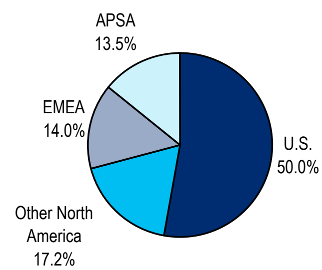
Figure 13. Brown-Forman's Geographic Sales Mix



Note: Represents contribution to FY12 net sales.

Source: Company Reports and Citi Research

Figure 14. Beam's Geographic Sales Mix



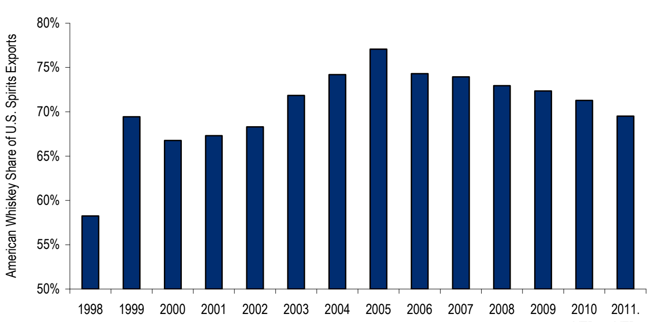
Note: Represents contribution to FY11 net sales.

Source: Company Reports and Citi Research

Brown-Forman (BFb.N; US$64.66; 1) is our preferred name in terms of capitalizing on the global growth gap, given that:

1. BFB generates a greater percentage of sales outside of the U.S. (of 58%), vs. 50% for BEAM,
2. BFB generates ~25% of net sales from emerging markets (as defined by the company), vs a smaller 15% for BEAM,
3. BFB has more exposure to Northern Europe, where the distilled spirits industry has come under slightly less macro pressure, and
4. BFB generates a great portion of their sales from bourbon (of over 50%) than BEAM, which has been one of the fastest growing distilled spirits categories among the countries that we analyzed. Indeed, American whiskey (i.e., bourbon and Tennessee whiskey) continues to be the single biggest exported spirit, accounting for nearly 70% of U.S. spirits export revenues in 2011 (though down slightly due to outsized growth in rum, for instance). However, it's important to keep in mind that ***American whiskey is still posting very robust growth, with revenues up 13.6% in 2011 (through November, on top of the 8.9% growth seen in 2010).***

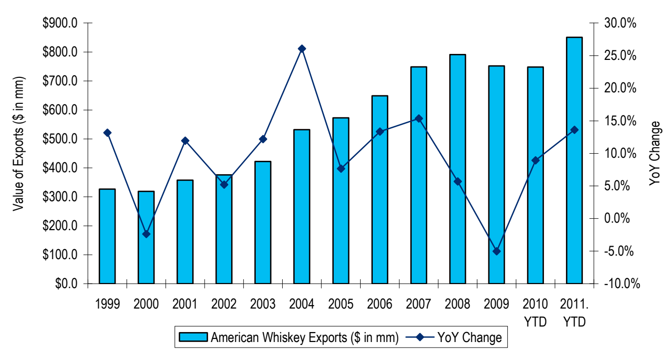
Figure 15. American Whiskey Remains the Key U.S. Spirits Export….



Note: YTD data is through November.

Source: DISCUS and Citi Research

Figure 16. …And Posted 13.6% Revenue Growth in 2011



Note: YTD data is through November.

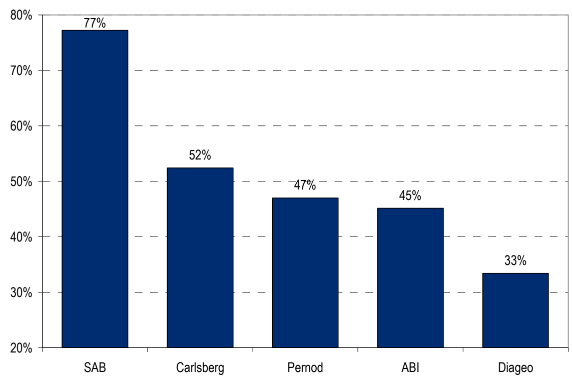
Source: DISCUS and Citi Research

Europe Beverages – Alcoholic

Analyst:
Andrea Pistacchi

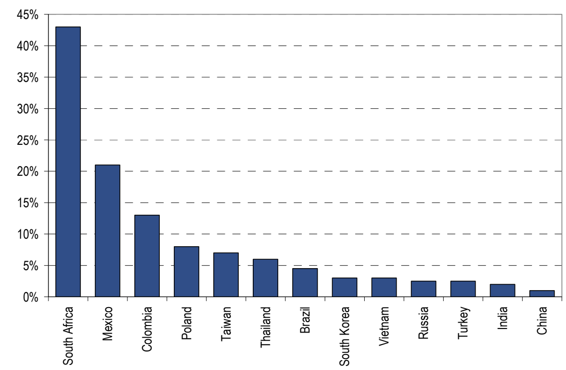
All the companies we cover are excellent plays on the global growth gap theme. They all have significant EM positions, which have been built over many years through acquisitions and organically.

Figure 17. European Beverages EM Exposure (as a % of EBIT)



Source: Company Reports, Citi Research

Figure 18. Int'l Spirits Volume Penetration in EM

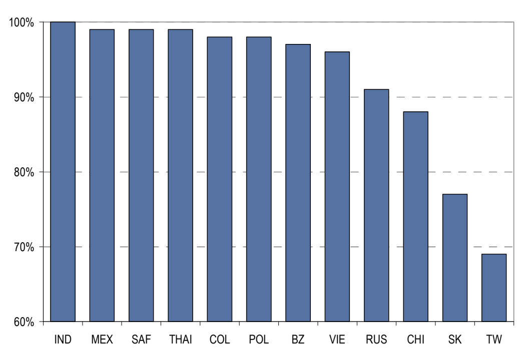


Source: IWSR, Citi Research

We have a preference for spirits over beer, as we expect better EM EBIT growth in the medium and long term. This is because in addition to growing sales fast, spirits companies are getting consistent and sustainable margin expansion, unlike many other staples. Their volume growth is underpinned by extremely low penetration levels of international spirits in most EMs (Figure 18) and the reason margins are expanding, in essence, is that western spirits categories in EMs are very uncompetitive. Premium Scotch is a duopoly (Figure 19), Cognac a triopoly in Asia and the overlap with local spirits is minimal. Figure 20 summarizes this point, showing Pernod's organic margin expansion in its largest EM region, Asia/RoW (~40% of profit).

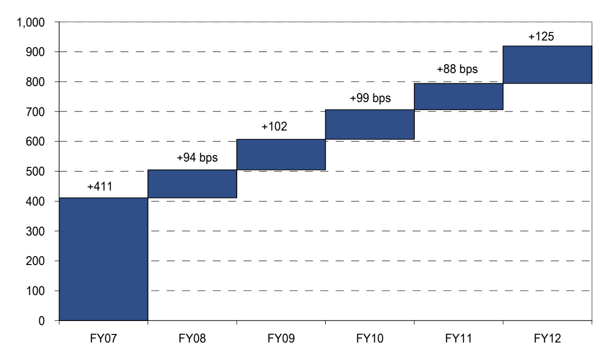
Both Pernod and Diageo are good ways to play the theme in our view, but we have a preference for Pernod (PERP.PA; €87.53; 1), because in our view it has an overall better EM footprint, given (1) its stronger position in China and India and (2) its greater percentage exposure to high-end western spirits.

Figure 19. DGE and PR – Combined Volume Share of Premium Scotch



Source: IWSR, Citi Research

Figure 20. Pernod: Organic Margin Expansion Asia



Source: Company Reports & Citi Research

Turkey Beverages – Alcoholic

Analyst:
Mehmet Colakoglu

Domestic beer volumes are on a recovery. Despite a very cold winter and 14% price increase since October 11, Anadolu Efes (AEFES.IS; TL27.00; 1) domestic sales volume and revenues grew by 5% and 20% YoY in 1H12 on the back of the lower price discounts, the company's ongoing on and off trade channel investments and price increases. We expect the domestic sales volume and EBITDA will grow 4% and 13% annually over a 12-15 period, respectively, on the back of improvement in margins with gradual completion of the company's on and off trade investments.

Efes' margins came weaker than expected in 2Q12 due to on and off trade investments in Turkey and SAB integration costs in Russia. The company on the other hand has recorded strong gross margins across both domestic and international beer businesses. **We think with a drop in opex, we will see 120bps and 310bps EBITDA margin improvement in 2013 on domestic and international beer corresponding to 13% and 28% EBITDA growth in 2013.**

We are positive on the SAB Efes partnership where we find the companies' brands highly complementary in Russia. Furthermore US$120mn annual cost savings could increase international EBITDA margins as high as to 24% in 2015 up from 17% in 2012.

Parts of Russia's new regulation will ban beer sales in kiosks and off trade sales from 11PM to 8AM. While, at first glance, this is negative for beer consumption in Russia, we think it will also play a role in increasing Russia's record low 20% on trade levels towards Europe's 50% levels.

What is more, the Russian government enacted a new law that envisages sharp increases in excise taxes (almost tripling it) on vodka and hard liquor, which will double the minimum price of vodka by 2014. As beer makes up only 30% of total pure alcohol consumption in Russia, we think switching from vodka to beer could accelerate over the next few years.

We recently raised our 2013 and 2014 Net Income estimates by 2% and 11%, respectively, on stronger-than-expected soft drinks performance, a series of price increases in beer segment and better than expected volume figure in Turkey. **With these newer estimates we recently upgraded our rating to Buy (9/7/12) as we are looking for 25% EPS growth, double the rate of peers in 2013-14, despite the shares trading broadly in line with peers.**

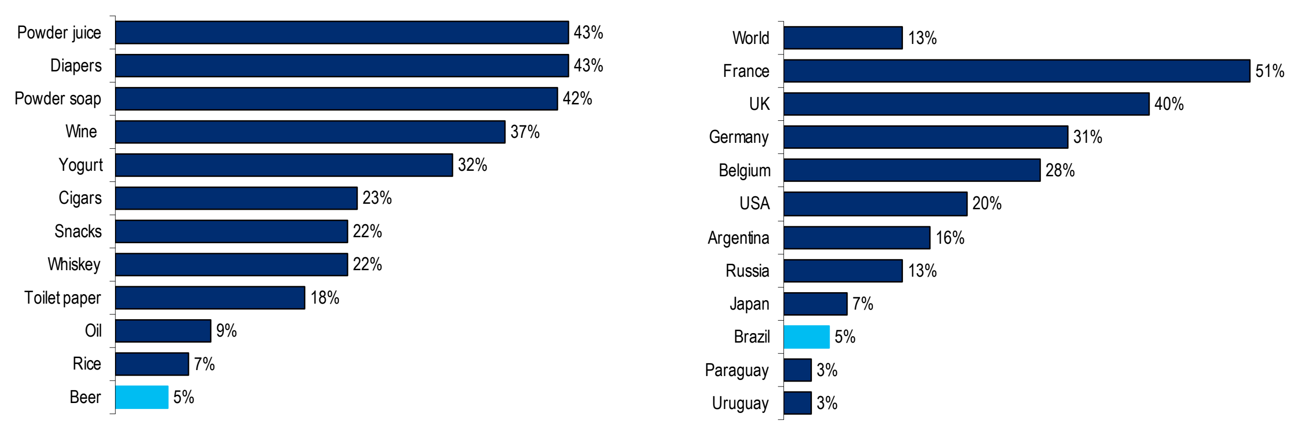
Latin America Beverages – Alcoholic

Analyst:
Alexander Robarts

AmBev (ABV.N; US$37.86; 1) is our top pick in our Latin American alcoholic beverages category. This partly reflects the ~14% pullback in the stock price since 1Q12 results, a stable cost structure and volume growth initiatives. In our view, AmBev's very high-quality defensive growth profile is more relevant in the context of recent downward revisions of Brazil GDP growth forecasts. For more details, please refer to our recent initiation report, entitled "Beverage Sector – Initiation of Coverage - In Search of Operating Leverage…," published July 20, 2012.

AmBev's core Brazil beer assets should post double-digit 2012 EBITDA YoY (in reias) despite a tough YoY comparison. AmBev's focus this year is on three areas: packaging innovation, the premium segment, and initiatives in the faster growing states in the north and northeast regions of Brazil. AmBev's packaging innovation this year is underscored with the roll-out of the 300 ML returnable glass bottle. In addition, the premium segment is increasingly positively impacting consolidated results. In the global beer industry, Brazil premium beer is under-indexed significantly compared to other markets (see Figure below). Finally, the north and northeastern regions in Brazil are having an outsized impact on AmBev's Brazilian beverage volume growth. During the 2Q12 results call, management stated that volume sales are posting growth rates three times faster than its national average, which for beer was 2.8% in the quarter. This reflects faster growing beer per capita consumption levels supported by increased marketing spend. We estimate incremental growth in fast growing northern region to add 12% to Brazil beer EBITDA over next three years.

Figure 21. % Premium in Mass Categories in Brazil and % Premium Beer Volume by Country (2011E)



Source: Company Reports and Citi Research

The CND acquisition (Dominican Republic) should provide an incremental 3% EBITDA boost, and the pending ABI/Modelo acquisition could bring revenue synergies with the Corona brand in AmBev's markets following expected closure in 1Q13. A 1% beer market share would add 2.5% to Brazil beer EBITDA.

Asia Pacific Beverages – Alcoholic

Analysts:
Eddie Lau
Jasmine Bai
Jamshed Dadabhoy

We think China Resources Enterprise (0291.HK; HK$26.20; 1) offers investors the best exposure to the alcoholic segment in Asia Pacific. Volume penetration of beer in China is already high, but ASP and margin for beer producers are low compared to other North Asian markets. The low prices are due to intense competition in the provincial markets. However, we are seeing gradual consolidation allowing leading breweries to raise prices and their profit margins in selected provinces. China Resources' CR Snow Beer is the market leader in China with 21% market share, followed by Tsingtao which has a 14% market share. With sufficient market share, China Resources is focusing on profitability by changing its product mix into more premium products. In 1H12, China Resources' beer volume and ASP both increased by 6% respectively. Its premium segment grew 45% YoY in 1H12 to account for 28% of total beer volume. Its barley unit cost and packaging cost increased 20% and 18% in 1H12. We expect barley cost to decline YoY from 4Q12. On the other hand, the retail business of China Resources has not been as successful, but we think its current valuation has priced in low expectation from the retail operation. We forecast EPS CAGR of 18.4% FY11-14E.

Tsingtao seems to be adopting a different strategy than China Resources, focusing on volume and market share. Sales volume growth was strong at 11% YoY in 1H12. In particular, the two-year CAGR growth of its 2nd-tier brands of 16% was significantly higher than historical trend. We think Tsingtao cut ASP of its 2nd tier brands to drive volume growth, and was reflected in the 1.3ppt decline in the 2Q12 gross margin. Tsingtao indicated all cost items increased in 1H12 except barley. Unlike other consumer staples in China, the beer sector faces cost pressure in FY12. We forecast 21.2% EPS CAGR between FY11-14E and think Tsingtao is fairly valued.

We think United Spirits benefits from (a) strong volume growth in India compared to developed markets; (b) strong market leadership with over 50% market share; and (c) attractive demographic for longer term alcohol consumption prospects. The downside risks to United Spirits are regulatory and volatilities in commodity cost. Its 1QFY13 sales volume fell 2% YoY but revenue per case was up 5% on mix and price improvement. United Spirits seems to be focusing on the premium segment rather than volume growth, partly due to higher margin and lower competition, but also due to lower working capital requirement, in our view. Management suggested balance sheet restructuring is required to bring its leverage down. We forecast 16.9% EPS CAGR between FY11-14E and have a Neutral rating on the stock.

Figure 22. Alcoholic Beverages Consumption – Selected Asia Pacific Countries

CAGR FY11-16E	China	India	Thailand	Philippines
Beer volume	5.3%	10.3%	1.5%	3.8%
Beer value	11.1%	16.4%	3.6%	8.9%
Spirits (premium) volume	8.5%	8.0%	2.6%	6.7%
Spirits (premium) value	12.6%	10.4%	5.3%	8.3%
Wine volume	11.0%	6.1%	5.3%	8.6%
Wine value	18.0%	9.4%	8.4%	12.8%

Source: Euromonitor and Citi Research

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Food

Figure 23. Emerging Market Food Category Trends

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
China	Baby Food	10,558	26.5%	22.6%	21.7%	23.6%
	Dried Baby Food	830	20.2%	16.4%	17.6%	18.0%
	Milk Formula	9,615	27.2%	23.2%	22.0%	24.1%
	Prepared Baby Food	113	23.4%	24.0%	26.1%	24.5%
	Bakery	20,837	6.5%	12.1%	14.1%	10.9%
	Canned/Preserved Food	5,888	4.6%	13.4%	11.2%	9.7%
	Confectionery	11,197	5.2%	8.8%	9.4%	7.8%
	Dairy	30,255	9.8%	10.9%	11.6%	10.8%
	Frozen Processed Food	6,448	4.8%	8.5%	12.6%	8.6%
	Ice Cream	4,747	-1.5%	6.7%	8.0%	4.3%
	Sauces, Dressings and Condiments	8,856	4.8%	9.5%	9.6%	7.9%
	Snack Bars	4	16.2%	20.1%	20.9%	19.1%
	Soup	74	8.1%	13.7%	13.3%	11.7%
	Spreads	781	5.8%	9.1%	10.1%	8.3%
	Sweet and Savoury Snacks	10,875	3.3%	11.9%	12.1%	9.0%
India	Baby Food	426	10.8%	11.5%	13.9%	12.0%
	Dried Baby Food	166	12.6%	12.0%	14.4%	13.0%
	Milk Formula	227	8.1%	10.5%	13.0%	10.5%
	Prepared Baby Food	-	NA	NA	NA	NA
	Bakery	5,083	14.5%	17.6%	16.8%	16.3%
	Canned/Preserved Food	82	12.9%	13.7%	14.4%	13.6%
	Confectionery	2,104	20.2%	26.4%	26.0%	24.2%
	Dairy	9,306	17.8%	18.2%	15.8%	17.2%
	Frozen Processed Food	60	11.7%	18.3%	13.4%	14.4%
	Ice Cream	538	19.9%	19.1%	22.8%	20.6%
	Sauces, Dressings and Condiments	932	12.5%	16.1%	17.4%	15.3%
	Snack Bars	19	119.8%	47.0%	42.2%	66.2%
	Soup	40	22.3%	24.6%	26.0%	24.3%
	Spreads	94	13.0%	12.4%	12.0%	12.5%
	Sweet and Savoury Snacks	1,483	25.3%	30.5%	27.1%	27.6%
Indonesia	Baby Food	2,323	14.6%	15.0%	13.8%	14.5%
	Dried Baby Food	109	10.5%	9.5%	9.0%	9.7%
	Milk Formula	2,162	14.8%	15.4%	14.1%	14.8%
	Prepared Baby Food	8	14.6%	12.0%	11.0%	12.5%
	Bakery	3,179	8.9%	8.7%	10.1%	9.3%
	Canned/Preserved Food	423	17.0%	18.8%	19.1%	18.3%
	Confectionery	1,754	9.6%	9.7%	10.5%	9.9%
	Dairy	2,438	11.2%	10.7%	12.2%	11.4%
	Frozen Processed Food	519	14.7%	17.5%	13.8%	15.3%
	Ice Cream	406	10.5%	11.6%	13.7%	11.9%
	Sauces, Dressings and Condiments	1,027	10.6%	11.7%	11.3%	11.2%
	Snack Bars	7	35.1%	45.4%	57.7%	45.8%
	Soup	5	14.0%	16.2%	15.6%	15.3%
	Spreads	93	9.8%	8.2%	9.3%	9.1%
	Sweet and Savoury Snacks	1,241	9.8%	11.1%	12.8%	11.2%
Turkey	Baby Food	336	5.8%	6.7%	9.9%	7.5%
	Dried Baby Food	65	3.1%	-0.5%	-0.6%	0.6%
	Milk Formula	176	5.6%	10.6%	16.9%	10.9%
	Prepared Baby Food	21	12.0%	12.9%	13.0%	12.6%
	Bakery	20,445	9.2%	11.5%	7.4%	9.3%
	Canned/Preserved Food	137	3.6%	3.2%	5.6%	4.1%
	Confectionery	1,913	7.5%	7.6%	8.7%	7.9%
	Dairy	4,101	2.7%	5.6%	8.3%	5.5%
	Frozen Processed Food	89	9.0%	4.5%	5.1%	6.1%
	Ice Cream	1,384	7.2%	24.3%	21.8%	17.5%
	Sauces, Dressings and Condiments	621	8.3%	5.3%	7.7%	7.1%
	Snack Bars	10	-29.1%	35.0%	21.5%	5.2%
	Soup	133	18.2%	14.4%	16.4%	16.3%
	Spreads	528	4.2%	6.2%	6.0%	5.5%
	Sweet and Savoury Snacks	1,254	6.1%	6.4%	10.4%	7.6%
Brazil	Baby Food	1,473	11.6%	25.6%	17.9%	18.2%
	Dried Baby Food	683	2.8%	12.5%	11.4%	8.8%
	Milk Formula	610	33.9%	55.4%	25.7%	37.8%
	Prepared Baby Food	175	6.6%	8.4%	17.9%	10.9%
	Bakery	34,196	6.3%	5.8%	8.0%	6.7%
	Canned/Preserved Food	3,361	6.7%	5.2%	4.0%	5.3%
	Confectionery	12,639	9.3%	14.2%	12.9%	12.1%
	Dairy	30,532	1.7%	13.3%	16.7%	10.4%
	Frozen Processed Food	2,372	10.1%	9.2%	7.3%	8.9%
	Ice Cream	3,026	7.0%	18.4%	20.4%	15.1%
	Sauces, Dressings and Condiments	5,271	5.8%	11.8%	7.2%	8.3%
	Snack Bars	291	23.2%	25.6%	19.5%	22.8%
	Soup	549	24.6%	19.8%	14.8%	19.7%
	Spreads	1,090	7.5%	9.8%	12.4%	9.9%
	Sweet and Savoury Snacks	2,998	8.7%	9.0%	8.0%	8.6%
Mexico	Baby Food	1,064	3.4%	3.8%	6.7%	4.6%
	Dried Baby Food	29	-0.8%	4.7%	2.1%	2.0%
	Milk Formula	927	4.4%	3.7%	7.5%	5.2%
	Prepared Baby Food	101	-3.2%	4.5%	1.4%	0.9%
	Bakery	32,583	4.4%	5.1%	7.4%	5.6%
	Canned/Preserved Food	1,603	2.9%	5.9%	5.7%	4.8%
	Confectionery	4,601	2.1%	7.5%	5.6%	5.0%
	Dairy	10,968	4.4%	6.4%	7.3%	6.1%
	Frozen Processed Food	690	2.8%	3.7%	3.5%	3.3%
	Ice Cream	533	1.5%	11.1%	5.9%	6.1%
	Sauces, Dressings and Condiments	3,463	8.5%	9.3%	8.3%	8.7%
	Snack Bars	352	4.8%	9.0%	6.1%	6.6%
	Soup	195	4.1%	6.0%	7.1%	5.7%
	Spreads	710	1.6%	7.3%	3.9%	4.2%
	Sweet and Savoury Snacks	3,337	0.4%	9.2%	8.1%	5.8%
Venezuela	Baby Food	162	30.8%	32.1%	27.4%	30.1%
	Dried Baby Food	38	40.0%	37.0%	29.3%	35.4%
	Milk Formula	98	24.1%	31.6%	30.9%	28.8%
	Prepared Baby Food	26	45.2%	27.6%	13.1%	28.0%
	Bakery	3,191	25.7%	29.3%	46.1%	33.4%
	Canned/Preserved Food	1,624	34.6%	54.8%	37.4%	42.0%
	Confectionery	723	34.7%	33.0%	27.9%	31.8%
	Dairy	4,028	32.1%	21.7%	32.3%	28.6%
	Frozen Processed Food	303	21.5%	72.7%	38.8%	42.8%
	Ice Cream	567	36.2%	92.9%	50.7%	58.2%
	Sauces, Dressings and Condiments	896	30.5%	26.9%	48.4%	34.9%
	Snack Bars	4	46.3%	75.9%	16.5%	44.2%
	Soup	133	38.3%	56.2%	22.2%	38.2%
	Spreads	31	39.4%	26.2%	35.0%	33.4%
	Sweet and Savoury Snacks	882	21.2%	63.8%	33.4%	38.4%
Russia	Baby Food	1,975	16.9%	12.2%	15.8%	15.0%
	Dried Baby Food	181	26.4%	15.8%	17.5%	19.8%
	Milk Formula	649	13.1%	5.9%	14.2%	11.0%
	Prepared Baby Food	874	17.1%	14.4%	16.8%	16.1%
	Bakery	11,611	8.1%	5.1%	4.2%	5.8%
	Canned/Preserved Food	4,928	10.6%	10.4%	8.7%	9.9%
	Confectionery	12,194	12.7%	13.1%	13.0%	13.0%
	Dairy	18,960	19.3%	15.4%	8.6%	14.3%
	Frozen Processed Food	7,793	11.2%	11.6%	12.7%	11.8%
	Ice Cream	2,432	13.0%	15.4%	10.2%	12.8%
	Sauces, Dressings and Condiments	4,527	9.8%	9.1%	9.3%	9.4%
	Snack Bars	13	13.4%	14.4%	20.5%	16.1%
	Soup	612	14.5%	16.8%	16.8%	16.0%
	Spreads	518	12.8%	14.2%	13.3%	13.4%
	Sweet and Savoury Snacks	3,750	4.7%	7.6%	6.6%	6.3%

Source: Euromonitor, FactSet and Citi Research

Figure 24. Developed Market Food Category Trends

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
France	Baby Food	1,812	-1.7%	-0.2%	0.9%	-0.3%
	Dried Baby Food	72	-2.7%	-2.0%	-1.9%	-2.2%
	Milk Formula	837	-1.1%	-1.7%	-0.2%	-1.0%
	Prepared Baby Food	860	-2.2%	1.5%	2.2%	0.5%
	Bakery	22,724	0.9%	1.1%	1.1%	1.1%
	Canned/Preserved Food	5,613	2.8%	2.2%	2.8%	2.6%
	Confectionery	7,707	0.2%	0.9%	2.1%	1.1%
	Dairy	22,493	1.6%	1.1%	1.6%	1.5%
	Frozen Processed Food	5,530	-0.5%	1.2%	2.0%	0.9%
	Ice Cream	2,442	5.8%	1.3%	10.2%	5.7%
	Sauces, Dressings and Condiments	2,794	4.4%	3.3%	2.9%	3.5%
	Snack Bars	169	-1.9%	-4.2%	-2.5%	-2.9%
	Soup	851	-2.7%	6.5%	1.8%	1.8%
	Spreads	1,627	1.5%	0.2%	2.8%	1.5%
	Sweet and Savoury Snacks	1,785	4.4%	3.0%	5.0%	4.1%
Germany	Baby Food	1,129	1.9%	-1.9%	0.8%	0.2%
	Dried Baby Food	142	2.7%	1.4%	1.5%	1.9%
	Milk Formula	372	2.7%	-3.1%	1.2%	0.3%
	Prepared Baby Food	464	1.2%	-2.9%	0.2%	-0.5%
	Bakery	21,461	-0.4%	-1.4%	0.1%	-0.6%
	Canned/Preserved Food	5,485	1.7%	-0.2%	-0.1%	0.5%
	Confectionery	12,455	-0.2%	-0.9%	0.3%	-0.3%
	Dairy	20,437	-0.6%	-1.0%	0.7%	-0.3%
	Frozen Processed Food	8,615	1.5%	-1.4%	-1.0%	-0.3%
	Ice Cream	3,286	-0.2%	-0.9%	0.0%	-0.3%
	Sauces, Dressings and Condiments	4,639	3.7%	1.3%	1.8%	2.2%
	Snack Bars	164	-1.6%	-1.3%	0.4%	-0.8%
	Soup	638	0.2%	-9.3%	-1.8%	-3.7%
	Spreads	1,858	3.6%	-2.5%	2.6%	1.2%
	Sweet and Savoury Snacks	2,724	5.9%	4.6%	3.3%	4.6%
Italy	Baby Food	1,225	-4.6%	-3.2%	-1.1%	-3.0%
	Dried Baby Food	63	-4.8%	-5.4%	-4.5%	-4.9%
	Milk Formula	355	-5.4%	-3.0%	0.9%	-2.5%
	Prepared Baby Food	714	-4.2%	-2.4%	-1.5%	-2.7%
	Bakery	25,913	0.6%	0.8%	0.2%	0.5%
	Canned/Preserved Food	3,281	2.9%	2.4%	2.3%	2.5%
	Confectionery	6,056	0.7%	1.9%	1.4%	1.3%
	Dairy	15,357	-2.2%	1.0%	3.3%	0.7%
	Frozen Processed Food	3,913	-0.1%	3.0%	2.3%	1.7%
	Ice Cream	6,045	6.8%	1.6%	9.9%	6.1%
	Sauces, Dressings and Condiments	2,714	4.8%	4.8%	4.7%	4.8%
	Snack Bars	189	-4.6%	2.0%	1.1%	-0.6%
	Soup	350	1.7%	-2.4%	0.2%	-0.2%
	Spreads	949	13.2%	6.9%	5.0%	8.3%
	Sweet and Savoury Snacks	1,460	4.8%	5.0%	4.0%	4.6%
Spain	Baby Food	841	-1.4%	-2.8%	-3.1%	-2.5%
	Dried Baby Food	111	-4.9%	-5.1%	-4.9%	-5.0%
	Milk Formula	467	-0.6%	-2.9%	-2.5%	-2.0%
	Prepared Baby Food	220	-0.6%	0.5%	-1.6%	-0.6%
	Bakery	8,777	-2.6%	-7.1%	-1.3%	-3.7%
	Canned/Preserved Food	4,885	1.1%	0.5%	0.3%	0.6%
	Confectionery	2,850	0.6%	-1.5%	-0.7%	-0.6%
	Dairy	11,644	-4.0%	-3.6%	-3.0%	-3.5%
	Frozen Processed Food	1,606	1.4%	1.3%	1.1%	1.3%
	Ice Cream	1,911	-1.1%	0.8%	0.4%	0.0%
	Sauces, Dressings and Condiments	1,695	2.9%	1.6%	1.7%	2.1%
	Snack Bars	123	5.1%	3.0%	2.9%	3.7%
	Soup	350	2.1%	1.2%	1.2%	1.5%
	Spreads	371	-1.5%	0.2%	0.6%	-0.2%
	Sweet and Savoury Snacks	2,710	4.3%	0.1%	0.1%	1.5%

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
U.K.	Baby Food	998	10.6%	8.8%	5.9%	8.4%
	Dried Baby Food	56	5.7%	4.8%	5.2%	5.2%
	Milk Formula	533	11.6%	9.6%	4.7%	8.6%
	Prepared Baby Food	300	9.2%	8.3%	7.9%	8.5%
	Bakery	15,177	2.0%	1.4%	1.8%	1.7%
	Canned/Preserved Food	4,413	8.3%	1.1%	3.5%	4.2%
	Confectionery	12,672	2.2%	3.9%	5.3%	3.8%
	Dairy	14,806	4.0%	2.4%	2.1%	2.8%
	Frozen Processed Food	7,163	2.9%	-1.6%	-0.1%	0.4%
	Ice Cream	2,339	4.3%	3.9%	4.2%	4.2%
	Sauces, Dressings and Condiments	4,196	4.7%	3.6%	3.5%	3.9%
	Snack Bars	759	7.3%	5.0%	4.3%	5.5%
	Soup	1,105	7.0%	5.1%	5.4%	5.8%
	Spreads	778	6.5%	5.7%	6.0%	6.1%
	Sweet and Savoury Snacks	7,473	4.9%	5.6%	6.2%	5.5%
U.S.	Baby Food	5,935	-2.4%	-2.1%	-2.8%	-2.4%
	Dried Baby Food	143	-1.6%	-5.1%	-2.8%	-3.2%
	Milk Formula	4,289	-3.7%	-4.2%	-3.6%	-3.8%
	Prepared Baby Food	1,295	2.2%	6.2%	0.2%	2.8%
	Bakery	68,275	1.9%	0.6%	1.5%	1.3%
	Canned/Preserved Food	18,512	3.4%	-0.8%	-1.1%	0.5%
	Confectionery	32,346	3.2%	2.9%	1.9%	2.7%
	Dairy	53,570	-4.9%	1.1%	5.3%	0.4%
	Frozen Processed Food	33,601	3.3%	1.2%	1.4%	2.0%
	Ice Cream	12,026	1.2%	-0.3%	2.8%	1.2%
	Sauces, Dressings and Condiments	18,157	6.2%	0.1%	0.5%	2.2%
	Snack Bars	5,684	5.3%	6.6%	6.6%	6.2%
	Soup	4,348	-1.0%	-3.8%	-1.8%	-2.2%
	Spreads	2,824	5.1%	3.7%	3.7%	4.1%
	Sweet and Savoury Snacks	31,828	4.1%	0.8%	1.1%	2.0%
Japan	Baby Food	1,328	-0.5%	-0.4%	-2.2%	-1.0%
	Dried Baby Food	50	-2.4%	0.0%	-2.4%	-1.6%
	Milk Formula	966	0.3%	-0.3%	-2.0%	-0.7%
	Prepared Baby Food	225	-3.1%	-1.6%	-2.2%	-2.3%
	Bakery	33,043	-2.8%	-1.8%	-3.0%	-2.5%
	Canned/Preserved Food	8,566	-0.7%	-1.5%	3.4%	0.4%
	Confectionery	10,090	1.1%	-1.5%	-2.4%	-1.0%
	Dairy	25,102	-0.1%	-0.1%	-1.4%	-0.5%
	Frozen Processed Food	7,116	-3.3%	1.6%	-3.7%	-1.8%
	Ice Cream	6,703	-1.7%	3.9%	-2.3%	-0.1%
	Sauces, Dressings and Condiments	22,099	0.7%	-0.6%	-1.5%	-0.5%
	Snack Bars	655	2.1%	-0.9%	-1.9%	-0.3%
	Soup	2,476	2.3%	-0.3%	0.4%	0.8%
	Spreads	1,085	1.2%	0.9%	-4.2%	-0.7%
	Sweet and Savoury Snacks	14,385	3.1%	1.0%	1.3%	1.8%
Australia	Baby Food	353	10.7%	6.4%	6.1%	7.7%
	Dried Baby Food	11	7.8%	8.2%	4.8%	6.9%
	Milk Formula	174	7.4%	6.0%	6.6%	6.7%
	Prepared Baby Food	134	13.0%	7.0%	5.9%	8.5%
	Bakery	8,536	4.8%	4.8%	4.9%	4.8%
	Canned/Preserved Food	2,077	5.0%	3.0%	2.2%	3.4%
	Confectionery	3,918	5.4%	1.5%	4.5%	3.8%
	Dairy	8,216	6.2%	4.0%	3.9%	4.7%
	Frozen Processed Food	2,262	5.6%	4.6%	4.7%	5.0%
	Ice Cream	2,205	11.9%	6.8%	5.9%	8.2%
	Sauces, Dressings and Condiments	2,245	5.5%	5.4%	5.5%	5.5%
	Snack Bars	447	-2.8%	11.3%	5.8%	4.6%
	Soup	381	3.6%	2.9%	3.6%	3.4%
	Spreads	572	5.8%	3.7%	3.5%	4.3%
	Sweet and Savoury Snacks	1,730	5.2%	5.2%	5.5%	5.3%

Source: Euromonitor, FactSet and Citi Research

Food: A Few Takeaways from the Data

Comments on Category Size:

- The Bakery and Dairy categories are amongst the largest overall categories across all 16 emerging and developed markets we tracked and account for well over $1 billion in sales in all cases.
- China has the largest baby food market in terms of absolute dollar sales at $10.6 billion, with the U.S. coming in second at $5.9 billion. However, when adjusted for infant & toddler population sizes, baby food consumption on a per capita basis in the U.S. is 2.1x the size of that in China, indicating that the Chinese baby food market has a long runway for growth.
- Frozen Foods sales surpass $1 billion in sales in all eight of the developed markets we reviewed. However, in the emerging world, frozen foods sales top $1 billion in sales in only three of our eight selected markets. Given that frozen foods sales are typically positively correlated with economic growth, we believe that the potential for frozen food penetration across the emerging world could increase as per capita income levels rise and as a greater portion of women enter the workforce.
- Confection sales account for over $1 billion across nearly all 16 emerging and developed countries in our data, and accounts for over $10 billion in sales inside seven countries.

Comments on Category Growth:

- China is the fastest growing market for baby food, with the category growing at a 24% CAGR from 2008-2011.
- Baby Food sales are declining in several developed markets as weak economic trends are causing families to delay child birth decisions. This is witnessed in Italy, Spain and the U.S., where baby food sales have declined at annual rates of -3.0%, -2.5% and -2.4% rates from 2008-2011.
- While strong confections sales growth in the emerging markets is not surprising, the confection category is growing at solid rates in several developed markets as well, including the U.K and the U.S, where the category has grown at CAGRs of +3.8% and +2.7%, respectively, from 2008-2011.
- With the exception of Japan, the Sauces, Dressings and Condiments category is growing across the board in all of the countries we reviewed.

U.S. Food

Analyst:
David Driscoll

Figure 25. Sales by Geography

Last Fiscal Year	MJN	KFT	HNZ
North America	31%	46%	40%
W. Europe	3%	25%	9%
E. Europe	0%	6%	21%
Asia/Pacific	48%	13%	22%
Latin America	18%	10%	8%

Source: Citi Research and company reports

Mead Johnson (MJN.N; US$76.01; 2) possesses the largest exposure to the emerging markets within the large cap packaged food group, with more than 65% of its sales coming from fast growing developing markets. Mead Johnson is followed by Buy-rated Kraft (KFT.O; US$40.75; 1) and Heinz (HNZ.N; US$56.16; 1), which generate 30% and 25% of their sales from emerging markets, respectively, and compare to typical EM rates of exposure across the group, which on average range from 5%-15%.

Kraft is in the midst of a splitting the company into two pieces, between its Global Snacking business (Mondelez) and its North American Grocery unit (Kraft Foods Group). **Upon completion of the separation, Mondelez will derive 45% of its sales from emerging markets and is focused on the high growth snacking category (confections and biscuits), which possesses promising long term growth prospects, in our view.** Given current valuations for consolidated Kraft, we believe the separation of the company will unlock significant value as our analysis indicates that the sum of the parts is worth much more than where consolidated Kraft shares are currently trading.

Meanwhile, HNZ is now 25% exposed to emerging markets with plans to increase its exposure to 30% in four years. The firm's focus is on ketchup and sauces with 50% of the portfolio in these business lines. Its emerging markets are global with significant assets in all major regions, including China, Asia/Pac, Eastern Europe, and Latin America. Thus, as Heinz shares are currently trading in line with the group, we see the stock as particularly attractive given its strong emerging market exposure.

Lastly, Mead Johnson derives more than 65% of its sales from emerging markets and holds a strong position in China, which generates over $1 billion in sales for the company, and represents its largest single geography. The business has grown at CAGR of 31% since 2001, when Mead Johnson had just $75 million of sales in the country. Critically, there remains considerable room for organic growth within the overall Chinese pediatric nutrition market as more citizens enter the middle class and begin to utilize infant formula, as per capita consumption levels of infant formula in China remain well behind those found in the United States. However, at current valuation levels, we believe that Mead Johnson's long term growth potential is fairly priced into the stock and do not see material upside in Mead Johnson shares over the next 12 months.

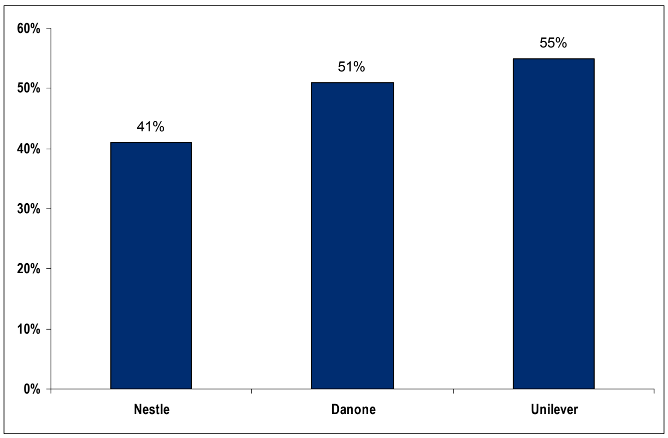
In summary, the U.S. large cap packaged food group has three companies with significant emerging market exposure, and with Kraft and Heinz trading at significant discounts to Mead Johnson. **We therefore view Kraft and Heinz as more attractive relative to Mead Johnson at current pricing levels, but see solid growth ahead for all three names.**

Europe Food

Analyst:
Robert Dickinson

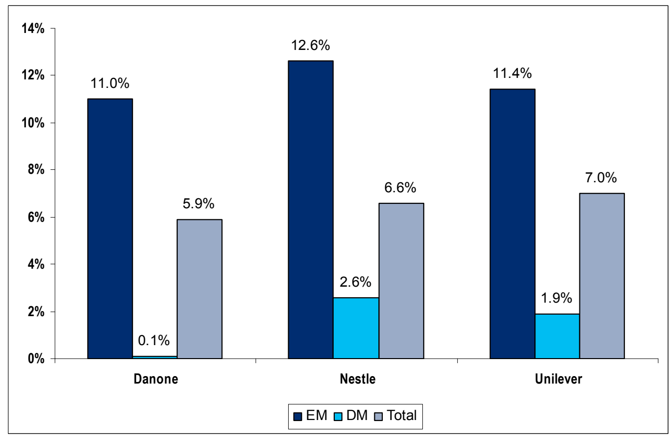
The major European food companies all illustrate the global growth gap theme. Nestlé, Unilever and Danone are all currently generating low teens organic revenue growth in emerging markets whereas in developed markets growth is in the low single-digits. We would note though that much of Unilever's emerging markets growth is being generated by its Personal Care and Home Care divisions which respectively have 61% and 78% of their sales from emerging markets.

Figure 26. European Food - Emerging Market Revenue Exposure



Source: Citi Research, Company reports

Figure 27. European Food – DM v EM Organic Revenue Growth 1H12



Source: Citi Research, Company reports

Both Nestlé and Danone have exposure to infant formula which is one of the fastest growing categories in emerging markets. Danone's Baby Nutrition division is 20% of group sales and 27% of group operating profit with around 60% of revenues being generated from emerging markets. The company holds a strong No. 2 position in the highly attractive Chinese infant formula market through its Dumex brand which should provide it with substantial opportunities for future growth given that China/Hong Kong are expected to generate around 45% of global infant nutrition category growth over the next five years according to Euromonitor.

Nestlé's recent acquisition of Pfizer Nutrition substantially bolsters its position as the global leader in infant formula with the combined entities having emerging market exposure of 85%. The long-term growth potential of the category is illustrated by Nestlé paying an acquisition multiple of 19.8x EV/EBITDA (15.6x post run-rate synergies).

We see both Danone and Nestlé as good stocks to play the global growth gap theme although we have a preference for Danone (DANO.PA; €49.43; 1). This is due to infant formula being a proportionally greater part of Danone's business (20%) than Nestlé (8%). We also view Danone's growth prospects in the U.S. more favourably due to its opportunity to benefit from long-term growth in Fresh Dairy whereas Nestlé's growth in the U.S. is hampered by its exposure to the relatively low-growth frozen food category.

Asia Pacific Food

Analysts:
Eddie Lau
Jasmine Bai
Ally Park
Jamshed Dadabahoy

Our key recommendations on the food companies in Asia Pacific are Want Want (0151.HK; HK$9.41; 1) and Hyundai Green Food (005440.KS; W18,500; 1). In general, we look for better margins for food companies in Asia with price hike in 2011 and on a decline in input cost this year. Despite the recent sharp rally in grain prices due to the drought in North America, food inflation is still falling in Asia. China food producers and distributors are also more optimistic for 2013 with the Chinese New Year falling in February, from mid January this year. Want Want reported a 19% rise in 1H12 sales and 38% growth in net profit. Its gross profit margin expanded by 4.4ppt mainly due to ASP increase, and we think its gross margin should further improve in 2H12 on decline in milk powder price. Sale of rice cracker was flat in 1H12 on price increase in 2H11 and its strategy to stop production of the lower margin products. Revenue from the snack segment grew 22% YoY. We forecast 24.6% EPS CAGR between FY11-14E.

Hyundai Green Food is an integrated food service supplier and distributor focusing on catering and B2B food materials distribution, and is a leading consolidator in a highly fragmented segment. Its 1Q12 revenue increased 23% YoY led by 21% growth in catering and 53% increase in food materials distribution. The catering sales growth came from new orders in overseas including nuclear power plant project related catering in UAE and for Hyundai Motor's line extension in China. The top three players accounted for 31% of Korea's catering market in 2011, which the company expects to double in the long run by winning 1-2ppt market share per year. We forecast around 14% EPS CAGR between FY11-14E.

Despite the intense competition on instant noodles in China, Tingyi achieved 22% growth in 2Q12 instant noodles sales. The 5ppt YoY improvement in the 2Q12 noodles pre-tax margin was better than expected, on lower raw material cost and a low revenue base last year. It seems the gain in Uni-President China's instant noodle market share was at the expense of smaller suppliers. UPC also reported a 22% rise in 1H12 noodle sales and maintained its leadership in spicy and sour beef noodle. The company is focusing on Lu Rou noodle in 2H12 and 2013. While we are positive on the share gain of the spicy and sour beef flavor in the next two years, UPC will need a successful Lu Rou noodle product to sustain its growth rate. Its noodle 1H12 gross and op margin improved 7ppt and 3.3ppt, respectively.

Discretionary consumption in urban India has been affected by inflation, which was negative due to confectionery spending and has increased the risk of down trading. Competition is also intense. Nestle India's revenue growth decelerated to 1.1% in 1HCY12 and management remains cautious on the outlook. We also think its valuation unattractive.

Figure 28. CPI and Food CPI – Asia Pacific

	Food CPI		CPI	
	2011	2012E	2011	2012E
China	11.8%	5.4%	5.4%	2.9%
India	9.1%	n/a	8.9%	8.0%
Indonesia	8.6%	n/a	5.4%	4.4%
Thailand	8.0%	n/a	3.8%	2.7%

Source: Citi Research

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Home and Personal Care

Figure 29. Emerging Market HPC Category Trends

Country	Category	Sales in U.S. $ (mm)	YoY Change in Sales (Local Currency)			
		2011	2009/2008	2010/2009	2011/2010	CAGR
China	Bar Soap	1,028	1.3%	1.8%	4.0%	2.4%
	Toothpaste	2,492	7.2%	11.0%	12.0%	10.1%
	Manual Toothbrushes	605	3.3%	5.5%	8.8%	5.8%
	Men's Razors and Blades	193	3.2%	5.5%	5.3%	4.7%
	Colour Cosmetics	2,496	6.1%	9.4%	12.6%	9.3%
	Skin Care	11,320	13.9%	12.9%	14.2%	13.7%
	Deodorants	83	13.6%	10.3%	10.2%	11.4%
	Shampoo	3,335	8.2%	9.1%	9.0%	8.8%
	Conditioners	828	10.8%	12.2%	14.5%	12.5%
	Air Care	116	6.9%	9.4%	11.4%	9.2%
	Hand Dishwashing	1,259	8.5%	7.9%	11.4%	9.3%
	Laundry Detergents	6,316	8.9%	10.0%	12.9%	10.6%
	Fabric Softeners	339	14.2%	16.3%	17.5%	16.0%
India	Bar Soap	2,293	12.2%	10.9%	16.0%	13.0%
	Toothpaste	985	9.9%	10.4%	16.3%	12.2%
	Manual Toothbrushes	184	12.9%	22.9%	19.3%	18.3%
	Men's Razors and Blades	316	9.0%	8.5%	13.0%	10.1%
	Colour Cosmetics	483	25.6%	25.7%	29.3%	26.9%
	Skin Care	1,097	13.5%	17.8%	24.6%	18.5%
	Deodorants	243	44.3%	39.8%	42.3%	42.1%
	Shampoo	789	13.5%	7.7%	13.4%	11.5%
	Conditioners	869	14.2%	11.2%	20.8%	15.3%
	Air Care	30	12.8%	15.7%	18.8%	15.7%
	Hand Dishwashing	347	11.2%	9.1%	13.1%	11.1%
	Laundry Detergents	2,480	7.5%	4.5%	10.8%	7.5%
	Fabric Softeners	-	NA	NA	NA	NA
Indonesia	Bar Soap	285	9.0%	5.0%	6.0%	6.7%
	Toothpaste	357	5.5%	5.0%	6.0%	5.5%
	Manual Toothbrushes	139	3.5%	3.0%	4.0%	3.5%
	Men's Razors and Blades	39	10.0%	9.0%	10.5%	9.8%
	Colour Cosmetics	291	9.1%	12.3%	15.1%	12.2%
	Skin Care	1,046	21.5%	20.5%	22.3%	21.4%
	Deodorants	35	8.4%	10.3%	13.6%	10.7%
	Shampoo	517	9.2%	13.4%	9.6%	10.7%
	Conditioners	54	12.0%	12.5%	13.5%	12.7%
	Air Care	15				11.7%
	Hand Dishwashing	59	16.0%	14.0%	18.0%	16.0%
	Laundry Detergents	751	5.4%	2.9%	5.7%	4.7%
	Fabric Softeners	69	16.5%	11.0%	12.0%	13.1%
Turkey	Bar Soap	152	3.3%	11.1%	2.0%	5.4%
	Toothpaste	218	7.6%	10.4%	15.3%	11.0%
	Manual Toothbrushes	108	10.8%	14.7%	17.7%	14.3%
	Men's Razors and Blades	179	6.1%	6.1%	6.8%	6.3%
	Colour Cosmetics	348	11.0%	14.4%	12.5%	12.6%
	Skin Care	501	9.2%	11.5%	13.1%	11.3%
	Deodorants	154	11.0%	12.7%	13.3%	12.3%
	Shampoo	173	11.0%	12.3%	11.5%	11.6%
	Conditioners	85	9.5%	12.4%	10.2%	10.7%
	Air Care	36	4.6%	8.8%	5.6%	6.3%
	Hand Dishwashing	252	13.0%	11.2%	7.8%	10.6%
	Laundry Detergents	1,089	30.1%	28.2%	22.9%	27.0%
	Fabric Softeners	160	16.0%	18.5%	13.5%	16.0%

Country	Category	Sales in U.S. $ (mm)	YoY Change in Sales (Local Currency)			
		2011	2009/2008	2010/2009	2011/2010	CAGR
Brazil	Bar Soap	2,721	21.9%	2.6%	1.9%	8.4%
	Toothpaste	1,614	17.5%	-9.0%	12.9%	6.5%
	Manual Toothbrushes	996	22.5%	3.5%	10.9%	12.1%
	Men's Razors and Blades	1,912	12.5%	31.3%	19.0%	20.7%
	Colour Cosmetics	3,575	24.2%	25.0%	5.9%	18.0%
	Skin Care	4,651	14.4%	12.0%	5.1%	10.4%
	Deodorants	4,314	15.2%	17.5%	9.9%	14.1%
	Shampoo	2,124	7.0%	9.8%	3.8%	6.8%
	Conditioners	3,565	6.4%	15.8%	12.5%	11.5%
	Air Care	127	6.5%	8.1%	10.7%	8.4%
	Hand Dishwashing	728	11.4%	12.1%	10.1%	11.2%
	Laundry Detergents	3,771	2.7%	7.8%	7.5%	6.0%
	Fabric Softeners	890	9.5%	8.5%	7.4%	8.5%
Mexico	Bar Soap	517	1.5%	-3.0%	13.4%	3.7%
	Toothpaste	488	8.1%	8.8%	7.6%	8.2%
	Manual Toothbrushes	273	7.9%	8.0%	9.2%	8.3%
	Men's Razors and Blades	284	5.6%	3.3%	7.8%	5.6%
	Colour Cosmetics	1,057	5.7%	6.1%	5.4%	5.7%
	Skin Care	1,776	5.6%	4.0%	5.6%	5.1%
	Deodorants	596	2.4%	10.3%	6.5%	6.3%
	Shampoo	898	11.3%	13.2%	7.1%	10.5%
	Conditioners	221	5.1%	4.4%	5.6%	5.0%
	Air Care	66	-1.6%	2.1%	1.9%	0.8%
	Hand Dishwashing	274	1.7%	3.5%	4.3%	3.2%
	Laundry Detergents	2,125	3.0%	6.6%	5.8%	5.1%
	Fabric Softeners	467	2.5%	9.4%	5.8%	NA
Venezuela	Bar Soap	192	48.7%	29.4%	28.0%	35.1%
	Toothpaste	223	39.8%	22.7%	23.7%	28.5%
	Manual Toothbrushes	83	38.3%	34.6%	27.9%	33.5%
	Men's Razors and Blades	230	49.7%	35.4%	23.7%	35.9%
	Colour Cosmetics	473	42.3%	30.7%	24.9%	32.5%
	Skin Care	713	49.6%	30.7%	27.6%	35.6%
	Deodorants	350	60.3%	31.4%	31.4%	40.4%
	Shampoo	269	58.4%	34.4%	18.1%	36.0%
	Conditioners	140	60.5%	34.8%	19.5%	37.2%
	Air Care	27	57.9%	52.8%	42.4%	50.9%
	Hand Dishwashing	259	58.7%	50.0%	41.4%	49.8%
	Laundry Detergents	1,125	48.4%	50.0%	35.8%	44.6%
	Fabric Softeners	256	66.1%	40.1%	37.1%	47.2%
Russia	Bar Soap	516	-1.1%	9.1%	8.4%	5.4%
	Toothpaste	739	6.0%	7.1%	5.3%	6.1%
	Manual Toothbrushes	225	9.5%	11.0%	13.3%	11.3%
	Men's Razors and Blades	513	-1.9%	7.0%	7.6%	4.1%
	Colour Cosmetics	1,803	6.6%	9.1%	8.5%	8.1%
	Skin Care	2,571	4.2%	6.8%	3.1%	4.7%
	Deodorants	596	12.9%	10.9%	8.4%	10.7%
	Shampoo	994	8.3%	7.5%	6.3%	7.3%
	Conditioners	273	1.9%	14.6%	10.4%	8.8%
	Air Care	337	6.1%	9.2%	11.7%	9.0%
	Hand Dishwashing	531	5.6%	9.0%	10.6%	8.4%
	Laundry Detergents	2,102	4.4%	7.7%	11.0%	7.7%
	Fabric Softeners	326	3.8%	7.9%	10.8%	7.5%

Source: Euromonitor, FactSet and Citi Research

Figure 30. Developed Market HPC Category Trends

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
France	Bar Soap	157	3.9%	5.1%	-2.5%	2.1%
	Toothpaste	706	1.6%	2.6%	3.7%	2.6%
	Manual Toothbrushes	200	-4.0%	0.1%	-0.7%	-1.5%
	Men's Razors and Blades	591	1.9%	1.8%	0.1%	1.3%
	Colour Cosmetics	1,805	2.6%	3.0%	2.5%	2.7%
	Skin Care	4,140	-1.3%	0.6%	1.2%	0.2%
	Deodorants	892	2.5%	2.2%	2.2%	2.3%
	Shampoo	698	-4.7%	-0.5%	-0.1%	-1.8%
	Conditioners	377	-0.7%	0.3%	0.2%	0.0%
	Air Care	545	0.0%	0.2%	0.7%	0.3%
	Hand Dishwashing	324	4.2%	4.5%	1.5%	3.4%
	Laundry Detergents	1,894	1.9%	1.8%	0.8%	1.5%
	Fabric Softeners	269	1.2%	2.6%	-0.2%	1.2%
Germany	Bar Soap	120	4.6%	3.4%	2.7%	3.6%
	Toothpaste	767	-0.6%	1.1%	4.1%	1.5%
	Manual Toothbrushes	297	3.8%	2.9%	2.3%	3.0%
	Men's Razors and Blades	778	7.3%	4.9%	4.5%	5.6%
	Colour Cosmetics	2,049	6.2%	2.4%	3.0%	3.8%
	Skin Care	4,772	2.2%	1.7%	2.3%	2.1%
	Deodorants	1,018	5.4%	3.8%	4.6%	4.6%
	Shampoo	952	3.9%	5.0%	4.2%	4.4%
	Conditioners	433	-2.1%	-1.2%	0.9%	-0.8%
	Air Care	308	0.3%	1.9%	1.8%	1.3%
	Hand Dishwashing	285	3.5%	-0.6%	-1.7%	0.4%
	Laundry Detergents	1,702	-2.9%	2.9%	0.5%	0.2%
	Fabric Softeners	427	-1.9%	3.9%	-3.8%	-0.7%
Italy	Bar Soap	154	-1.0%	-2.5%	-2.8%	-2.1%
	Toothpaste	710	-0.6%	-1.6%	1.6%	-0.2%
	Manual Toothbrushes	217	2.1%	1.3%	-1.0%	0.8%
	Men's Razors and Blades	502	1.2%	0.8%	0.1%	0.7%
	Colour Cosmetics	1,337	2.4%	1.6%	-0.5%	1.2%
	Skin Care	2,580	-2.1%	-0.3%	-0.1%	-0.8%
	Deodorants	655	3.8%	0.6%	-0.3%	1.3%
	Shampoo	533	3.7%	-0.7%	-1.6%	0.4%
	Conditioners	203	4.1%	-2.7%	-3.1%	-0.6%
	Air Care	419	3.4%	1.6%	-3.7%	0.4%
	Hand Dishwashing	428	2.4%	1.5%	1.2%	1.7%
	Laundry Detergents	1,720	-2.0%	-0.5%	0.4%	-0.7%
	Fabric Softeners	401	4.2%	-1.8%	-1.0%	0.4%
Spain	Bar Soap	39	-3.1%	-1.1%	-0.7%	-1.6%
	Toothpaste	409	4.2%	0.6%	0.2%	1.7%
	Manual Toothbrushes	135	-8.7%	-1.3%	-1.5%	-3.9%
	Men's Razors and Blades	361	0.7%	-1.2%	-1.4%	-0.6%
	Colour Cosmetics	954	-0.9%	-0.3%	-3.5%	-1.6%
	Skin Care	2,334	-1.8%	-0.5%	-0.8%	-1.0%
	Deodorants	444	-0.2%	0.7%	-2.3%	-0.6%
	Shampoo	522	0.4%	-1.4%	-1.9%	-1.0%
	Conditioners	283	0.8%	0.2%	-1.8%	-0.3%
	Air Care	412	-5.8%	-2.9%	-2.7%	-3.8%
	Hand Dishwashing	299	2.8%	-2.7%	-2.4%	-0.8%
	Laundry Detergents	1,207	-5.5%	-2.7%	-1.4%	-3.2%
	Fabric Softeners	349	-7.4%	0.5%	0.8%	-2.1%

Country	Category	Sales in U.S. $ (mm) 2011	YoY Change in Sales (Local Currency) 2009/2008	2010/2009	2011/2010	CAGR
U.K.	Bar Soap	173	4.4%	-5.6%	-2.6%	-1.4%
	Toothpaste	656	3.2%	4.1%	5.7%	4.3%
	Manual Toothbrushes	286	-4.5%	1.2%	2.5%	-0.3%
	Men's Razors and Blades	516	-1.0%	1.2%	-1.7%	-0.5%
	Colour Cosmetics	2,608	5.3%	5.5%	5.1%	5.3%
	Skin Care	3,533	4.4%	5.3%	5.2%	4.9%
	Deodorants	968	4.7%	3.9%	4.8%	4.5%
	Shampoo	649	1.7%	3.1%	3.6%	2.8%
	Conditioners	427	-1.2%	1.1%	1.3%	0.4%
	Air Care	607	-0.1%	2.2%	2.2%	1.4%
	Hand Dishwashing	320	2.3%	1.8%	-1.8%	0.7%
	Laundry Detergents	1,937	4.8%	-1.0%	0.5%	1.4%
	Fabric Softeners	572	1.3%	4.5%	2.6%	2.8%
U.S.	Bar Soap	1,451	0.9%	-3.9%	-2.7%	-1.9%
	Toothpaste	2,219	0.7%	1.1%	4.3%	2.0%
	Manual Toothbrushes	850	-3.4%	0.4%	1.7%	-0.5%
	Men's Razors and Blades	2,163	-0.2%	5.7%	5.1%	3.5%
	Colour Cosmetics	9,995	-1.2%	3.2%	6.6%	2.8%
	Skin Care	10,342	-1.7%	1.9%	3.6%	1.3%
	Deodorants	2,694	-0.2%	1.1%	2.6%	1.2%
	Shampoo	2,109	-0.4%	-1.3%	0.2%	-0.5%
	Conditioners	1,633	-3.8%	1.4%	3.8%	0.4%
	Air Care	2,212	-4.8%	-4.2%	-1.8%	-3.6%
	Hand Dishwashing	1,048	7.4%	0.9%	0.5%	2.9%
	Laundry Detergents	6,822	1.7%	-3.8%	-0.5%	-0.9%
	Fabric Softeners	1,596	-3.7%	-4.4%	-0.1%	-2.8%
Japan	Bar Soap	671	-3.7%	4.4%	2.3%	1.0%
	Toothpaste	1,330	1.3%	1.8%	1.7%	1.6%
	Manual Toothbrushes	594	0.6%	-3.2%	-3.7%	-2.1%
	Men's Razors and Blades	494	-1.9%	-3.1%	-2.0%	-2.3%
	Colour Cosmetics	7,732	-3.7%	-2.6%	-1.7%	-2.7%
	Skin Care	19,527	-2.3%	-1.2%	-0.5%	-1.3%
	Deodorants	558	0.5%	4.5%	5.2%	3.4%
	Shampoo	2,623	-3.0%	2.4%	-0.5%	-0.4%
	Conditioners	2,299	0.6%	-1.2%	-2.0%	-0.9%
	Air Care	1,302	0.9%	5.0%	2.9%	2.9%
	Hand Dishwashing	641	-2.5%	-7.9%	0.0%	-3.5%
	Laundry Detergents	3,979	-0.8%	7.8%	5.3%	4.0%
	Fabric Softeners	1,016	2.5%	3.8%	5.9%	4.1%
Australia	Bar Soap	114	-2.5%	-4.1%	-4.8%	-3.8%
	Toothpaste	289	3.0%	2.0%	1.5%	2.2%
	Manual Toothbrushes	110	3.6%	3.9%	3.0%	3.5%
	Men's Razors and Blades	265	10.0%	6.0%	4.5%	6.8%
	Colour Cosmetics	945	4.0%	3.4%	2.7%	3.4%
	Skin Care	1,555	2.6%	2.4%	1.3%	2.1%
	Deodorants	389	5.6%	5.2%	4.8%	5.2%
	Shampoo	288	3.0%	3.9%	2.5%	3.1%
	Conditioners	207	1.5%	3.0%	2.0%	2.2%
	Air Care	196	7.2%	3.9%	7.9%	6.3%
	Hand Dishwashing	163	8.0%	8.5%	8.6%	8.3%
	Laundry Detergents	590	5.6%	7.1%	-8.5%	1.2%
	Fabric Softeners	97	6.9%	3.2%	5.1%	5.1%

Source: Euromonitor, FactSet and Citi Research

Home and Personal Care: A Few Takeaways from the Data

Comments on Category Size:

- Among the countries we looked at, the largest countries for color cosmetics are (in order of size) the U.S., Japan, Brazil, the U.K. and China.
- Bar soap sales in each of Brazil and India exceeded bar soap sales in any developed market.
- Toothpaste sales were larger than bar soap sales in every developed market we looked at. However, bar soap sales were larger than toothpaste sales in three of the emerging markets we looked at (India, by a factor of more than 2x, Brazil and Mexico).
- Deodorants generated $4.3 billion of sales in Brazil. The next largest countries in terms of deodorant sales were the U.S. (at $2.7 billion) and Germany (at $1.0 billion). No other country posted sales of deodorants higher than $1 billion.
- The U.S. market for men's razors and blades is roughly $2.2 billion according to Euromonitor. Except for Brazil, no other country posted sales of more than $1 billion, with many of the countries posting sales in this category of well less than $500 million.
- In most developed markets, sales of skin care products were higher than sales of laundry detergent in China (by roughly 2x or more in each of France, Germany, Spain, the U.K., and Australia). In Japan, skin care sales were nearly 5x the sales of laundry detergents. However, in emerging markets, sales of skin care products were generally lower than sales of laundry detergent, except for China, Indonesia, Russia, and Brazil.
- In most markets, sales of shampoo were greater than sales of conditioner by a factor of at least 2x (in China, shampoo sales were 4x conditioner sales). However, in each of Brazil and India, conditioner sales were greater than shampoo sales.
- One of the most consistent relative size correlations across the countries was that of laundry detergents to fabric softeners. Specifically, in 10 of the 16 markets we looked at, sales of laundry detergents were roughly 4x the sales of fabric softeners. This ratio was 6x-7x for another three countries, while for the remaining three countries (China, India and Indonesia), sales of laundry detergents were more than 10x sales of fabric softeners.
- The range in sales generated in various markets was narrowest for manual toothbrushes. Specifically, the smallest market for manual toothbrushes was Venezuela (at $83 million), followed by Turkey (at $108 million). The largest market for manual toothbrushes was the U.S. (at $850 million), followed by Japan (at $594 million).

Comments on Category Growth:

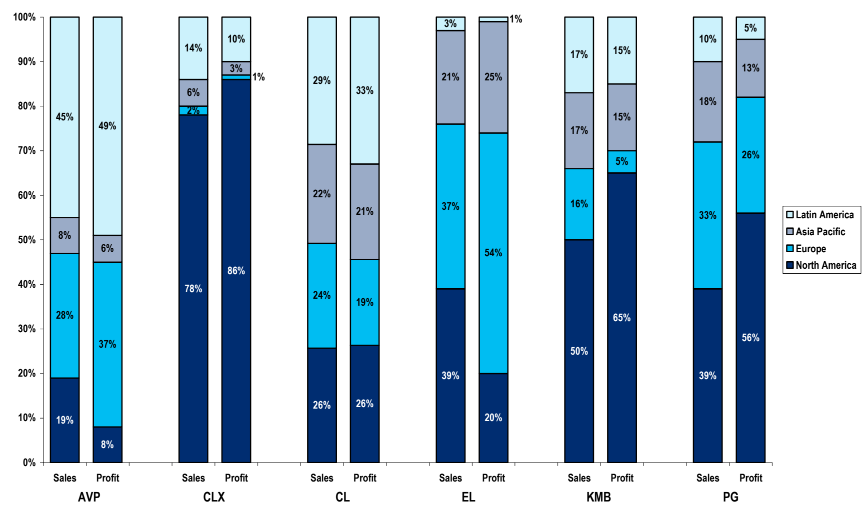
- Not one category that we tracked grew double-digits in any of the eight developed markets that we tracked in any of the last three years (neither on a CAGR basis nor in any one single year). Indeed, in the U.S., six of the categories showed negative growth on a CAGR basis, while in Japan, seven of the categories showed negative growth on a CAGR basis.
- We picked up no discernable trend with regard to the category growth rates in various categories in Europe—e.g., while some countries showed slower growth for some categories in 2011 when compared to 2009 or 2010, there were plenty of examples where growth trends improved. Put simply, the macro economic crisis in Europe does not seem to have had a disproportionate effect on HPC category growth trends in more recent periods.
- In developed markets, color cosmetics was generally among the fastest growth categories on a CAGR basis (+5.3% in the U.K., +3.8% in Germany, +2.8% in the U.S., and +2.7% in France). However, sales of color cosmetics fell 2.7% in Japan and 1.6% in Spain on a CAGR basis.
- Sales of deodorants grew positively on a CAGR basis in seven of the eight developed markets we looked at, with Spain being the only developed market to show negative growth for this category over the last three years.
- HPC sales growth in Venezuela was strongest among the emerging markets, no doubt due to price increases taken to offset inflation. India posted the next-highest levels of category growth, with every HPC category that we looked at posting double-digit increases, except for laundry detergents and fabric softeners.
- Every single HPC category in every single emerging market that we tracked has posted positive growth on a 3-year CAGR basis. Most of this growth has been steadily in the double-digits, though with some single-digit rates of growth seen in various markets for the laundry detergents and bar soap categories, among others.

U.S. Home and Personal Care

Analyst:
Wendy Nicholson

Several of the U.S. HPC companies have large and very profitable businesses in the faster-growing emerging markets, as shown in the figure below. Of note, we consider CL to have the strongest and most well-balanced exposure to these markets, given their long track record of operating in markets such as Brazil, Mexico, India, and parts of Eastern Europe. As a result of CL's history of continued reinvestment in these markets, CL holds dominant market shares in several of its categories (most notably, toothpaste), and in turn, CL boasts very high profit margins in several of the fastest growing markets. As a result, CL is often viewed as the best way to play emerging markets among the U.S. HPC companies.

Figure 31. AVP and CL Are the Most Global of the U.S. HPC Companies Today, But We Suspect That PG May Show the Highest Rate of Change in Its International Footprint in Coming Years



Source: Company Reports and Citi Research

That said, when we look forward and try to anticipate who might be the bigger beneficiary of *change* in terms of its emerging market footprint, we believe PG (PG.N; US$69.28; 1) might be the better "play." Specifically, while PG derives only 38% of its revenues from emerging markets today, the company has stated a target of deriving 50% of its revenues from emerging markets by 2020. PG intends to grow its presence in these markets through a combination of (i) new market penetration (launching new products in new categories in new markets), (ii) category growth and (iii) market share gains. And, while this initiative has been expensive thus far for PG (as most of its newer markets have lower operating margins than its more developed markets owing to higher levels of investment spending and a lack of scale leverage), PG expects several of its bigger newer markets, including Brazil and India, to be near an inflection point from a profitability perspective. While PG is often criticized for both its lack of exposure to faster growing emerging markets and for the near-term cost of expanding its business into these markets, to the extent PG is able to sustain both a higher level of revenue growth owing to a more global footprint but also an overall higher profit margin as the drag from these newer markets abates, we believe PG can evolve to become more of a "global growth stock."

Japan Home and Personal Care

Analyst:
Nobuyoshi Miura / Hidemaru Yamaguchi

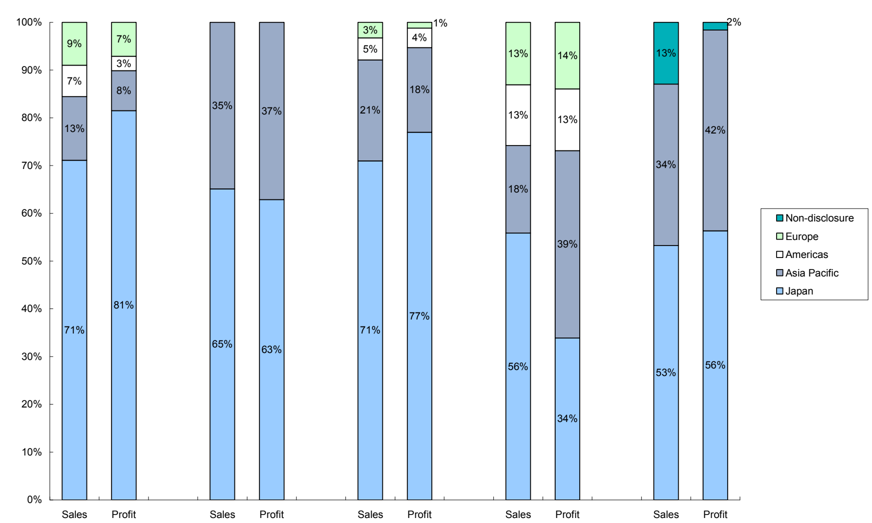
Certain Japanese HPC companies are benefiting from growth drivers in Asia. Major examples include Shiseido (cosmetics), Unicharm (diapers, sanitary products), Mandom (men's cosmetics), Rohto Pharmaceutical (eye treatments, lip cream), and Kao (chemicals, cosmetics, detergents). These are all companies that are leveraging the brands they have developed in Japan and their production knowhow to expand in Asia. With the Japanese market maturing, there are also fields like cosmetics where negative growth continues. Asian earnings contributions are still below 50% at most companies. We anticipate rising profits from China, Indonesia, Thailand, and other countries.

Amid this environment, our top pick is Kao (4452.T; ¥2,291; 1). First, it plans its full-scale entry into the Chinese markets for diapers, detergents and sanitary products from 2013. Second, it has made dramatic improvements to its domestic cosmetics earnings by focusing its list of brands and reducing costs. Third, it returned to a net cash position for the first time in seven years in FY3/12, and we anticipate shareholder compensation measures going forward. Kao has a very high profile in Japan, but its latent potential in Asia is relatively great.

Rohto Pharmaceutical makes over-the-counter drugs and commands a substantial share of the eyedrop market. It has also developed and expanded its skincare business, starting with the acquisition of Japanese marketing rights from Mentholatum in 1977 and the subsequent purchase of the company in 1988. In 2004, Rohto launched its Hada Labo line of skincare cosmetics, which became a major hit on the strength of their high quality and reasonable prices. Hada Labo has seen significant growth in China, and elsewhere in Asia.

We estimate that Shiseido generated about 13% of sales and 36% of profits in China in FY3/12. However, as marketing investments have surged, profit margins are likely to remain roughly flat in our view. Furthermore, we expect the company's declining market share in Japan to squeeze earnings.

Figure 32. HPC companies' business portfolios by region (FY2011)



Source: Company Reports and Citi Research

Asia Pacific Home and Personal Care

Analysts:
Eddie Lau
Jasmine Bai
Jamshed Dadabhoy
Ally Park

Our key recommendations on Home and Personal Care companies in Asia Pacific are Hengan (1044.HK; HK$75.80; 1) and Dabur (DABU.BO; Rs124.90; 1). Personal care companies should also benefit from a decline in input cost this year. On the other hand, we are concerned with the competitive intensity of the key segments in India and their lofty valuations. Our cautious outlook on Korea macro and disposable income growth also lead us to be conservative on the domestic cosmetic operations, with the high end or mass premium potentially losing share to lower end brands. Hengan's 1H12 tissue sales only grew 13% YoY on lack of capacity. We expect stronger growth in 2H12 with expanded capacity from July. Tissue gross margin improved 4.7ppt YoY in 1H12 on decline in pulp cost, but should trend down slightly in 2H12. Sanitary napkins sales grew 23% in 1H12 driven by 15% volume growth and gross margin improved 4.5ppt. Its diaper sales was disappointing, up only 7% YoY as it continues to struggle with new products. We think the personal care segment has the highest visibility on margin improvement among China staples. We forecast EPS CAGR 26.6% FYY11-14E.

Dabur is a leading ayurveda-based personal care, health care and pharmaceutical products supplier in India. This is a niche market segment and Dabur's 1QFY13 revenue grew 21% YoY—with 8% growth in oral care, 23% in shampoo and 18% in health supplements. We continue to forecast double-digit volume growth but a weak monsoon could impact demand. Raw material cost to sales fell 217bps YoY in 1QFY13 and we expect gross margin to expand by around 200bps for FY13E. We forecast EPS CAGR 20% between FY12 and FY15E.

We are less positive on Hindustan Unilever, Colgate Palmolive and Marico mainly on valuation although they reported better than expected results. Hindustan Unilever reported 19% growth in domestic FMCG, 17% in food and 7% in beverages revenue. There were positive mix changes in detergents, soaps and beverages. Raw material cost to sale declined 220bps YoY. Colgate Palmolive's 1QFY13 revenue rose 20% YoY on about 15% volume growth and 5%-6% price and mix changes. Its 35bps increase in raw materials to sales ratio was offset by 185bps decline in other overhead expenses. Marico reported 22% growth in 1QFY13 revenue with volume growth in the high teens. The group sees good performance in rural India and market share gain in some categories such as value added hair-oils. Raw materials to sales fell 656bps but adverting cost to sales increased 296bps YoY.

We are also cautious on the personal care sector in Korea, and have Neutral ratings on LGH&H and Amorepacific. We are concerned that lower end brand shops could take market share from the premium cosmetic brands as consumers become more value conscious. We have become more conservative on the FY12-13E operating margin of LGH&H and Amorepacific. LGH&H derives around 5% of its revenue from China, in both beauty and health care products. Amorepacific derives around 8% of its revenue from China.

Tobacco

Figure 33. Emerging **Market Tobacco Category Trends**

Country	Category	Volumes in bn of sticks 2011	YoY Change in Volumes 2009/2008	2010/2009	2011/2010	CAGR
China	Cigarettes	2,465.0	5.0%	2.8%	4.8%	4.2%
India	Cigarettes	111.0	-1.6%	-0.4%	5.8%	1.2%
Indonesia	Cigarettes	294.0	5.3%	3.9%	8.8%	6.0%
Turkey	Cigarettes	91.2	0.3%	-13.2%	-2.3%	-5.2%
Brazil	Cigarettes	92.7	-9.5%	-2.6%	-0.2%	-4.2%
Mexico	Cigarettes	34.3	-3.5%	2.5%	-21.1%	-7.9%
Russia	Cigarettes	375.0	-2.7%	-1.3%	-2.6%	-2.2%

Country	Category	Global Volume Contribution 2011	YoY Change in Contribution (pts) 2009/2008	2010/2009	2011/2010	Avg.
China	Cigarettes	41.6%	1.7	1.1	1.6	1.5
India	Cigarettes	1.9%	0.0	0.0	0.1	0.0
Indonesia	Cigarettes	5.0%	0.2	0.2	0.4	0.3
Turkey	Cigarettes	1.5%	0.0	-0.2	0.0	-0.1
Brazil	Cigarettes	1.6%	-0.2	0.0	0.0	-0.1
Mexico	Cigarettes	0.6%	0.0	0.0	-0.2	-0.1
Russia	Cigarettes	6.3%	-0.2	-0.1	-0.2	-0.2

Note: Global volumes exclude sales in duty-free outlets.

Source: Company Reports, TMA and Citi Research Estimates

Figure 34. Developed Market Tobacco Category Trends

Country	Category	Volumes in bn of sticks 2011	YoY Change in Volumes 2009/2008	2010/2009	2011/2010	CAGR
France	Cigarettes	54.1	2.6%	-0.4%	-1.3%	0.3%
Germany	Cigarettes	84.5	-1.6%	-1.9%	0.7%	-0.9%
Italy	Cigarettes	85.5	-3.0%	-2.5%	-1.7%	-2.4%
Spain	Cigarettes	60.6	-9.8%	-11.0%	-16.6%	-12.5%
U.K.	Cigarettes	43.9	0.7%	-1.1%	-2.0%	-0.8%
U.S.	Cigarettes	293.1	-8.7%	-3.6%	-3.5%	-5.3%
Japan	Cigarettes	195.3	-5.1%	-7.4%	-10.8%	-7.8%
Australia	Cigarettes	19.6	0.0%	-8.0%	-5.8%	-4.6%

Country	Category	Global Volume Contribution 2011	YoY Change in Contribution (pts) 2009/2008	2010/2009	2011/2010	Avg.
France	Cigarettes	0.9%	0.0	0.0	0.0	0.0
Germany	Cigarettes	1.4%	0.0	0.0	0.0	0.0
Italy	Cigarettes	1.4%	-0.1	0.0	0.0	0.0
Spain	Cigarettes	1.0%	-0.2	-0.2	-0.2	-0.2
U.K.	Cigarettes	0.7%	0.0	0.0	0.0	0.0
U.S.	Cigarettes	4.9%	-0.5	-0.2	-0.2	-0.3
Japan	Cigarettes	3.3%	-0.2	-0.3	-0.4	-0.3
Australia	Cigarettes	0.3%	0.0	0.0	0.0	0.0

Note: Global volumes exclude sales in duty-free outlets.

Source: Company Reports, TMA and Citi Research Estimates

Tobacco: A Few Takeaways from the Data

Comments on Category Size:

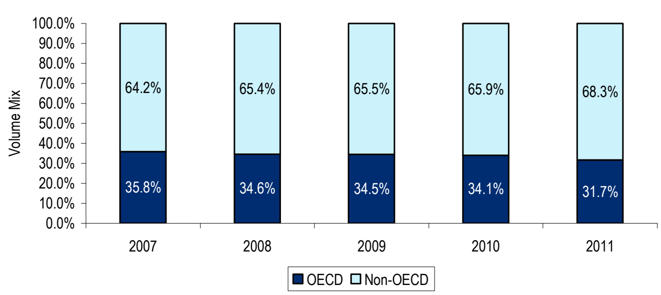
- China is the single biggest cigarette market in the world, representing nearly 42% of global volumes (excluding duty-free), though this market is largely closed to the international tobacco companies, as the two major manufacturers are both government-owned entities.
- Indonesia is the world's third largest cigarette market (after China and Russia), representing 5.0% of global volumes, which contribution to global volumes has been expanding as consumption has resulted in outsized volume growth in the market.
- In the U.S., while cigarette volumes have been falling steadily (owing to declines in smoking incidence and per capita consumption), the market is still the fourth biggest in the world.

Comments on Category Growth:

- Disruptive excise tax increases often result in outsized volume declines, as was seen in:
  - Spain, which saw a -12.5% CAGR in cigarette industry volume declines over the last three years,
  - Mexico in 2011, resulting in Mexican cigarette industry volumes declining at a notable 21.1%, and
  - Japan, where a combination of a disruptive excise tax increase in 2010 and the earthquake / tsunami in 2011, drove cigarette volumes to decline at a -7.8% CAGR over the last three years.

Over the last four years, we have seen a steady mix shift in terms of international cigarette volumes, with the contribution from OECD (Organization for Economic Co-operation and Development) markets have fallen to 31.7% in 2011 (from 35.8% in 2007), owing to four consecutive years of volume declines.

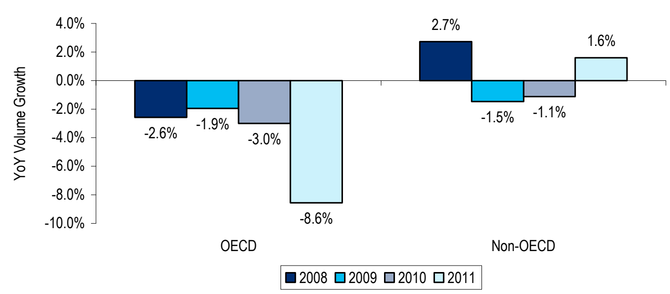
Figure 35. Cigarette Volume Mix by Geography



Note: Volumes exclude sales in the U.S. and in duty-free outlets.

Source: Company Reports, TMA and Citi Research Estimates

Figure 36. Volume Growth by Geography



Note: Volumes exclude sales in the U.S. and in duty-free outlets.

Source: Company Reports, TMA and Citi Research Estimates

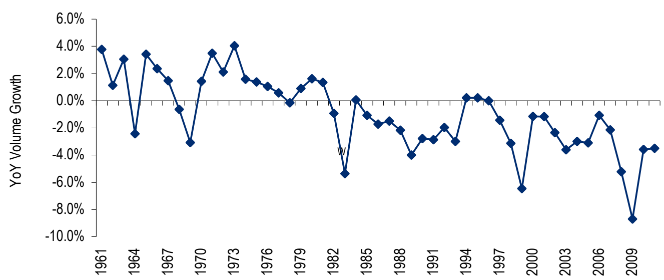
U.S. Tobacco

Analyst:
Vivien Azer

Comments on Category Dynamics:

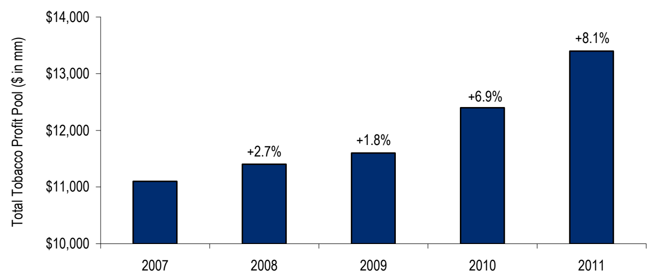
Like many developed markets around the world, cigarette volumes in the U.S. have been challenged for some time, generally falling 3%-4% per year (absent significant, disruptive excise tax increases). Despite the industry's shrinking volumes, however, the U.S. tobacco industry remains highly rational, as the pricing mechanism is alive and well (with our companies having announced higher cigarette prices in June, and we expect another price increase later in 2012). As a result, the profit pool continues to grow steadily.

Figure 37. Volumes Have Typically Declined 3%-4% Per Year



Source: Company Reports and Citi Research

Figure 38. However, the Total Tobacco Profit Pool Has Grown Steadily



Source: Company Reports and Citi Research

RAI

RAI (RAI.N; US$43.36; 1) is our favorite name in U.S. tobacco. While the company's cigarette market shares have come under competitive pressure, we remain fans of the story. In the near term, we believe that strong results out of their MST and Santa Fe segments, coupled with healthy margin expansion, will lead to MSD-HSD earnings growth. Longer term, we believe that RAI has a first-mover advantage with next generation tobacco products, as detailed below:

1. FDA Submissions for Eclipse. RAI has submitted to the FDA two modified risk applications for the Eclipse brand of cigarettes; one as a reduced-exposure product and one as a reduced-risk product. As a reminder, Eclipse was developed by R.J. Reynolds Tobacco Co. in the mid-1990s and was put into limited distribution in 2000. The product contains a carbon tip, which heats (rather than burns) a tobacco and glycerin mixture when lit, allowing a smoker to draw a smoke that is purported to be comprised primarily of water vapor and glycerin.

2. Dissolvables. RAI's testing of Camel Dissolvables (both domestically and in Taiwan) has shown that there is "significant consumer interest" in the product format. However, conversion rates to the products remain the key challenge, a trend that the company also noted has been seen in the e-cigarette category.

3. Snus. There are now three million U.S. consumers that regularly purchase snus (vs. 8 million moist snuff users). RAI, which holds a significant share of the domestic snus market via its Camel Snus offerings (~70%), remains encouraged by the initial number of users after the product's first four years of national distribution in the U.S.

4. Other Opportunities with BAT. RAI and BAT (which owns 42% of RAI) have historically had a collaborative relationship, most notably with respect to capsule technology which RAI licenses to BAT. RAI's ability to both "monetize" and "operationalize" its innovation on a global stage across the tobacco and nicotine spectrum remains a key opportunity for the company.

International Tobacco

There are four truly international tobacco companies: Philip Morris, BAT, Japan Tobacco, and Imperial Tobacco. Of this BAT has the largest exposure to emerging markets, and Imperial the least. However, **our top pick in the sector is JT (2914.T; ¥2,260; 1)**, because we consider its growth outlook is the best. Furthermore we think it is particularly interesting at the moment because the shares have fallen about 14% in the month to September 10, while PM is down only 4% and IMT is down 10%.

In tobacco, as in other sectors, we regard emerging market exposure as a positive. For most sectors there is a better volume outlook in EMs. However with tobacco, we like EMs not only because volume trends are less bad (and in the case of Indonesia quite positive) but equally if not more importantly because we see more pricing upside there. It is also true that in general, the mix dynamic and the regulatory clampdown is more attractive.

Figure 39. Tobacco Retail Value – Asia Pacific (local currencies)

	China	India	Korea	Malaysia
CAGR FY11-16E	17.0%	8.9%	0.0%	0.2%

Source: Euromonitor

Analyst:
Nobuyoshi Miura

Japan Tobacco

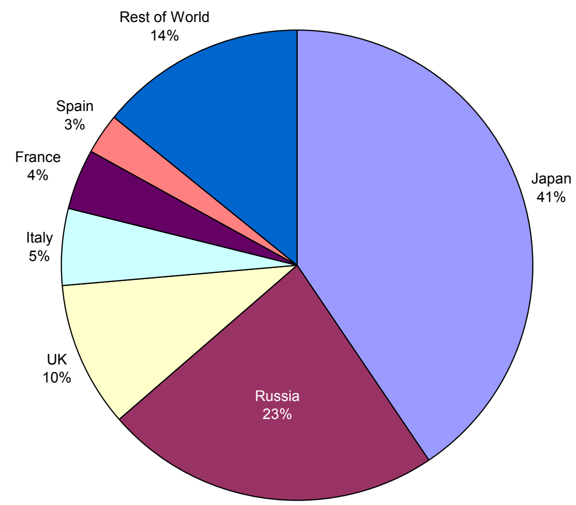
We see multiple opportunities for JT to grow:

- **Russia.** We believe its exposure to Russia (23% of profit) is the biggest positive, even if national volumes in that market are likely to be flat or slightly negative. We think the profit pool in Russia will expand rapidly in the next few years because we expect a combination of rapid price increases there and trading up, particularly from the very low-profit discount sector to mid-price, where JT dominates. We are not worried about the increased regulations that have been proposed as we think they will make little difference to demand

- **Japan.** Although this is a developed market with an aging population, we believe profits can increase significantly here on a three to four year view as we expect more price rises. Currently mainstream cigarettes are only Y410 (US$5.20) per pack. Japan is currently 41% of profit.

- **Europe.** Currently the EU is the toughest region globally, with volume declines currently trending at 6% in the EU market, according to PM. JT's exposure is only 22%, and it is gaining share currently (along with BAT). Pricing is strong in this region, but in many markets, cigarette prices are already very high, making it hard to increase them much more at a time when disposable incomes, particularly for lower income groups, are under pressure. JT has no exposure to Australia.

Figure 40. Japan Tobacco – EBITA Breakdown, FY2012E



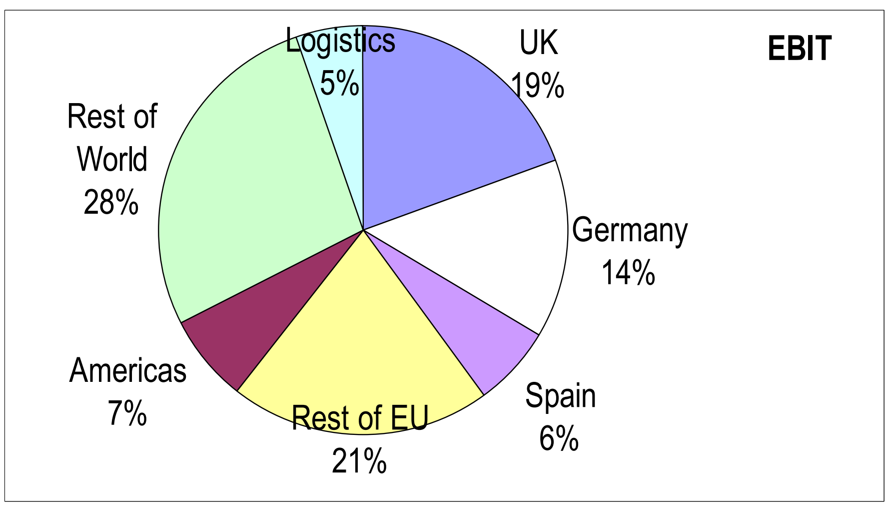
Source: Company Reports and Citi Research Estimates

Analyst:
Adam Spielman

Imperial Tobacco

We have recently downgraded the stock to Neutral, because about 60% of its profit comes from the EU, as volumes appear to be falling at an accelerating rate, making it hard to grow profit. In addition, we think it is likely (though not 100% certain) that more countries in the EU will say that they plan to adopt plain packaging, following the lead of Australia.

Figure 41. Imperial Tobacco – Operating Profit Breakdown, FY12E



Source: Company Reports and Citi Research Estimates

Analyst:
Jamshed Dadabahoy

ITC

ITC is the leading cigarette manufacturer and marketer in India with about 74% market share by volume. We think solid cigarette profit growth and lower non-cigarette FMCG losses will drive future earnings. The company reported 15% revenue and 20% recurrent after tax earnings growth YoY in 1QFY13. Cigarette volume sales were flat despite 13% average price hike during the period. Cigarette EBIT increased 21% with 130bps expansion in margin on pricing leverage and favorable mix. Cigarettes accounted for 63.4% of group revenue and 81.2% EBIT in 1QFY13. We forecast 17.5% EPS CAGR between FY12 and FY15E.

Analyst:
Ally Park

KT&G

We see KT&G as a defensive holding in the Korea market. It is the leading cigarette company in Korea with around 59% market share in 2011. Exports account for 43.2% of its production volume, and 25.5% of KT&G's parent-based sales in 2011. Potential positive catalysts to KT&G include (1) domestic market share rising to 63% in 3QCY12 (FY12E 61%), (2) earnings upside from potential ASP growth on tax hikes, (3) estimated 8%-10% export volume growth including expansion in China quota, and (4) narrowing of losses from new businesses. We forecast 5% EPS CAGR FY11 and FY14E.

Analyst:
Petrina Chong

BAT Malaysia

We have a Neutral rating on BAT Malaysia on limited upside and unexciting growth prospects as the industry sees declining volume and increasingly regulated environment. BAT Malaysia has around 62.3% market share in Malaysia with brands including Dunhill, Pall Mall, Kent, and Peter Stuyvesant. The group reported 14.5% YoY growth in 1H12 net profit. Its 2Q12 margin beat expectation on lower than expected operating expenses on a combination of permanent cost reduction and timing differences for marketing expenses. Its cigarette volume increased 1.6% YoY in 1H12 compared to industry growth of 0.6%.

Analyst:
Vivien Azer

PM

We have a Neutral rating on PM as we believe that the shares are fully valued at current levels. That said, at more reasonable valuations, PM offers excellent exposure to the global growth gap. Specifically, the company is the global market share leader in tobacco, with a leading 27% share in the top 10 non-OECD markets and a leading 35% share in the top 10 OECD markets around the world. This balanced geographic exposure should allow the company to deliver double-digit local currency EPS growth over time, though in 2012, currency headwinds and weak volumes in Europe will weigh on EPS growth.

India

Figure 42. India Fast Facts

FAST FACTS:

Market Size - 111 billion sticks (2011)

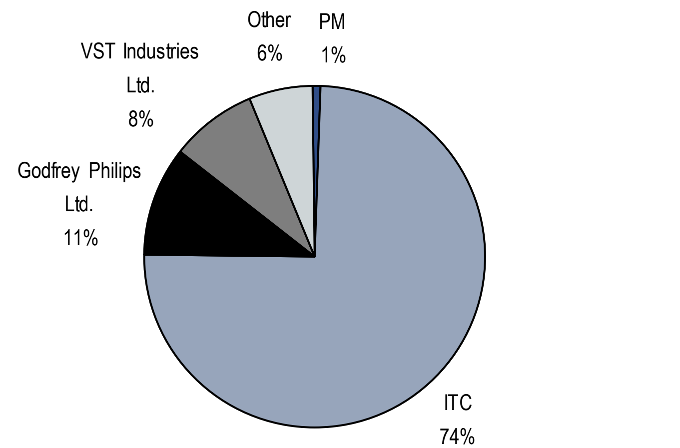
Smoking Incidence - 14% (2010)

Tax Incidence - 52% of retail sales price (2011)

Warning Labels - 40% front / 0% back; Includes pictorial warnings

Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

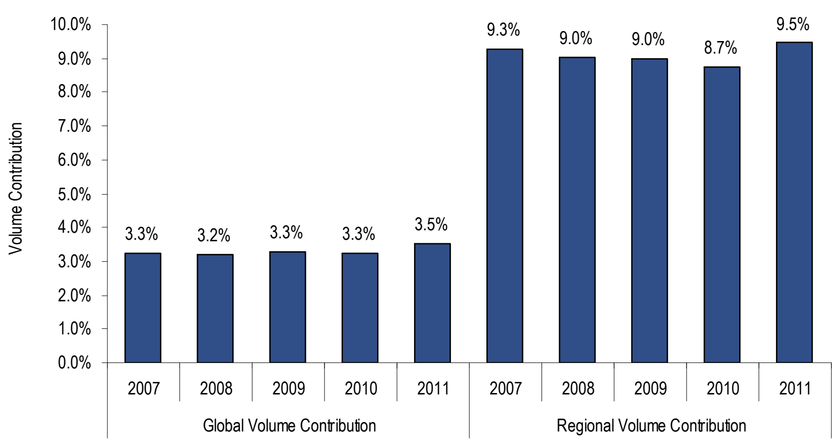
Figure 43. 2011 Country Market Shares



Note: BAT holds a 32% stake in ITC and a 32% stake in VST. PM holds a 25% stake in Godfrey Philips.

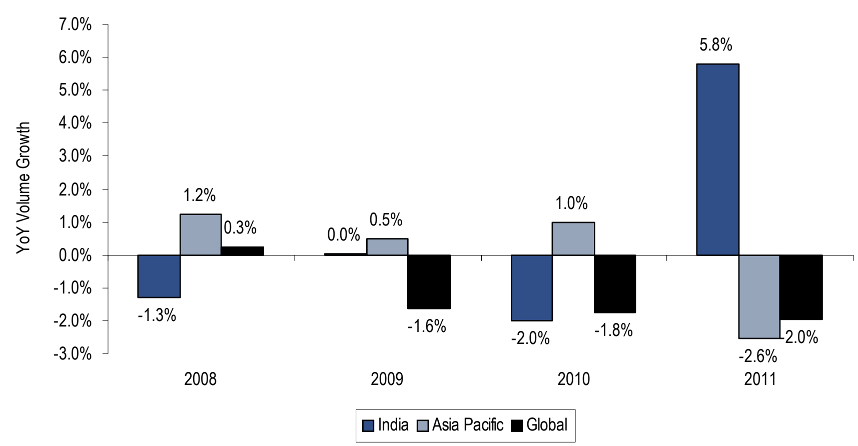
Source: Company Reports, TMA and Citi Research Estimates

Figure 44. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

Figure 45. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

Indonesia

Figure 46. Indonesia Fast Facts

FAST FACTS:

Market Size - 294 billion sticks (2011)

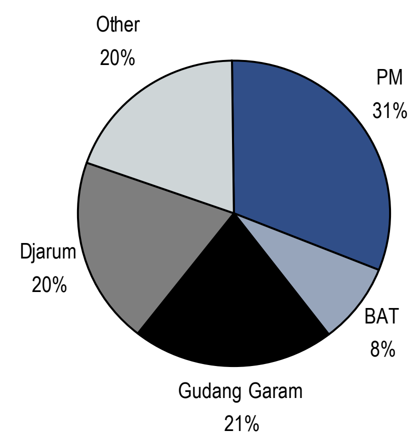
Smoking Incidence - 33% (2010)

Tax Incidence - 49% of retail sales price (2011)

Warning Labels - 10% front / 0% back; No pictorial warnings

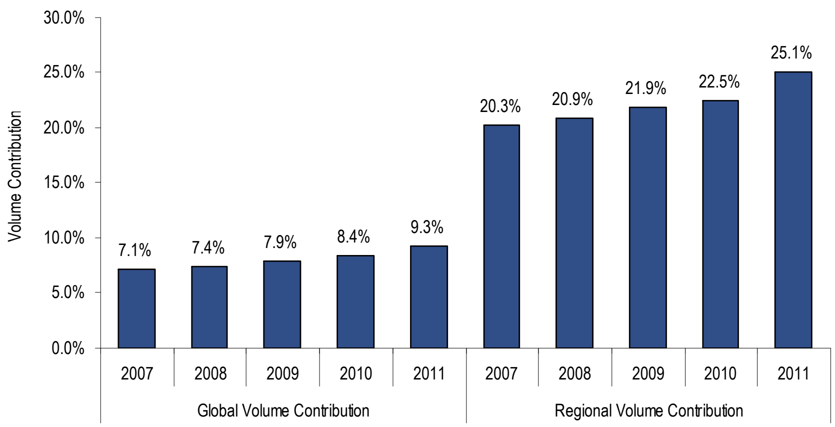
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 47. 2011 Country Market Shares



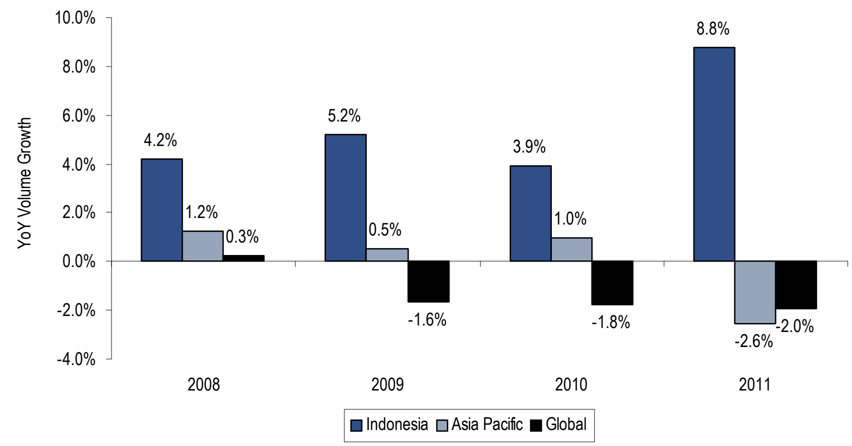
Source: Company Reports, TMA and Citi Research Estimates

Figure 48. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

Figure 49. Volume Growth Comparison



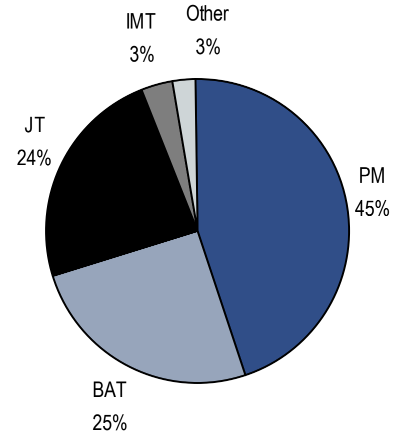
Source: Company Reports, TMA and Citi Research Estimates

Turkey

Figure 50. Turkey Fast Facts

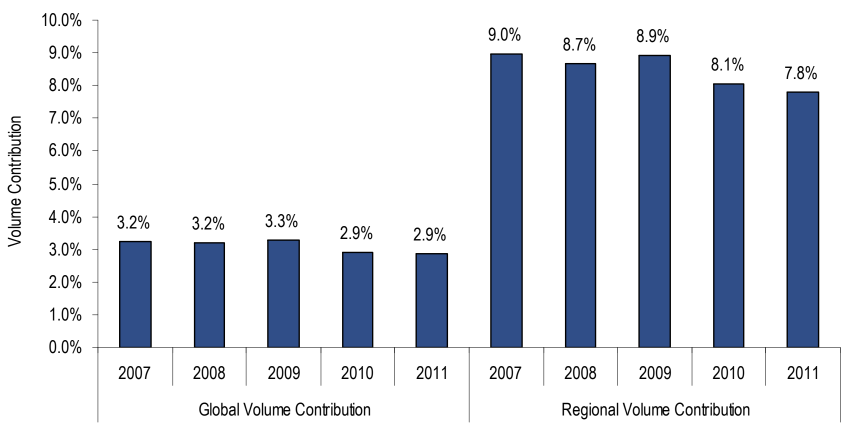
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 51. 2011 Country Market Shares



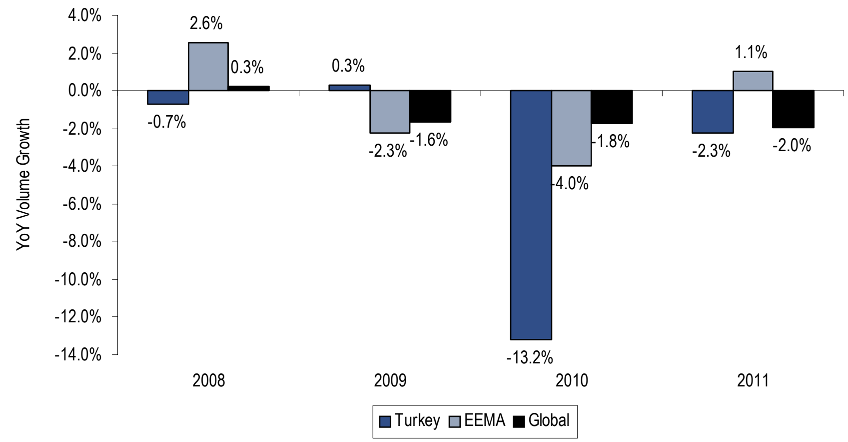
Source: Company Reports, TMA and Citi Research Estimates

Figure 52. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

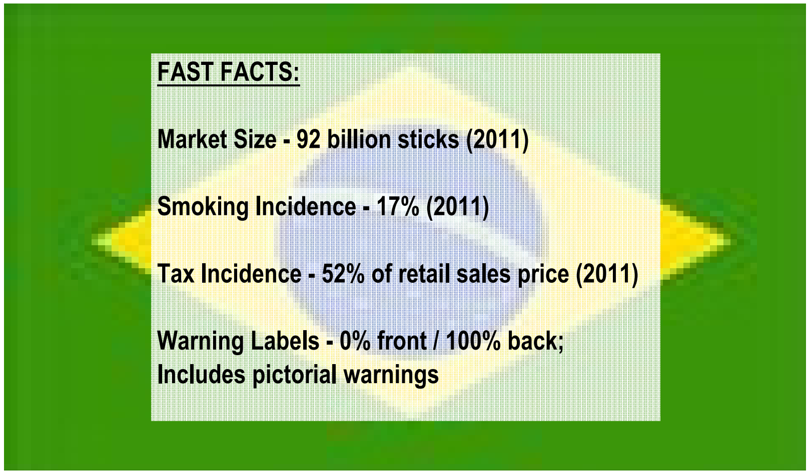
Figure 53. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

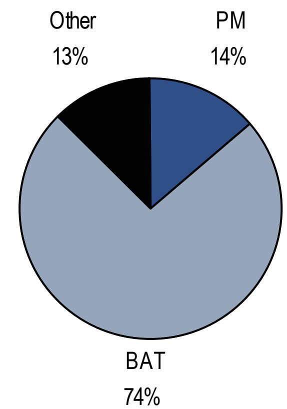
Brazil

Figure 54. Brazil Fast Facts



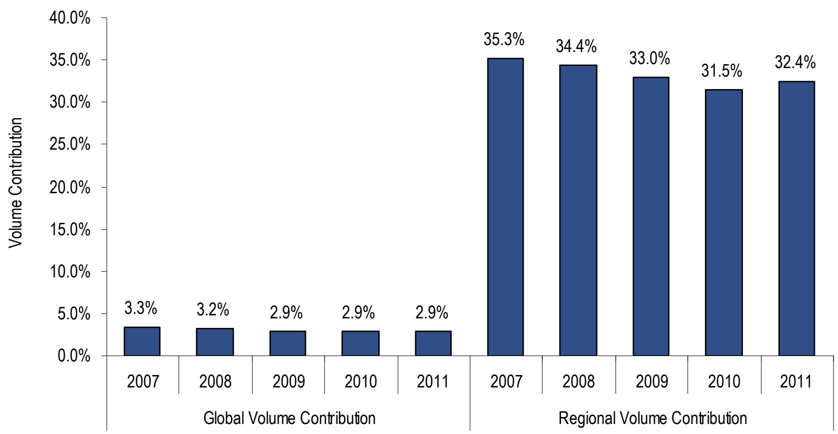
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 55. 2011 Country Market Shares



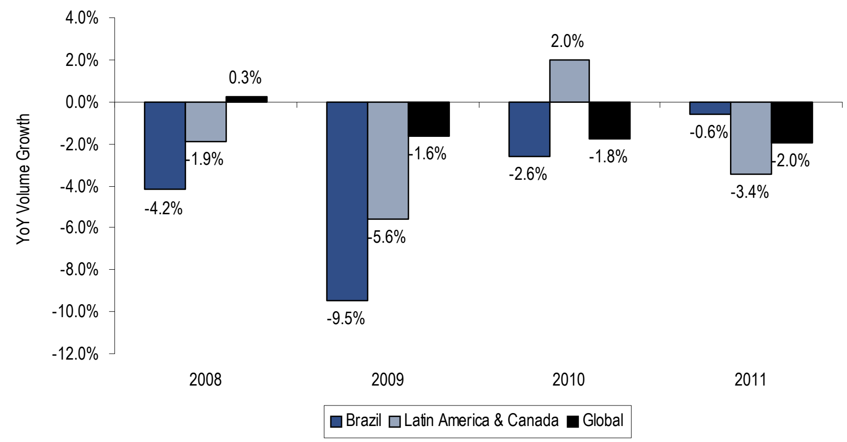
Source: Company Reports, TMA and Citi Research Estimates

Figure 56. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

Figure 57. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

Mexico

Figure 58. Mexico Fast Facts

FAST FACTS:

Market Size - 34 billion sticks (2011)

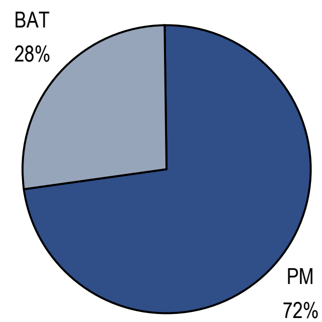
Smoking Incidence - 16% (2010)

Tax Incidence - 66% of retail sales price (2011)

Warning Labels - 30% front / 100% back; Includes pictorial warnings

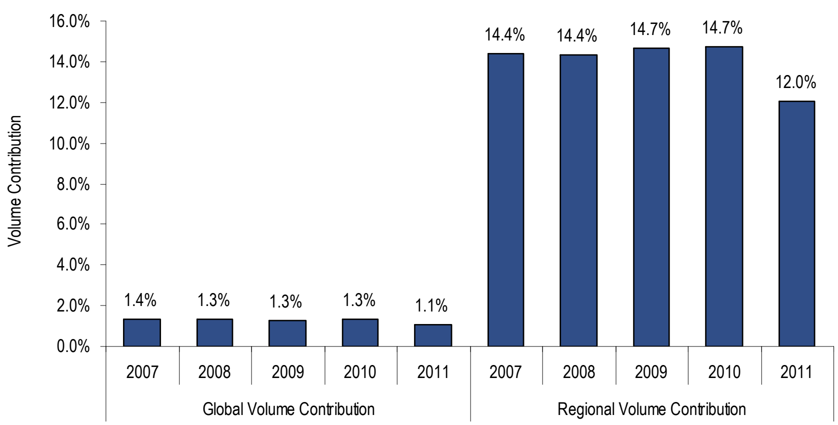
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 59. 2011 Country Market Shares



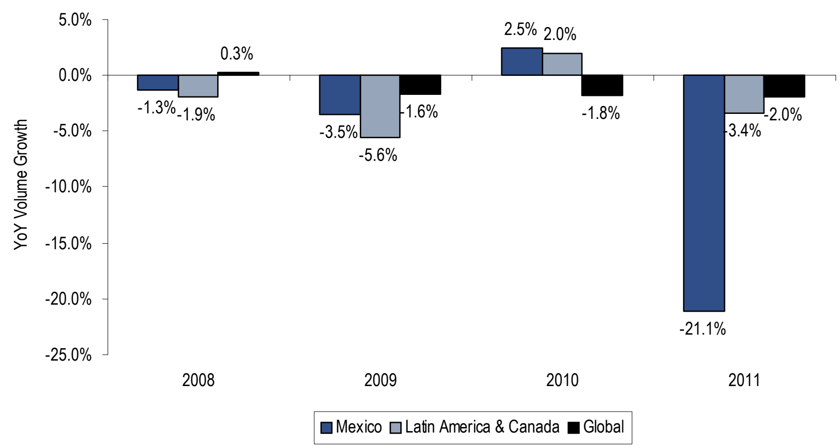
Source: Company Reports, TMA and Citi Research Estimates

Figure 60. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

Figure 61. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

Russia

Figure 62. Russia Fast Facts

FAST FACTS:

Market Size - 375 billion sticks (2011)

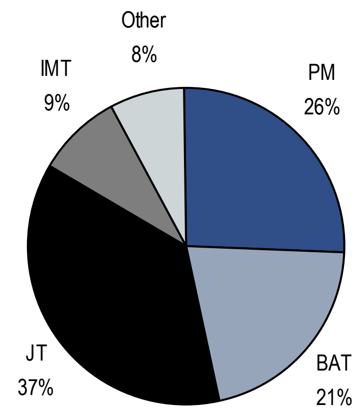
Smoking Incidence - 40% (2009)

Tax Incidence - 45% of retail sales price (2011)

Warning Labels - 30% front / 50% back; No pictorial warnings

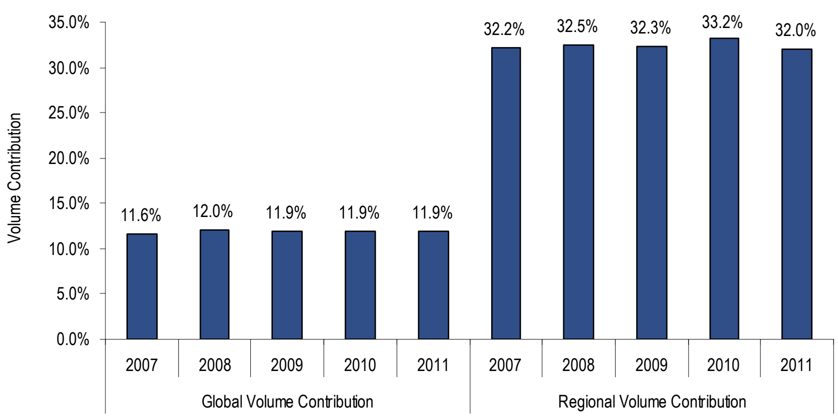
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 63. 2011 Country Market Shares



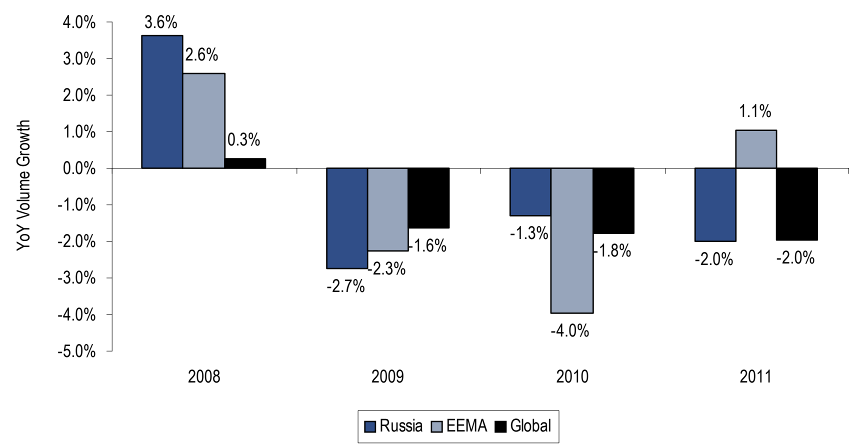
Source: Company Reports, TMA and Citi Research Estimates

Figure 64. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

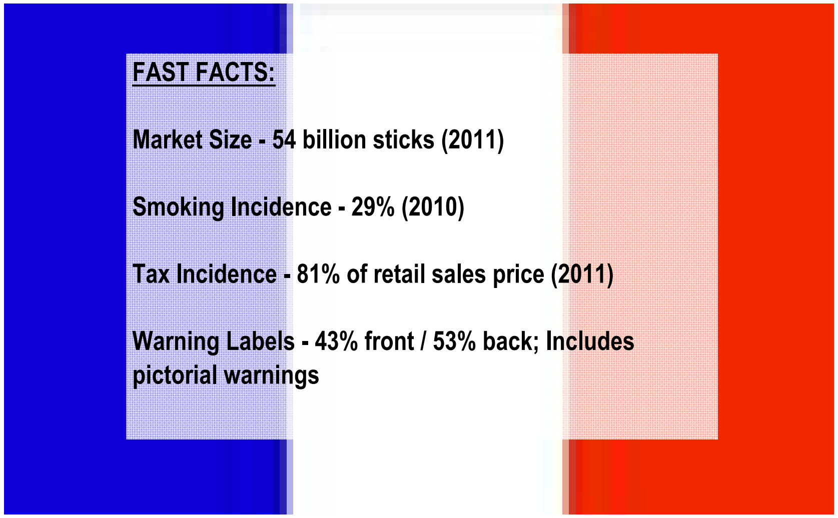
Figure 65. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

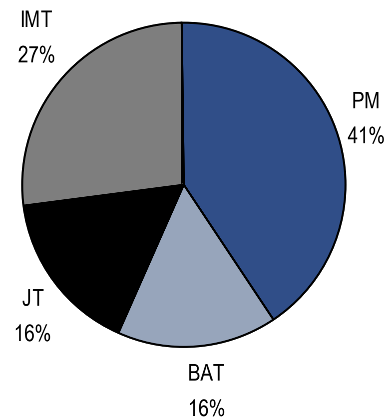
France

Figure 66. France Fast Facts



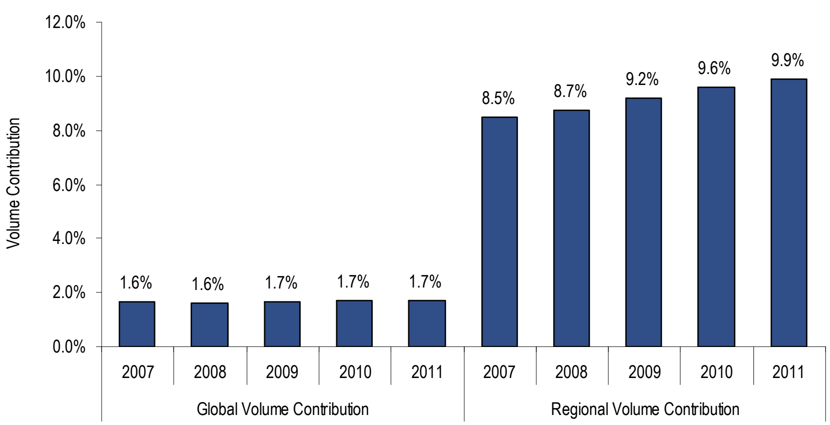
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 67. 2011 Country Market Shares



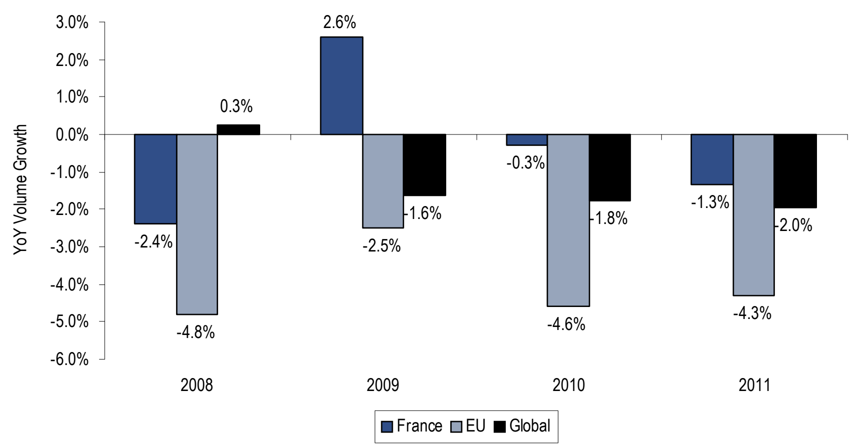
Source: Company Reports, TMA and Citi Research Estimates

Figure 68. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

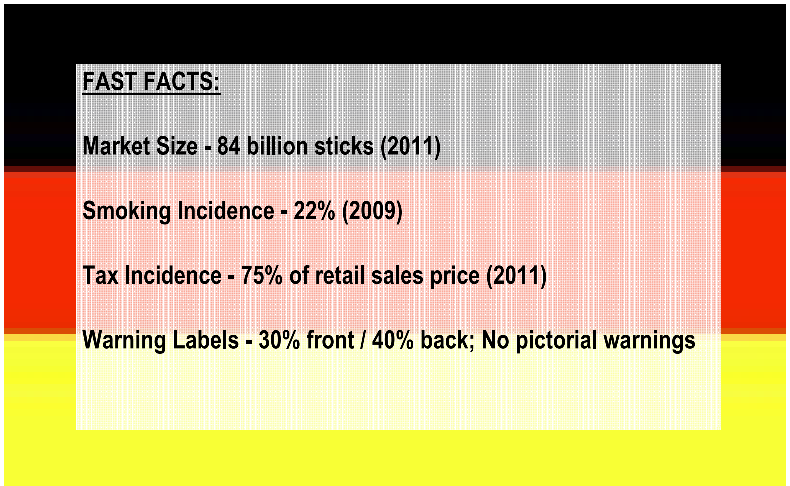
Figure 69. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

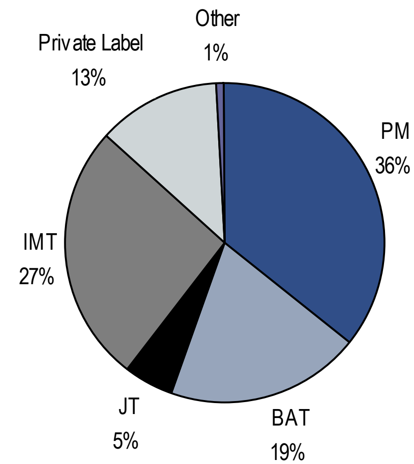
Germany

Figure 70. Germany Fast Facts



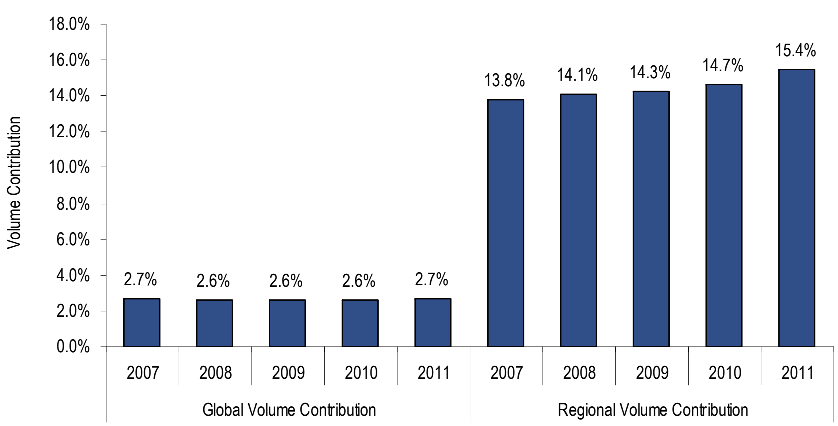
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 71. 2011 Country Market Shares



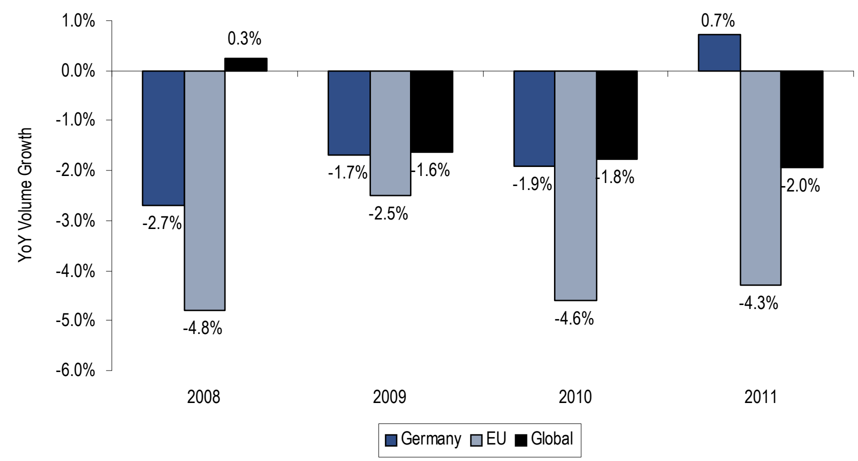
Source: Company Reports, TMA and Citi Research Estimates

Figure 72. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

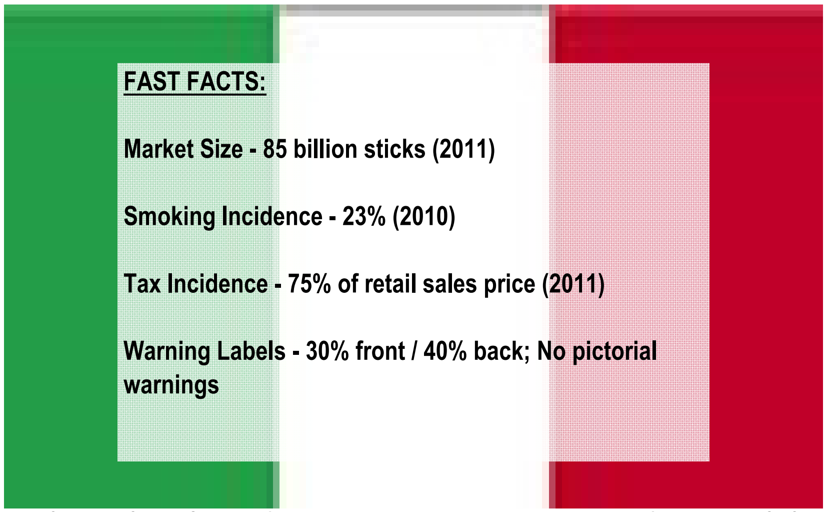
Figure 73. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

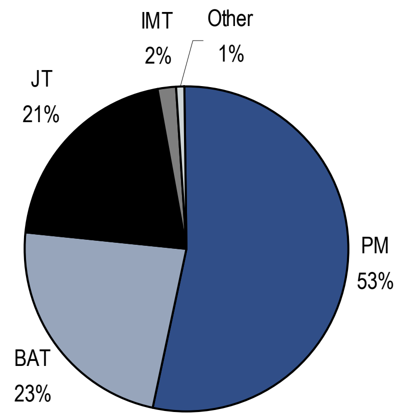
Italy

Figure 74. Italy Fast Facts



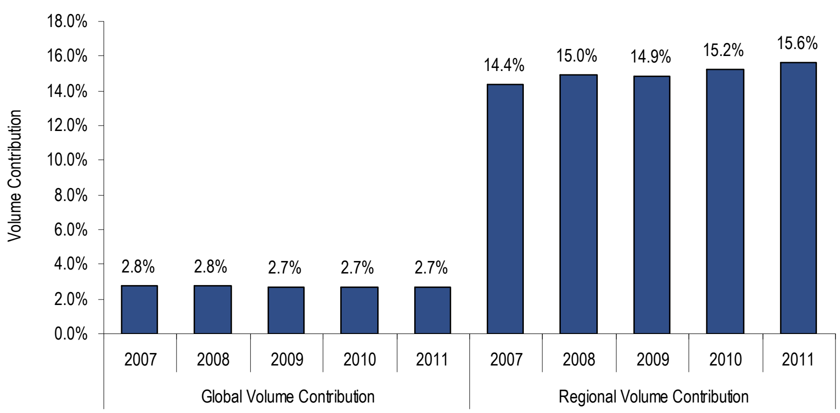
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 75. 2011 Country Market Shares



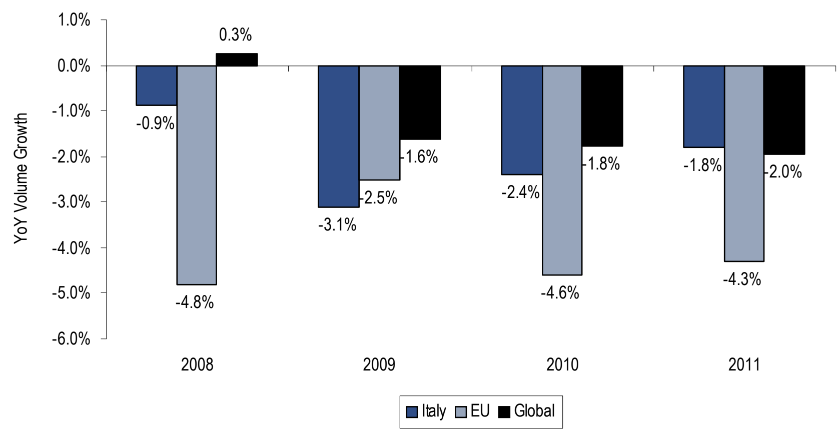
Source: Company Reports, TMA and Citi Research Estimates

Figure 76. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

Figure 77. Volume Growth Comparison



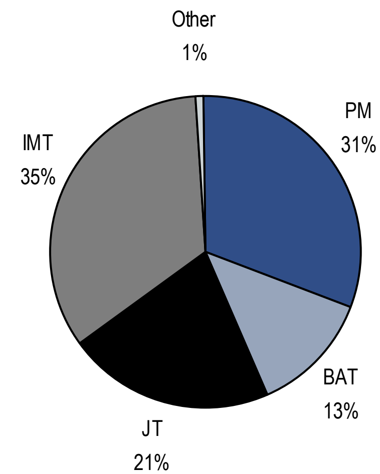
Source: Company Reports, TMA and Citi Research Estimates

Spain

Figure 78. Spain Fast Facts

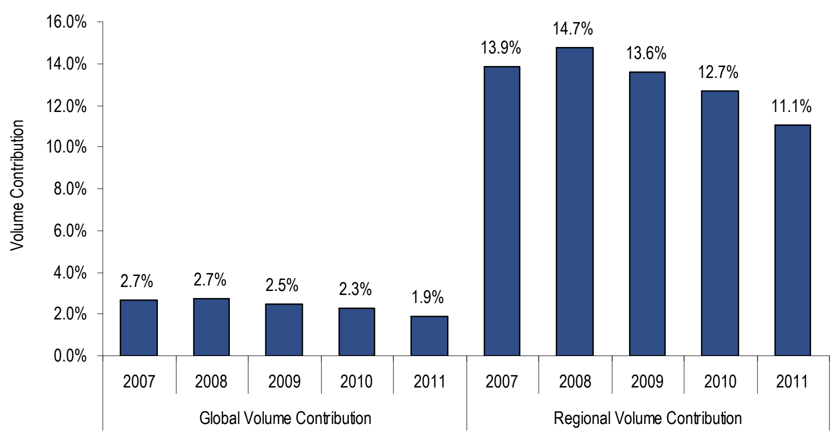
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 79. 2011 Country Market Shares



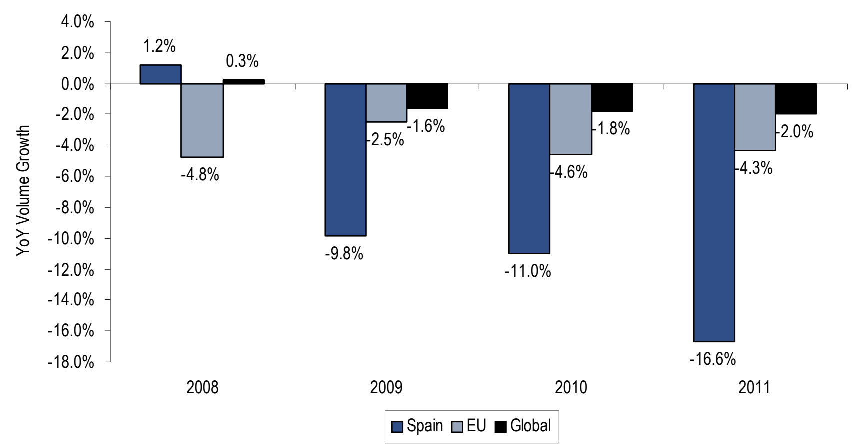
Source: Company Reports, TMA and Citi Research Estimates

Figure 80. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

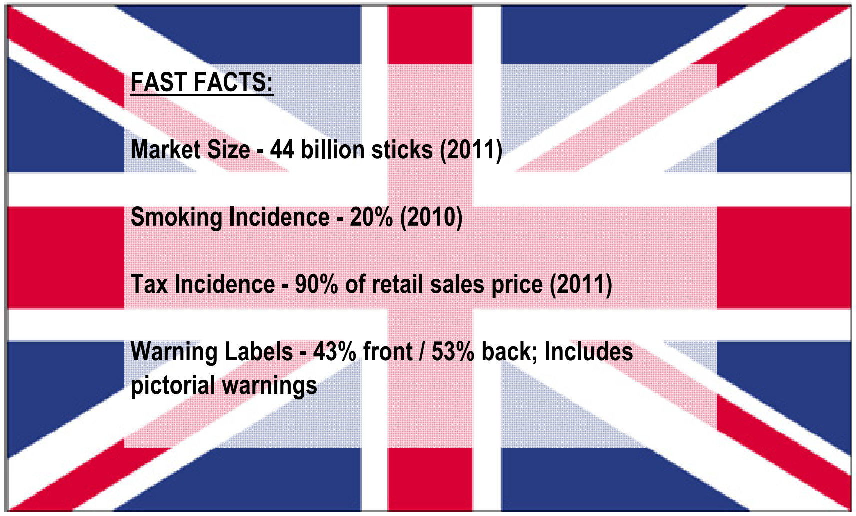
Figure 81. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

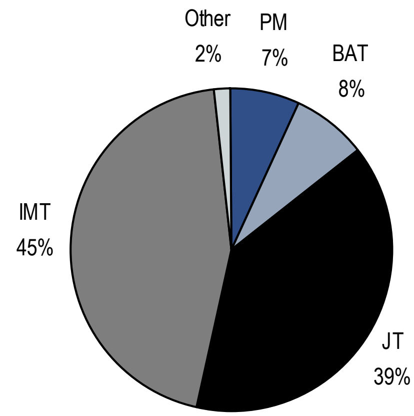
U.K.

Figure 82. U.K. Fast Facts



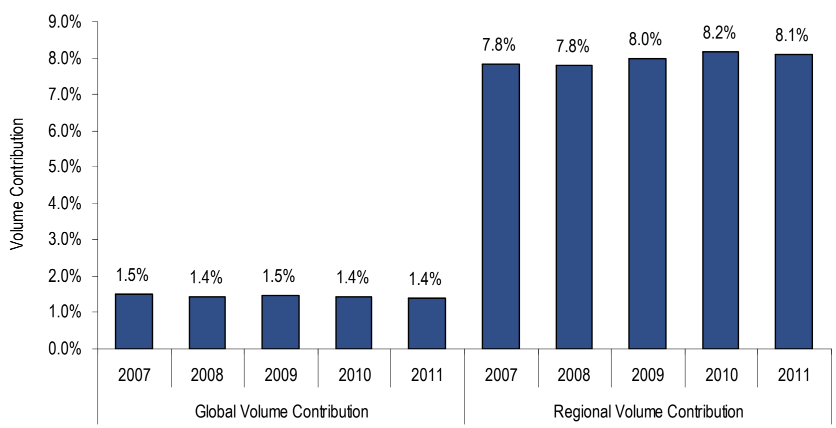
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 83. 2011 Country Market Shares



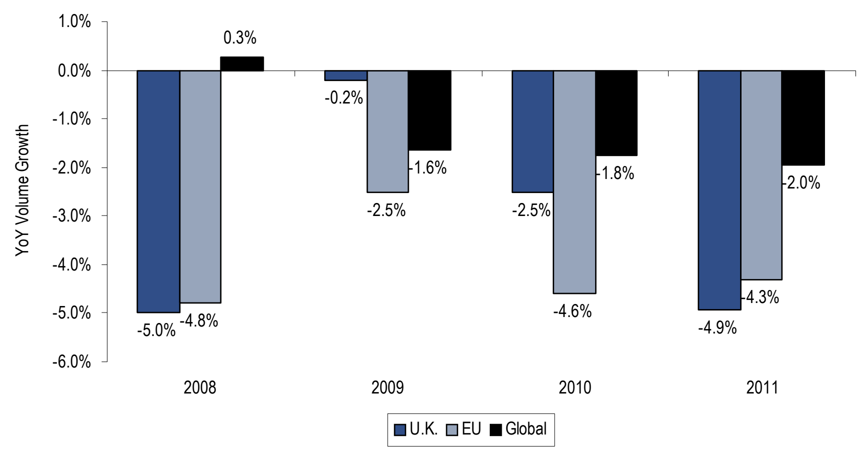
Source: Company Reports, TMA and Citi Research Estimates

Figure 84. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

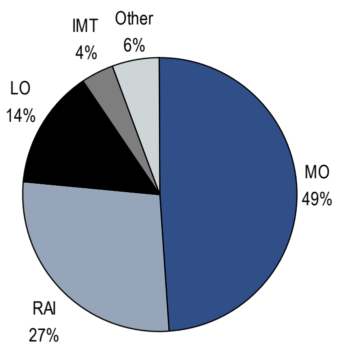
Figure 85. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

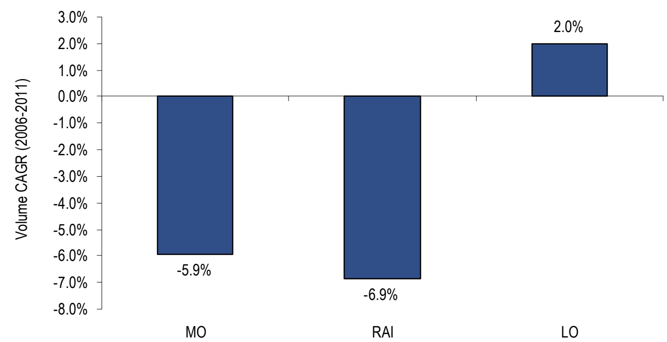
U.S.

Figure 86. 2011 U.S. Market Shares



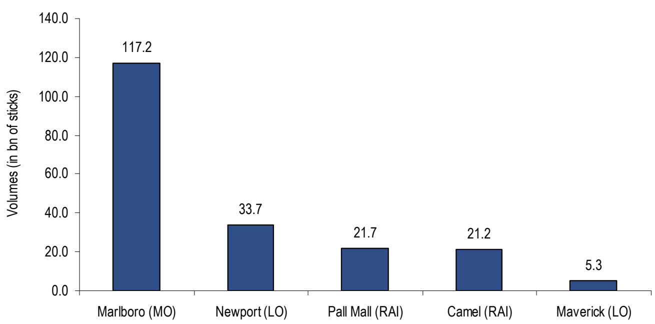
Source: Company Reports, TMA and CIRA Estimates

Figure 87. Manufacturer Volume Growth (06-11 CAGR)



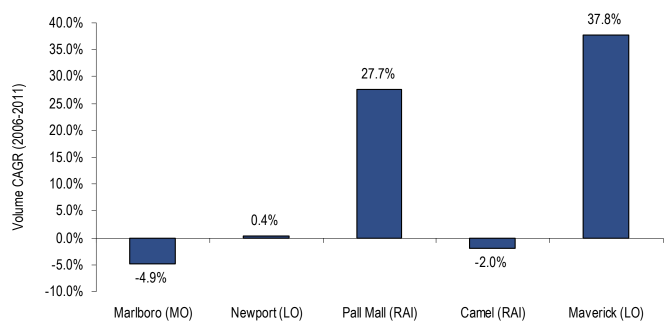
Source: Company Reports, TMA and CIRA Estimates

Figure 88. 2011 Top U.S. Brands



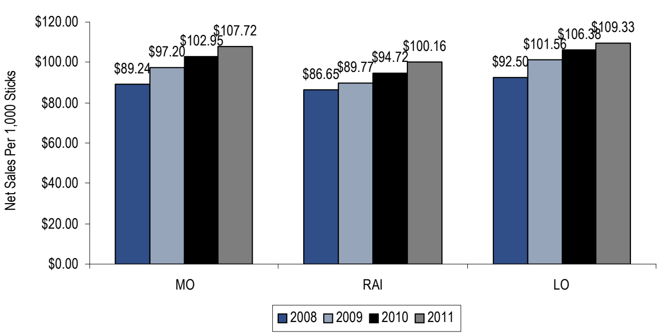
Source: Company Reports, TMA and CIRA Estimates

Figure 89. Brand Volume Growth (06-11 CAGR)



Source: Company Reports, TMA and CIRA Estimates

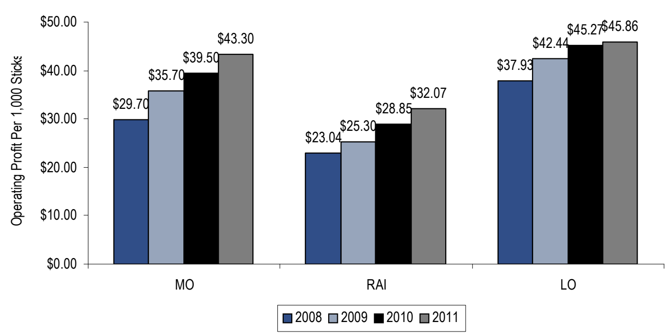
Figure 90. Net Sales Trends



Note: Represents sales net of excise taxes.

Source: Company Reports, TMA and CIRA Estimates

Figure 91. Operating Profit Trends



Source: Company Reports, TMA and CIRA Estimates

Japan

Figure 92. Japan Fast Facts

FAST FACTS:

Market Size - 195 billion sticks (2011)

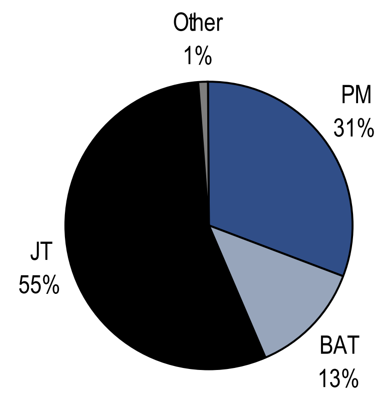
Smoking Incidence - 22% (2011)

Tax Incidence - 65% of retail sales price (2011)

Warning Labels - 30% front / 30% back; No pictorial wanrings

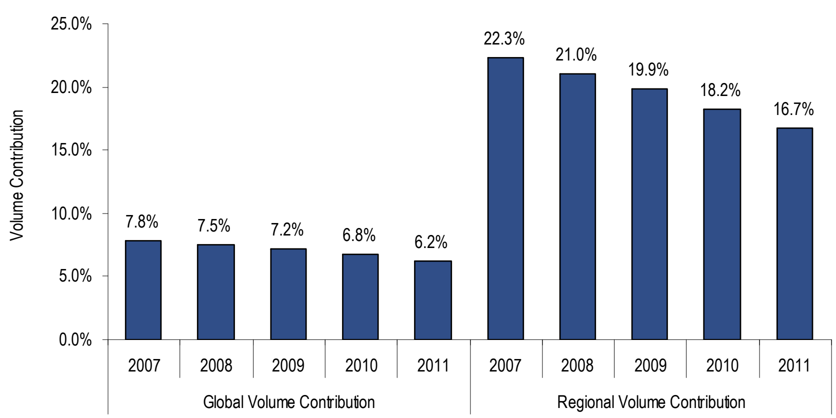
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 93. 2011 Country Market Shares



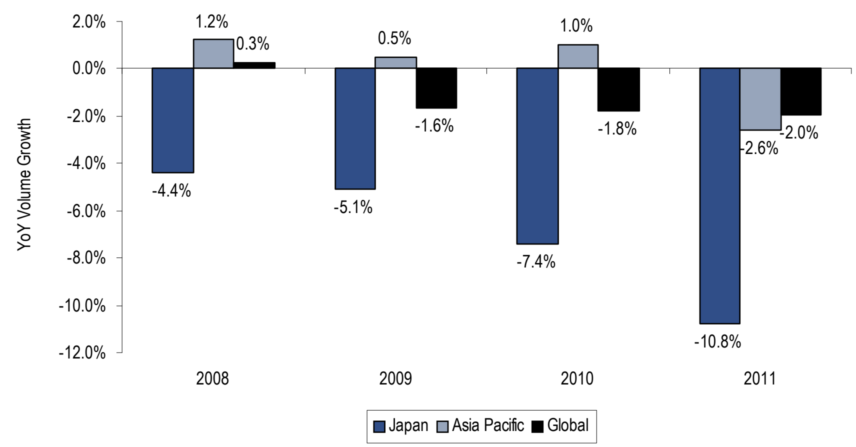
Source: Company Reports, TMA and Citi Research Estimates

Figure 94. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

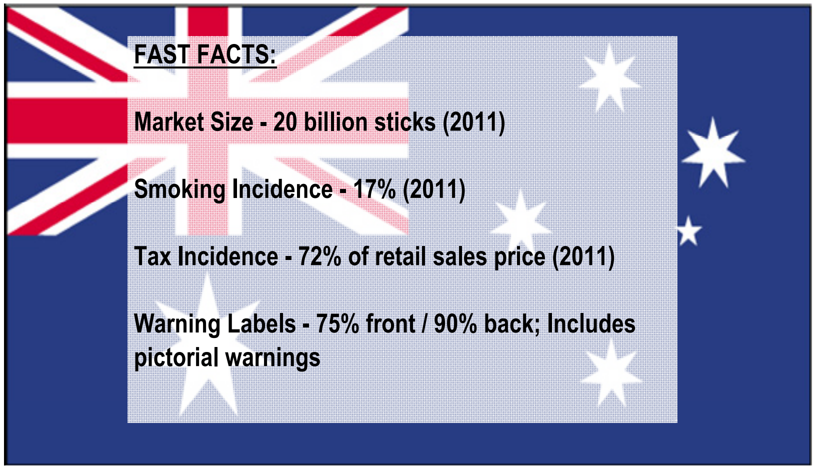
Figure 95. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

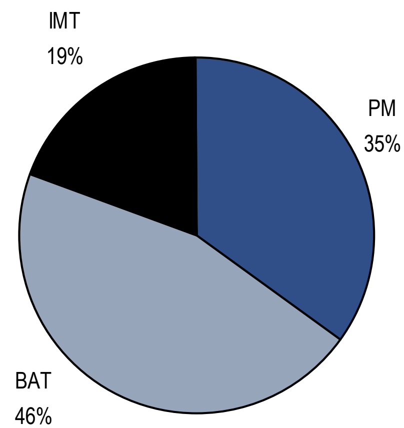
Australia

Figure 96. Australia Fast Facts



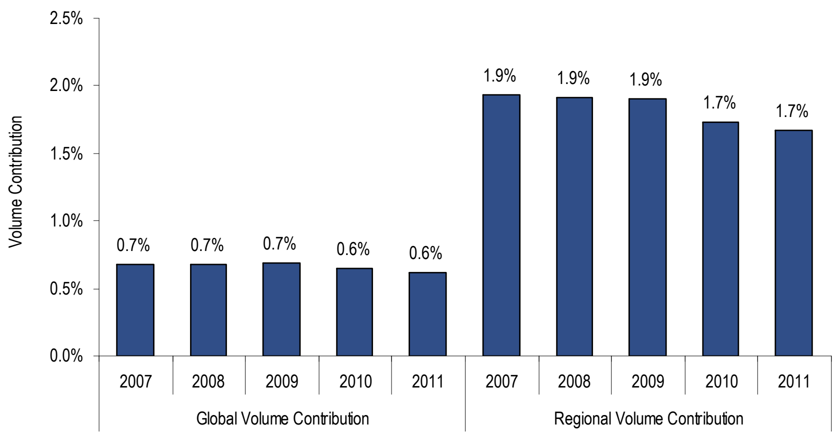
Source: Canadian Cancer Society's *Cigarette Package Health Warnings International Status Report*, OECD, National Statistics Agencies, CIA's *World Factbook*, TMA, Company Reports, and Citi Research Estimates

Figure 97. 2011 Country Market Shares



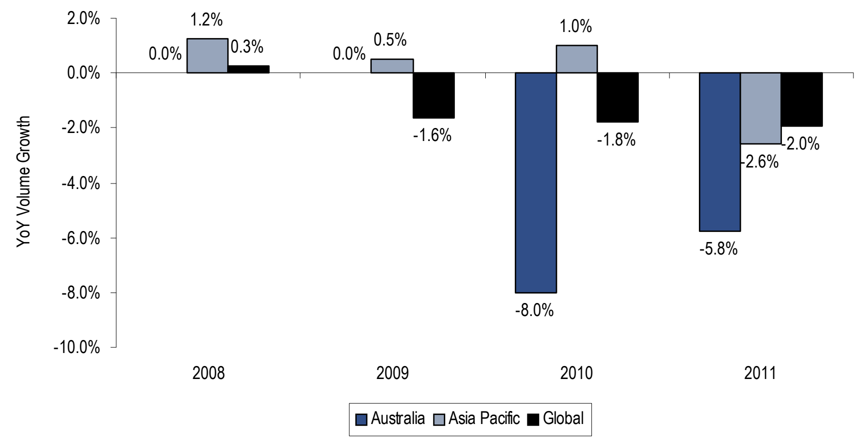
Source: Company Reports, TMA and Citi Research Estimates

Figure 98. Global & Regional Volume Contribution (ex U.S., China and duty free)



Source: Company Reports, TMA and Citi Research Estimates

Figure 99. Volume Growth Comparison



Source: Company Reports, TMA and Citi Research Estimates

The Coca-Cola Company

Valuation

KO has traded at an average 24% premium to the S&P 500 over the last ten years, which has ranged from a 10% discount to a 58% premium historically. We believe the stock deserves to trade at a 60% premium to the market, which reflects (i) our expectation for KO to grow at or above their long term targets for the foreseeable future and (ii) the scarcity of such solid growth across the broader market. Given the roughly 13x multiple on the S&P 500's 2013 earnings, and based on our 2013 EPS estimate of $2.18, we derive our $45.50 target price on KO's shares.

Risks

The key risks to our investment thesis and target price on KO are: (i) global consumer weakness; (ii) an unfavorable shift in foreign exchange; (iii) challenges in working with their bottling partners; and (iv) disruption resulting from the acquisition of CCE's North America operations. Overall though, with KO's excellent track record of managing through challenging business environments and long history of collaborating closely with its bottling partners, we are hopeful that KO will meet, if not exceed, our earnings expectations.

PepsiCo

Valuation

With our continued uncertainty about PEP's ability to reaccelerate its top line growth and our concern about the cost impact of the company's newly announced strategic initiatives, we believe that PEP should trade at a 30% premium to the market multiple. Based on a roughly 13x multiple for the S&P 500 and our 2013 EPS estimate of $4.40, we derive a target price of $74.

Risks

The key risks to our investment thesis and target price on PEP include: (i) foreign exchange and commodity cost headwinds; (ii) competition in the U.S. beverage market; (iii) brand execution mis-steps; (iv) a weak macro environment; (v) and unfavorable tax policies in developed markets. There is also the risk that, with significant international growth, the company could become unwieldy and unable to respond quickly to changing consumer trends. However, upside risks are that our revenue and EPS estimates may prove too conservative, or foreign exchange is beneficial, in which case the shares could exceed our target price.

Arca-Contal

Valuation

We value shares of AC by using an integrated multiple analysis, namely the EV/EBITDA and P/E multiples. Our target price of P$101.00 per share also reflect our earnings estimates which assume net operating synergies from the 2011 merger of M$1.51 billion during 2012 and 2013, slightly more than management's guidance. The main earnings drivers include beverage and snack food volume growth in Mexico from recent packaging and brand roll-outs, Mexican pricing in-line with inflation, and beverage volume growth in South America.

Risks

Our main concern is Argentina, which accounts for approximately 8% of AC's consolidated EBITDA. Companies operating in Argentina face three main risks, in our view, including accelerating inflation, restrictions on US dollar convertibility, and rising labor costs. A sharp depreciation of the Mexico peso (versus the US dollar) is another risk that would negatively impact our earnings estimates as many input costs are dollar-linked. Pricing flexibility in Mexico may be threatened by the recent restructuring of the PepsiCo beverage assets in the country, which could lead to irrational pricing in certain regions.

Mengniu Dairy

Valuation

Our target price for Mengniu of HK$27 is based on 20x FY13E earnings. We value the stock at a 20% discount to the China consumer staples sector average of 25x to factor in: 1) Vulnerability to intensifying sector competition; and 2) De-rating after the food safety incident. P/E is a common methodology used to value consumer staple stocks in China.

Risks

Key downside risks to our target price and earnings include: 1) Lower-than-expected consumer confidence; 2) higher-than-expected promotion expenses to recover sales; 3) Price competition in high-end products, resulting in A&P expense exceeding budget; 4) Significant increases in raw milk prices that erode the gross margin; and 5) Further negative news flow on the dairy sector or Mengniu.

GlaxoSmithKline Consumer Healthcare

Valuation

GSK Consumer has a relatively steady earnings stream and we believe P/E based valuation is best suited. Our target price of Rs3,270 is based on 27x CY13E P/E. Our 27x target multiple, while high, is justified by GSK's strong franchise, balance sheet strength, earnings growth potential and solid cash generation in the current environment. We estimate 2 yr EPS CAGR of 19% v/s 14% for global peers and 10% for BSE-Sensex companies. The current stock price provides a good entry point, after recent underperformance v/s. both peers and the broad market YTD, and with valuations at a ~30% discount to Nestle India and ~12% to sector avg. Our target multiple implies 1.4x PEG, which is ~10% lower than the average of the regional F&B majors - and to that extent is very reasonable. Further, ~4% / 1.5% FCF / dividend yields provide downside support to the stock.

Risks

Key downside risks that could prevent the stock from reaching our target price are - a) volume off-take may be weaker than expected in the near term, if issues on sales to military / canteen stores department (CSD) are not fully resolved; b) higher than forecast non-MFD losses; c) prolonged and sharp increases in key input costs; d) a sharp rise in competitive intensity could hurt profit growth prospects.

Higher dividend outgo is a key potential upside risk, besides higher than expected growth derived out of better scale and distribution efficiencies.

Tingyi

(0322.HK; HK$23.05; 2)

Valuation

Our target price for Tingyi is HK$21. We value the stock at 25x FY13E earnings, in line with the Chinese consumer staples sector average. In the past Tingyi traded at a premium to the sector, but given the weaker fundamentals of the company, we prefer valuing it at the sector average.

Risks

Key upside/downside risks to our earnings forecasts and target price are: 1) Unexpected favorable/unfavorable movements in raw material prices; 2) Tea segment volumes either slows down sharply or holds up well ; and 3) Strong sales from newly launched milk tea, pear juice or noodles.

Want Want China

Valuation

Our target price on Want Want is HK$11, at 1x PEG. It is now trading at the average of large-cap consumer staples. We previously valued the stock at a 10% discount to the consumer staples average as the company had higher product risk. We feel that the discount is no longer warranted given that Want Want's successful restructuring of its distributors has allayed our doubts over its execution capabilities.

Risks

Key downside risks to our target price include: 1) if sales slowdown for dairy products; 2) if management decides to spend on new beverage products, earnings could be lower than expected; and 3) if there is excessive channel stocking.

Brown-Forman

Valuation

Given our belief that BFB's unique positioning should allow it to continue to capitalize on the global renaissance of American whiskey, we assert that BFB should trade at a premium to its historical forward P/E (at 25x specifically). Based on our CY13 EPS estimate of $2.94, we derive a $74 target price on BFB's shares.

Risks

BFB operates in a highly competitive and heavily regulated industry, where they face stiff competition from other larger players. Potential reasons the stock could materially underperform our target price include: (i) a significant deterioration in the macro landscape, in particular in the U.S., (ii) stepped-up promotional spending from BFB's bigger global competitors, and (iii) an unexpected, and meaningful, increase in excise taxes.

In citing reasons why the stock could materially outperform out target price, if management's operating income growth targets proved too conservative, BFB's outperformance could help boost the stock price.

Beam Inc

(BEAM.N; US$58.03; 2)

Valuation

We have a $63 target price on BEAM, which we derive using a two-pronged probability-weighted valuation analysis. We have calculated a $58 standalone target price (which we assign a 65% probability), reflecting a target forward P/E multiple of 22x and our FY13 EPS estimate of $2.62. Additionally, we have calculated a $74 acquisition target price (which we assign a 35% probability), reflecting a roughly 16x EBITDA multiple (based on our FY12 estimate).

Risks

BEAM operates in a highly competitive and heavily regulated industry, where they face stiff competition from other larger players. Potential reasons the stock could materially underperform our target price include: (i) a significant deterioration in the macro landscape, in particular in the U.S., (ii) stepped-up promotional spending from BEAM's bigger global spirits competitors, and (iii) an unexpected, and meaningful, increase in excise taxes. In citing reasons why the stock could materially outperform our target price, if the macro economic environment improves faster than expected or if management's operating income growth targets proved too conservative, BEAM's outperformance could help boost the stock price.

Pernod-Ricard

Valuation

Pernod trades on about 16.5x 12-month forward earnings (Aug-13). With continued strong Asian-driven growth, we expect that in 12 months time the stock will be trading on a similar multiple, but by then applied to our Aug-14 earnings. Given our €6.11 estimate for August-14 EPS (weighted average of FY14 EPS of €5.96 and FY15 EPS of €6.87), this implies a fair value of €100.8, which we round to €101.

Risks

Compared with most industries spirits is relatively predictable. For Pernod in particular we highlight the following risks to our target price:

China and India: These markets are contributing over 70% of the company's growth, on our estimates. If the economy stalls in one of them, or the competitive situation changes, the rate of growth could slow dramatically.

Western Europe: It is possible that the deteriorating macro there could result in profit below our expectations. About 10% of profit comes from France, and a further 28% from the rest of Western Europe.

The US: The outlook for the US has improved, but it is quite possible that demand could be stronger, or weaker, than we are modeling. A large portion of Pernod's growth in the US comes from one brand (Jameson).

FX: Pernod has transactional as well as translational exposure, as it is exporting whisky from Scotland, vodka from Sweden and Cognac from France. This means a rise or fall in the pound, krona or euro has a particularly marked impact on Pernod's earnings, for better or worse.

Excise tax risk: If taxes on spirits go up in any of its important markets, Pernod is likely to suffer.

Regulations: It is possible that harsher anti-alcohol laws could impact Pernod's businesses.

These risks could keep the shares below, or drive them above, our target price.

Diageo

(DGE.L; £17.08; 2)

Valuation

Our Diageo 12-month target price is 1,830p. We set this target using a P/E-based valuation. Diageo currently trades at about 16.6x 12-months forward earnings, but over the next 12 months we expect the stock to de-rate slightly (to 16.0x), as growth slow from 2012 levels, as we anticipate. Applying our 12-month forward target P/E of 16.0x to our estimate for Aug-14 EPS (114.3p) implies a fair value of 1,829p, which we round to 1,830p.

Risks

Compared with most industries, spirits is relatively predictable. For Diageo in particular, we highlight the following risks to our target price.

The US: The outlook for the US has improved, but it is quite possible that demand could be stronger, or weaker, than we are modelling.

Western Europe: It is possible that the worsening of the economy there could result in profit below our expectations.

Emerging markets: most of Diageo's growth is driven by EM, which we expect will remain buoyant in a mild GDP slowdown environment. Should EM economies slow more than expected, it is possible that demand for western spirits could be hit hard, as they were in 2009.

FX: Diageo has transactional as well as translational exposure, as it is exporting whisky from Scotland and other spirits across borders. This means a rise or fall in the pound (or other currencies) has a particularly marked impact on Diageo's earnings, for better or worse.

Excise tax risk: If taxes on spirits go up in any of its important markets, Diageo is likely to suffer.

India: If India truly liberalised its market for Scotch, there would be considerable upside for Diageo.

Regulations: It is possible that harsher anti-alcohol laws could impact Diageo's businesses.

These risks could keep the shares below, or drive them above, our target price.

Anadolu Efes Biracilik ve Malt Sanayi

Valuation

We set a 12-month target price of TRY30.0. Anadolu Efes is a combination of different beverage businesses and our valuation is based on a sum of the parts, in which we value the soft drinks and beer businesses separately, based on DCF (80%) and peer multiples (P/E and EV/EBITDA, each with a 10% weighting). We have used 5.5% risk free rate (yield on the 2030 Turkish Eurobond) and an equity risk premium of 5.25% for valuation purposes. We expect WACC to range between 10.2% and 11.6% for the international beer operations and between 10.1% and 10.6% for the Turkish beer operations.

Risks

These factors include an assessment of industry-specific risks, financial risk and management risk. The following risks may impede the achievement of our target price:

Sharp slowdown in domestic consumption: Since there is a high correlation between per capita income and beverage consumption, changes in macroeconomic conditions could have an adverse effect on the company's sales performance.

Political instability: Removal of the current political party in power, rapid changes in government policy, deviation from market reform, social unrest and coalition governments could adversely impact economic activity.

Local currency devaluation: Anadolu Efes, generating the entirety of its sales from emerging markets, is susceptible to currency devaluations.

Restrictions on beer consumption: Restrictions on the sale and consumption of beer in certain places (restaurants and cafes).

Anadolu Efes overpaying to enter new countries: Anadolu Efes continuously makes acquisitions and overpayment to enter new countries or a failure to restructure the new businesses is a risk.

Increase in special consumption tax on beer: Governments try to regulate alcohol consumption and the future trend of taxes creates uncertainty.

If the impact of these risk factors is more/less negative than we anticipate, then the share price might fail to reach/rise above our target price.

AmBev

Valuation

Our valuation if based on the combination of a DCF analysis and an integrated multiple analysis, using EV/EBITDA and P/E. Our TP of US$45 per ADR assumes synergies from the 2Q12 acquisition of CND (Dominican Republic). Our key organic earnings drivers include beverage volume growth in all markets, pricing at or close in local inflation rates, and favorable currency and commodity price hedges in Brazil.

Risks

The main risk we see is the inability to pass on to customers the Brazilian beverage tax increased (effective October 1) owing to a more than expected negative impact on volume. Another risk is a deceleration of economic growth impacting beverage consumption in the North and Northeast regions, where the company has recently invested in both production and marketing assets. In Brazil, irrational pricing from Kirin or Heineken (which together have approximately 18% beer market share), would also negatively impact our earnings estimates. Argentina accounts for an estimated 7% of consolidated EBITDA and is another risk. Companies operating in Argentina face three main risks, in our view, including accelerating inflation, restrictions on US dollar convertibility, and rising labor costs.

China Resources Enterprise

Valuation

Our target price of HK$28 is based on a sum-of-the-parts approach. We use 25x 2013E earnings to value the beer segment, the average multiple for China consumer staples. We lift the value of the retail business to 1.3x 2012E P/B (previously 1.2x), at the low end of Chinese grocery retailers. CRE's retail business should be valued lower than its peers because its ROE is lower and it owns more property than most competitors. CRE's HK investment properties are valued at 1x 2012E P/B as they could be potentially disposed of to acquire more store properties for its supermarket operation. We use 1x 2012E P/B to value the food division given the potential restructuring of the segment. The beverage segment is valued at 20x 2013E earnings, at the low end of the China consumer staples sector because CRE lacks leadership in this business.

Risks

Factors that could prevent CRE's share price from reaching our target price include: 1) Slower than expected margin improvement in the retail business; 2) Intensifying competition in beer in already consolidated provinces; 3) Increasing competition in the beverage sector; and 4) Longer than expected strategic restructuring of the food-processing business.

Tsingtao Brewery

(0168.HK; HK$42.50; 2)

Valuation

Our HK$47 target price for Tsingtao Brewery is based on 22x FY13E earnings, a 15% discount to the China consumer staples sector average. The discount is attributable to volatility of reported earnings due to the unpredictability of government grants.

Risks

Upside risks include: 1) consumer upgrades to premium brands faster and Tsingtao's principal brand gains market share directly from competitors; and 2) raw material prices fall. Downside risks include 1) an asset write-down; and 2) raw material prices move up.

United Spirits

(UNSP.BO; Rs968.85; 2)

Valuation

Our target price of Rs701 is based on a two-part EV/EBITDA methodology. We value the domestic operations at Rs 1,060 /share based on11x Sept-13E EV/EBITDA. The multiple remains unchanged. UNSP benefits from - a) better volume growth in India vs. developed markets; b) With >50% market share, its market positioning in a high growth market is attractive; and c) India's demographic story is attractive from a longer term alcohol consumption story. But the increasing regulatory risks and cyclicality in earnings given commodity cost pressures prevent us from ascribing a premium multiple to UNSP. We value W&M at Rs 235/share based on 10x Sept 13 EV/EBITDA, but discount this by 15% to adjust for inter-company transactions between UNSP and W&M. While over the longer term, we think that W&M could re-rate, given management focus on building the branded business, it is still early days - thus we maintain a c20% discount to international peers given execution risks. We also ascribe Rs48/share to value the Bangalore IPL cricket team franchise at investment. We reckon the net debt to be ~Rs 641/share

Risks

Key downside risks to our target price include: 1) The liquor industry is highly regulated and any change in policy increase in taxes, further control on distribution, outright ban on liquor sales in some states, etc. could adversely impact growth and profitability; 2) High interest expenses may impact earnings growth, if United Spirits is unable to deleverage its balance sheet over the medium term; 3) Concerns on group-related issues - promoter's pledged stake in UNSP and airline business losses.

Key upside risks include: 1) higher than expected margin due to better pricing environment; and 2) balance sheet restructuring, which could result in debt declining from current elevated levels

Mead Johnson Nutrition Company

(MJN.N; US$77.06; 2)

Valuation

We value shares of Mead Johnson at $80/share utilizing a 23x-23.5x multiple range on our 2013 EPS estimate of $3.45. When considering our target price and multiple, we have taken into account the April 2012 announced transaction for Pfizer Nutrition. We estimate that Nestle paid ~29x earnings for Pfizer Nutrition, a global pediatric nutrition company that is a competitor of Mead Johnson in emerging markets. Moreover, we have also taken into account that Wrigley, which had similar characteristics to MJN (i.e. 60% exposure to emerging markets & high margins), traded at an average 10 year forward PE of 27x before its takeover by Mars. Finally, We believe that Mead Johnson should trade at a premium to the branded food group historical 15-year average forward PE of 16x given its industry leading margins and deep international exposure which should allow the firm to grow sales at long term rates well in excess of what is expected for the remainder of the branded food group.

Risks

In general, we think the significant risks for Mead Johnson, which could make it difficult for the stock to reach our target price, are as follows:

1) With nearly 70% of its sales coming outside of the United States, Mead Johnson faces significant exposure to foreign currency movements with a strengthening US dollar negatively impacting sales and earnings growth.

2) Private label formula typically sells at retail for half the price of Enfamil and touts on the label as having the same ingredients as Enfamil but for half the price. Thus, a weakening macro economic environment in the US could drive some mothers to seek less expensive formula for their children.

3) The child nutrition category is not recession proof given that there are a wide variety of options available for mothers to trade down to. This poses risk in Mead Johnson's Asia/Latin America segment where 60% of Mead Johnson's sales are from child nutrition.

4) Last but certainly not the least is the risk of quality issues such as potential contamination of the company's products which could potentially damage Mead Johnson's reputation and negatively impact sales and earnings.

Conversely, we believe Mead Johnson could exceed our price target if:

1) The US macro economic environment recovers and drives a recovery in US birth rates.

2) The US dollar weakens, thereby providing a boost to Mead Johnson’s earnings, given its significant international exposure.

Kraft Foods Inc

Valuation

We value Kraft shares at $48 following the company’s announcement to split into two separate entities; a Global Snacks company and a North American Grocery company. We believe this action should create more focused companies that can maximize their opportunity set better than the current Kraft structure will likely allow, which in our opinion should drive multiple expansion.

Our sum of the parts analysis shows that the breakup of the company should unlock value, with the sum of the parts equal to ~$48/sh. We estimate Kraft Global Snacks Co is worth ~$32/sh and Kraft North America Grocery is worth ~$16/sh.

Our $48 target utilizes a 17.5x multiple on our 2014 EPS estimate of $2.73 and is supported by our sum of the parts analysis.

We see momentum building at Kraft, which is leading to improved retail trends for the company. As such, Kraft's underlying sales trends within its US retail division are accelerating nicely. Moreover, with the recent acquisition of Cadbury, Kraft has increased its developing market presence to 25% of sales (previously at 20%), giving the company one of the highest exposures to developing markets in the branded food group and creating a pathway for solid long term growth.

Therefore, we believe our target multiple is appropriate given Kraft's 10 year forward P/E multiple historical range of 12x-28x, with a median multiple of 16x.

Risks

We believe the risks to our target price are as follows:

Kraft does not fully capture its synergy targets: We are currently modeling annual cost synergies of $675 million by 2013 from Kraft's combination with Cadbury. We do not believe Kraft will have much of a problem realizing the full $675mm annual run rate in synergy capture as there is good evidence this level of synergy is doable. However, given the significant impact to EPS growth generated from the aforementioned synergies, should Kraft not be able to achieve them, it could materially impact expected earnings growth in 2011 and beyond.

Higher Than Expected Raw Material Costs: Kraft is exposed to various raw material costs including wheat, soybean oil, corn, oats, and cocoa. Although the company hedges against rising agricultural commodity costs, the firm's hedges may prove insufficient.

HJ Heinz Co

Valuation

We value shares of Heinz at $62 utilizing a 16.0x-16.5x multiple range on our F2014 EPS estimate of $3.80.

Our target multiple compares to Heinz's 10-year historical forward PE multiple range of 11.7x-22.3x with a median multiple of 15.5x.

Our target multiple is approximately 1 point higher than Heinz's historical median forward PE multiple. We believe Heinz's multiples should expand as its emerging market presence continues to grow, which is boosting Heinz's long-term growth capabilities. Thus, our target multiple appears reasonable as it represents a PEG ratio of 2x, which is in line with Heinz's historical PEG.

Risks

In general, we think the risks that could prevent the stock from reaching our target price are as follows:

1) Future acquisitions could be dilutive. HNZ intends to continue making acquisitions, which could dilute EPS.

2) International operations could underperform expectations. Expectations are high for the company's international operations, especially in emerging markets.

3) FX translation. With more than half of its sales occurring outside the US, Heinz has significant exposure to foreign currency exchange rates. Thus, a strengthening US dollar could pose significant headwinds to earnings.

Nestle

(NESN.VX; SFr59.40; 2)

Valuation

We value Nestle on a P/E basis with reference to a global peer group of blue-chip consumer staples companies. We believe that Nestle should trade at a premium to this peer group due to its exceptional track record of delivering consistent organic revenue growth and margin progression even in the most challenging economic environments. We apply a 16.5x multiple to our 2013 EPS estimate to derive a target price of SFr60.

Risks

The main risks to our price target are a sharp consumer slowdown in developing markets, a strengthening Swiss franc, a sharp spike in key commodity prices and deterioration in the pricing/promotional environment. The stock is also vulnerable to an asset allocation shift out of defensive names. Finally, Nestlé may undertake large, value-destructive M&A. Positive risks to our target price are the above factors being more benign than we expect or a sharp improvement in consumer spending in developed markets.

Unilever PLC

(ULVR.L; £23.03; 2)

Valuation

Our valuation methodology for Unilever is P/E with its global consumer staples peers as a reference point. We assume that in 12 months' time the stock will trade at around 16.5x forward P/E, which is in-line with global peers. This is then applied to our 2013E EPS and implies a fair value of €29 or £24.

Risks

The risks to achievement of our price target are a consumer slowdown in developing markets or a deterioration in emerging markets economies, volatility of developing market currencies, increased competition in the developing markets and spikes in commodity prices. Finally, the stock is vulnerable to an asset allocation shift out of defensive names.

Danone

Valuation

We value Danone using P/E. We assume that in 12 months' time the shares will be trading at c.16x forward, a modest premium to 15x currently and in-line with the 5-year average. However, in 12 months' time this would be based on our 2013 EPS estimate of €3.44. We believe that this multiple is justified on the basis that Danone should trade at a modest premium to the broader European consumer staples, given that we forecast superior EPS growth (11% versus consensus estimate of 9% for the peer group). On this basis our target price is €56.00.

Risks

Risks to our price target (both upside and downside) include raw material price volatility, especially in milk and PET, emerging market FX volatility and large-scale value-destructive M&A. A significant change in dairy trading and hence the return of Danone's traditional P/E premium to the peer group, or a substantial derating, is the biggest risk to our recommendation and price target.

Hyundai Green Food

Valuation

We have a sum-of-parts target price for HGF of W21,000. We apply a fair-value P/E to the core operation of 13.0x, which is in line with global peers and is justified by the company's earnings outlook and the F&G merger benefits. While HGF's revenues are less scalable than those of its global peers, and its brand equity is weaker, we see this as being offset by the company's stronger growth profile. We value the company's operations on a P/E basis given limited volatility in capex. Our investment asset value reflects recent average prices for Hyundai Department Store (12.4% owned), Hyundai Motor (0.4% stake) and Rivart (23%). We apply a holding company-like discount of 20% to our value for Hyundai Department Store, which we see the group as being unlikely to monetize. Upside risks lie in land asset value of W103bn (appraisal value), or about 5% upside to our fair NAV, and we have not excluded treasury shares (11% of total) in our share count base.

Risks

Key risks that could prevent the stock from reaching our target price include: 1) Non-core diversification risks in company strategy; 2) Unexpected food safety risks, given the nature of the catering and food materials distribution businesses; and 3) Regulatory risks.

Avon Products Inc

(AVP.N; US$16.08; 1)

Valuation

AVP has historically traded at an average 18% premium to the market, within a range from a 28% discount to a 64% premium. Given AVP's exposure to faster growing emerging markets, new CEO and CFO, and perhaps most importantly its likely trough earnings, offset by the stronger U.S. dollar and AVP's struggles with execution, we believe AVP's shares should trade at a 50% premium to the market multiple. Based on our 2013 EPS estimate of $0.90 and CIRA's roughly 13x multiple on the S&P 500, we derive an $18 target price for AVP.

Risks

The key risks to our investment thesis on Avon are: 1) Avon's ongoing FCPA investigation, 2) Avon's current management shuffling, 3) Avon's emerging market exposure — with emerging markets representing roughly 75% of the company's sales and responsible for most of its growth, we are concerned about slowing growth as these markets gradually mature and as competition intensifies, 4) the inherent volatility and past execution mistakes in Avon's U.S. direct selling business model, and 5) AVP's exposure to f/x risk.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

The Clorox Co

(CLX.N; US$71.73; 1)

Valuation

Based on Citi Research's multiple on the S&P 500 of 13x, our CY13 EPS of $4.60 and our target premium of 40% for CLX, we derive our target price of $84.

Risks

The key risks to our investment thesis on CLX include: 1) the risk to Clorox's long-term sales growth and operating margin targets, given perhaps heightened competition and a weaker macro backdrop; and 2) Clorox's lingering dependence on slower-growth categories and developed markets, such that we expect sales growth at the company may trend lower than that of its HPC peers.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Colgate-Palmolive Co

(CL.N; US$106.21; 2)

Valuation

Over the past 10 years, CL's shares have traded at a 22% premium to the market. Our target price is based on our view that CL should trade at a 40% premium to the market multiple of roughly 13x. Based on our 2013 EPS estimate of $5.88, we derive our target price of $107.

Risks

We believe the key risk to our investment thesis on CL is the competitive environment. We have recently seen a step-up in new product introductions and investment spending from several of CL's competitors.

In terms of why CL might materially outperform our target price, we believe that after a slower growth period in 2011, CL’s EPS growth is set to reaccelerate in 2012. To the extent this reacceleration is more dramatic than we expect, CL might outperform our price target. In addition, we remain confident in the company's 1) strong market shares; 2) geographic balance; 3) senior management team; and 4) ability to continue generating strong free cash flows.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Estee Lauder Inc

(EL.N; US$61.76; 2)

Valuation

Over the last 10 years, EL has traded at an average premium to the S&P 500 of roughly 40%. However, given EL's pattern in recent years of delivering much stronger sales and earnings growth than it has historically, and further, given our expectation for EL to remain the fastest growth story in the HPC group, we believe that EL should trade at a healthy premium to this historical valuation. Specifically, we believe that EL should trade at 23x our year-forward EPS estimate, which represents a 75% premium to the market multiple today. Based on our CY13 EPS estimate of $2.80, we derive a $64 target price for EL.

Risks

The key risks we foresee to our investment thesis for EL include the company's reliance on prestige department stores as a distribution channel, given what we view as the volatility and economic sensitivity of the channel. Further, in order to grow its top line, Estee Lauder has relied on heavy investment spending, which we believe has pressured the company's profit margins. Given that EL is taking steps to reduce its cost structure, we are watchful of the company's operating margins, which we note are at the low end of its U.S. HPC peer group. In addition, we are watchful of EL's increasing dependence on growth from emerging markets (as we expect that expansion into these markets will be a primary growth driver going forward), given EL's limited experience with these volatile and competitive markets (relative to many of its HPC peers). Finally, while Fabrizio Freda is EL's CEO, succeeding William Lauder, the grandson of the company's founder, the Lauder family is still the dominant shareholder in the company and remains involved in the day-to-day operations of the company. And, while we are encouraged that new management has joined the organization, we also note the risk associated with the transition of company management. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Kimberly-Clark

(KMB.N; US$84.13; 2)

Valuation

KMB has traded at an average roughly 5% discount to the S&P 500 over the last 10 years, which has ranged from a 26% premium to a 29% discount historically. We believe the stock deserves to trade at a 25% premium (vs. 10%, previously) to the S&P 500, owing to stronger growth and investor preference for more defensive stocks. Given the roughly 13x multiple on Citi Research's estimate of the S&P 500's 2013 earnings, and based on our 2013 EPS estimate of $5.65, we have a $92 target price on KMB's shares.

Risks

Key risks to our investment thesis for KMB include: 1) the negative impact that price increases may have on volume growth; 2) a drag on revenue growth from a strengthening U.S. dollar; 3) the negative gross margin impact from raw material cost inflation; and 4) an inability to access the credit markets. If either commodity costs fall more than we expect (leading KMB's margins to expand more than we currently forecast) or if competitive activity abates (leading KMB's market shares to grow), KMB's earnings and stock price could both outperform our expectations.

In pointing out potential reasons the stock could materially outperform our target price, we are mindful of the following attributes for KMB: 1) business model – with strong market shares, a balanced portfolio of brands, and the production of products that consumers consider to be staples items; 2) management team and 3) ability to continue to generate strong free cash flows.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Procter & Gamble Co

Valuation

PG has traded at an average 18% premium to the S&P 500 over the last ten years, which has ranged from a 20% discount to a 45% premium historically. Given our willingness to pay a higher multiple on depressed earnings, we argue PG should trade at a 45% premium to the market. Based on our CY13 EPS estimate of $4.00 and CIRA’s 13x multiple on the S&P 500, our new price target is $75.

Risks

Key risks to our PG investment thesis and target price include the possibility that the competitive environment in many of PG's categories (including baby care, feminine care, oral care, beauty care, and grooming) may intensify such that PG may need to invest more aggressively behind its businesses in order to meaningfully expand its market shares and drive sales growth. As well, the strengthening U.S. dollar could adversely impact sales and profits.

In pointing out potential reasons the stock could materially outperform our target price, we are mindful of the following attributes for PG: 1) business model - with relatively dominant market shares, a balanced portfolio of brands, and continuous premium-priced product innovation; 2) management team; and 3) ability to continue to generate strong free cash flows.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Shiseido

(4911.T; ¥1,107; 3)

Valuation

We derive our ¥1,200 target price using a DCF model, which yields a theoretical share price of ¥1,233. We use four years of earnings forecasts (FY3/12-FY3/15) in our DCF model. We assume a risk-free rate of 3%, an equity-market premium of 5%, a beta of 0.85, a tax rate of 39%, and a terminal growth rate of zero, yielding a WACC of 5.0%.

Risks

Upside risks to our view include 1) recovery in the domestic cosmetics market, 2) success of home shopping marketing channels in Japan, 3) the emergence of hit products, 4) progress in streamlining domestic business, and 5) growth in Russia and other emerging markets.

Downside risks include 1) accelerated shrinking of the domestic cosmetics market, 2) a further shift to low-priced products in domestic cosmetics, 3) diminishing sales share in Japan and overseas, 4) further yen strengthening against the euro, the dollar, and the renminbi, 5) a rise in sales-related costs due to increasing competition, and 6) a shift in investor preference toward stocks that are sensitive to the general economy as and economic recovery picks up.

If these factors manifest themselves differently than we have anticipated, the share price may fail to reach our target price.

Rohto Pharmaceutical

(4527.OS; ¥1,100; 1)

Valuation

We use a DCF model with earnings forecasts for seven years to derive our target prices for the companies in our coverage. We assume a 3% risk-free rate, a 6% equity-risk premium, and a terminal growth rate of zero after seven years and forecast betas and tax rates for each company, from which we derive WACC. For Rohto, we assume a beta of 0.7 and a tax rate of 39%, deriving a WACC of 6.84%. We derive a ¥1,200 target price as a result.

Risks

Risks to our target price include the following: 1) assumptions we use in our valuation methodology may differ from investor expectations 2) fluctuations in the prices and sales of individual products could differ from our assumptions given that the core of Rohto's product lineup consists of OTC products and quasi-drugs; and 3) sales could fluctuate due to weather conditions (many items in Rohto's product lineup are seasonal in nature).

Kao

Valuation

We derive our ¥2,800 target price referencing a theoretical share price calculated from our DCF model and average PERs for global majors in the areas of toiletries, daily goods, and cosmetics.

Our theoretical share price obtained from five years' of earnings forecasts for FY12/12 to FY12/16 is ¥2,808. We assume a risk-free rate of 3%, a market-risk premium of 5%, a beta of 0.71, a tax rate of 45%, and a terminal growth rate of zero, from which we derive a WACC of 5.8%.

We forecast FY12/13 EPS of ¥162, deducting goodwill. The major toiletry, daily goods, and cosmetics firms are on an average FY13 PER of just over 17x and applying this multiple to our Kao EPS forecast yields a theoretical share price of ¥2,750. We set our target price at the average of these two approaches.

Risks

Downside risks are that 1) ASPs of toiletry products in the domestic market will fall by more than we envisage, 2) Kao loses market share in Japan and overseas, 3) marketing expenses swell due to tougher competition, 4) the shrinkage of the domestic cosmetics market accelerates, 5) there is a further shift to low prices in the domestic cosmetics market, 6) input prices surge, 7) earnings from operations in Europe, the US, and Asia fall in yen terms due to yen strength, and 8) investors shift to stocks that are sensitive to the economy when the economy recovers.

Upside risks are 1) earnings growth in overseas operations, 2) large share buybacks and retirements, dividend hikes, and other fuller shareholder returns, 3) the creation of hit products, 4) a recovery in the domestic cosmetics market, 5) a rising market share for Kao, and 6) a bigger cost-cutting impact. If the impact of any of these factors varies from our expectations, the share price may diverge from our target price.

Hengan International

Valuation

From a cyclical point of view, we believe FY13E will be the upper end of the earnings cycle and FY12E the midpoint of the cycle. We change our valuation methodology to Sum of the Parts (previously P/E basis) as we believe each segment deserves a different multiple. We value tissue at 20x, sanitary napkin at 30x, diaper at 18x and snack & others at 10x FY13E earnings.

Risks

Key downside risks that could prevent the stock from reaching our target price and/or impact our forecasts include: 1) Intensifying competition in the tissue-paper sector; 2) Unexpected increases in raw-material prices; and 3) Diaper products failing to turn around.

Dabur India

Valuation

We utilize a P/E methodology to value Dabur India because it is a steady growth company and is unlikely to face extreme cyclicality or volatility in earnings. Our target price of Rs132 is based on 24x FY14E P/E. Over the past five years, the stock has traded between 12-34x one-year forward earnings, with its historical average being ~24x. Our target multiple is in line with the stock's past five-year average. We note that our multiple is a tad lower than other Indian consumer peers' multiples given Dabur garners a higher proportion of earnings from developed markets.

Risks

The key downside risks to our target price include: (1) lower-than-expected volume growth in the event of slower rural demand; (2) emerging competition in Dabur's product segments, which could exert pricing pressure; and (3) changes in taxation norms, which would negate the savings from certain facilities in tax / excise-exempt locations. Upside risks to our target price include: (1) better-than-expected sales growth due to the recent distribution initiatives; and (2) beneficial currency movements may aid profitability in international business division and raw materials / packing expenses.

Hindustan Unilever

(HLL.BO; Rs531.20; 3)

Valuation

HUVR's fairly steady earnings stream renders P/E a good methodology to value the stock. Our target price of Rs373 is based on 25x Sept13E P/E, at the slightly higher than the mid range of the stock's historical trading band of 18-30x of the past 5 years. We use a lower than peak multiple as the earnings growth is likely to be relatively lower (at ~15% CAGR over FY12-14E). The company has enjoyed more than a substantial premium to the Sensex owing to its high capital-efficiency ratios and consistent earnings growth. At 25x P/E, HUVR will trade at a relative P/E of ~1.8x to the broad market multiple (in line with long term history). We don't believe HUVR should trade at a premium to historical average relative P/E multiples given that competitive intensity in most of its key segments has only heightened over the past few years – which impacts overall margins. It is unlikely that the stock to re-trace to its historical high premium of ~3-3.1x witnessed in the late 90s, given that HUVR's growth prospects are far more sedate today than they were around 10 years ago.

Risks

The most significant risk to our target price is the possibility of a prolonged battle for market share with other MNC peers as well as Indian companies. HUVR is equally leveraged to the rural and the urban economies and, as such, any dislocation would affect the company's performance. Although the company's brands have strong pricing power, in a challenging external environment price increases are limited. P&G is aggressively seeking to increase its market share in detergents, shampoos and some other categories. Upside risks to our target price include: a) benefits on the distribution side (plenty of initiatives undertaken in the past 1-2yrs) could kick in; b) favorable shift towards PP could result in a more stable profit profile, especially as 25% of HUVR's revenues (low end soaps / detergents) is largely commoditized; and; c) Cost pressures abate faster than the uptick in ad spends, providing enabling margins to sustain / further improve.

Colgate Palmolive (India)

(COLG.BO; Rs1,202.35; 3)

Valuation

We use a P/E based methodology to value Colgate India because of its steady growth profile. Our target price of Rs957 is based on 25x FY13E earnings. Our target P/E multiple of 25x is at the higher end of the average trailing three-year historical trading range, which we believe is appropriate given Colgate's strong brand equity, which will likely help it maintain a premium rating despite increasing competition. Over the last five years, the stock has traded in a P/E range of 15x-30x (average 22x). Colgate's relative PE to the broad market is currently at the higher end of the last five-year range (0.8x-1.6x), thus the risk reward at current levels appears unfavorable. At the current ~26-27x one-year forward P/E, we believe that the stock fully captures the growth expectations - forecast ~14% EPS CAGR over FY11-FY13E.

Risks

Key upside risks include: 1) Benign input cost environment onwards may support margins to some extent; 2) Brand building spends remains key towards profitability - Any major cutback in ad spends, due to easing competitive pressures or lack of new product launches, may provide upside risk to our estimates; and 3) better profitability driven by the amalgamation of various contract manufacturers. If the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Marico

(MRCO.BO; Rs190.85; 3)

Valuation

Our target price of Rs169 is based on 24x Sept13E consolidated EPS, at ~10% premium to its trailing 5-year average P/E; justified by the healthy reported profit growth (a two-year CAGR of 22%) - supported by input cost tailwinds. If Marico can demonstrate strong profit growth in the Kaya subsidiary over the next 2 years, the stock could re-rate. Conversely, a de-rating is also possible if Kaya's business / profitability trajectory isn't as expected. We ascribe a multiple slightly lower than its peak multiples of ~25x which it traded at from mid CY06-Jan08, as growth rates in that period were heightened by inorganic initiatives and very strong core business growth - which may be difficult to replicate over the next 12-18 months on the high base of the current year. The stock currently trades at ~75-80% premium to the broad market P/E v/s. historical average of ~20% premium.

Marico's earnings growth has been steady; therefore, we believe P/E is best suited to value the company.

Risks

Upside risks to our target price include: (1) Considering that a sizeable sum of the consolidated entity's revenues would be from international markets, earnings would benefit from a favorable forex market. (2) Any value-accretive acquisition in emerging markets would aid further earnings growth. (3) Stronger-than-forecast growth in hair oil volumes (especially coconut oil), (4) Better-than-expected pick-up in the company's new initiatives (cooling oils, skin care, oats, rice, etc), (5) Kaya reporting a profit growth that is higher than forecasts.

Downside risks include: (1) Cyclical rebound in the price of copra, the key raw material; (2) Marico has aggressively acquired companies and brands. Slower-than-expected growth in the key markets would lead to slower growth in the consolidated entity; and (3) Marico recently entered categories - which may be a drag on profitability until critical mass is reached.

LG Household & Health Care

(051900.KS; W615,000; 2)

Valuation

Our sum-of-the-parts target price for LGH&H is W630,000. In our model, we assign fair-value 2013E P/Es of 30x vs. prior 26x to the Cosmetics business (around a 30-35% premium to global peers based on a stronger growth profile) as we have reflected stronger overseas growth delivery and 24x to the HPC business (a 10% premium to global peers due to wider margins and the potential for acquisitions). Our 2013E target P/E for the Beverage business is 17x, at a 5-10% premium to Coca-Cola Company and PepsiCo, mainly recognizing LGH&H's stronger growth potential which offsets its inferior ROE and the absence of brand ownership. Our target price implies a 2013E P/E of 25x vs. prior 23x, which represents a 15-20% premium to AmorePacific and is warranted mainly due to a stronger growth profile.

Risks

Key downside risks to our target price include:1) Regulatory risks in discount stores to reduce volume growth in household products; 2) A weaker macro environment could drag on HPC/cosmetics demand; 3) Slowdown in home visit channel 4) Execution risks in overseas markets. Key upside risks to our target price lie in: 1) Greater-than-expected growth in overseas markets with The Face Shop brand; 2) Demand for premium cosmetics and household products turning out to be better than expected.

Amorepacific

(090430.KS; W1,139,000; 2)

Valuation

Our target price for Amore is W1,200,000 based on a 2013E PE of 21x. We believe P/E is a suitable valuation methodology for Amorepacific as it is the most commonly used valuation benchmark globally for cosmetics companies with limited non-core earnings streams (apart from some names involved with the retailing and pharmaceutical businesses). Our target multiple of 21x is in line with the global average of major cosmetics-focused companies. AmorePacific's stronger local market leadership is offset by its smaller global presence and market-specific risks.

Risks

Key risks that could impede the share price from reaching our target price are: 1) Margin pressure from more competition in prestige channels; 2) Deteriorating capital efficiency with free cash flow growing with only modest reinvestment or increase in dividends; 3) Any diversification into non-core businesses; and 4) Global and domestic macro risks. Key upside risks are: 1) better-than-expected margins in mass channels; and 2) faster-than-expected turnaround in the company's French affiliate and green tea operations.

Reynolds American Inc

Valuation

Over the last two years, RAI has traded at an average 8% premium to the S&P 500, ranging from an 18% discount to a 32% premium. Meanwhile, on an absolute basis, RAI has traded at an average 12.7x forward P/E (ranging from 10.4x to 14.7x). We expect further multiple expansion from here, given the company's (i) outlook for robust margin expansion, (ii) strong dividend yield, and (iii) best-in-class innovation platform. As such, we believe that RAI should trade at a ~15x multiple. Given our FY13 EPS estimate of $3.28, we have a $50 target price on RAI's shares.

Risks

RAI operates in an industry in which volumes are steadily declining, which must be offset by price increases and/or cost cutting in order to maintain or increase operating income. Additionally, excise tax increases at the state and federal level also have the potential to negatively impact results. Furthermore, government regulation of the industry has increased, with the greatest uncertainty stemming from the FDA's ongoing review of menthol, though we believe that an outright ban is unlikely. Finally, litigation remains a key concern for U.S. tobacco companies. The number of cases pending or outstanding against RAI has increased recently, as have legal defense costs. In spite of this, damages paid have been remarkably small and the risk of a judgment that is paralyzing in size has diminished considerably.

Potential reasons the stock could materially underperform our target price include: (i) a slow reaction by consumers to RAI's new product introductions, particularly in the smokeless segment, (ii) reduced margins in the smokeless segment, a consequence of increased competitive activity, (iii) a drag on core sales and profits resulting from continued volume declines for RAI's support and non-support brands in the cigarette segment, and (iv) the combination of debt expense and pension funding costs continuing to prevent the company from buying back shares. Overall though, with RAI's solid track record thus far and with an experienced management team and succession plan in place, we are hopeful that RAI will meet, if not exceed, our earnings expectations.

In citing reasons why the stock could materially outperform our target price, if management's EPS growth targets proved too conservative, RAI's outperformance could help boost the stock price.

Philip Morris International (PM.N; US$91.69; 2)

Valuation

PM has traded at an average 16% premium to the S&P 500 over the last two years, ranging from a 12% discount to a 37% premium. On an absolute basis, over the last two years, PM has traded at an average 13.6x forward P/E (ranging from 11.9x to 15.7x). We believe PM deserves to trade at a 20% premium to the market multiple, which reflects the company's strong underlying fundamentals and our confidence in PM's ability to consistently deliver double-digit local currency EPS growth over the medium term. Given the S&P's roughly 13x P/E multiple (based on Citi's 2013 EPS estimate), and our FY13 EPS estimate of $5.76, we have an $90 target price on the stock.

Risks

PM operates in an industry in which volumes are steadily declining in developed countries, which must be offset by price increases and/or cost cutting in order to maintain or increase operating income. Volume trends in most developing countries are positive; however, margins are significantly smaller in these markets. Additionally, excise tax increases can prove disruptive as consumers typically trade down to lower-margin, value-priced cigarette brands. Furthermore, government regulation of the industry remains a risk as changes such as requirements for generic packaging or health warning labels may undermine the industry's high margins. Finally, litigation is a concern, though not nearly as great of one as in the U.S.

Potential reasons the stock could materially underperform our target price include: (i) a slow reaction by consumers to PM's new product introductions, which have helped to drive volume and market share gains in several key markets, (ii) significant changes in exchange rates, and (iii) continued consumer trade-down driven by either continued macro weakness or higher excise taxes.

In citing reasons why the stock could materially outperform our target price, if management’s EPS growth targets proved too conservative, PM's outperformance could help boost the stock price.

British American Tobacco PLC

(BATS.L; £32.43; 1)

Valuation

Our 12-month price target is 3785p. This represents our view of fair value, based on P/Es. Our fair value estimate assumes that in 12 months' time the shares will be trading at c.15x next year’s EPS. However, in 12 months this will be based on calendar 2014E earnings, not 2013E earnings. Given our estimate for 2014 EPS, this implies fair value is 3785p. Currently BAT is trading at a slightly lower forward P/E but we think this may rise as the market comes to appreciate the beneficial structural changes to the tax systems in Russia and Brazil. Our strategists believe that growth companies such as BAT - in other words those with self-help stories - will continue to appreciate relative to the market. In the past five years, BAT has traded at an average of about 13.4x forward P/E based on the next 12 months consensus earnings, but that included a period during 2008-09 when multiples of almost all companies were depressed.

Risks

Positive risks to our target price include the fact that tobacco is a fairly steady and predictable industry. Furthermore, BAT has by far the greatest geographical diversification of any tobacco company. We would highlight in particular the following negative risks that may affect the achievement of our target price:

BAT shares are likely to rise or fall, depending on sector rotation. If the market rotates away from defensives, tobacco will underperform.

Foreign-exchange risk is significant for BAT. If some of its emerging market currencies fall, it may be subject to a worse-than-expected transactional squeeze.

One or more of BAT's major markets could suffer from a **price war**, like the one we saw in Spain in 2011.

Of all the European tobacco companies, BAT has the biggest risk from **litigation**, via its exposure to Canada and Brazil as well as the US. Several Canadian provinces have passed legislation designed to help the provinces sue BAT for billions of dollars using reduced levels of proof.

BAT could suffer from **more large excise tax rises**.

The Australian government says it intends to **ban the use of all trademarks** related to tobacco. We think this ban is likely to go ahead, and it could hurt profit more than we expect.

The trend to **discount products** could invade more of BAT's markets, hurting profits globally.

Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Japan Tobacco

Valuation

Our ¥3,000 target price is based on a DCF model. Using earnings forecasts for FY3/13-FY3/16 we derive a theoretical price of ¥3,010, and base our target price on this. We assume a 3% risk-free rate, a 5% equity-risk premium, a beta of 1.2, a 31% tax rate, and a zero terminal growth rate, producing a WACC of 6.9%.

Risks

We see the following as risks for our target price: 1) economic turmoil in Eastern Europe and Asia could impede growth in earnings from overseas cigarettes businesses; 2) the value of sterling, the ruble, and other key currencies could drop sharply against the dollar, impairing earnings from overseas cigarette sales; 3) class action lawsuits against tobacco companies could spread beyond the US; 4) tax increases could put downward pressure on domestic cigarette consumption; 5) JT's domestic market share could decline if foreign competitors lower their prices; and 6) JT's domestic market share could decline due to damages to certain key factories from earthquake; 7) investors could shift away from JT into cyclicals in response to economic recovery. If these factors manifest themselves differently than we have anticipated, the share price may fail to reach our target price.

On the other hand, a sharp increase in shipments of higher-priced products or the reduction of factory or personnel costs could result in upside risk. Should the effects of these risk factors differ from our assumptions, the shares may overshoot our target price.

Imperial Tobacco Group PLC

(IMT.L; £23.36; 2)

Valuation

Our 12-month price target is 2650p. This assumes that in 12 months, the shares will be trading at about 11x forward earnings, which is their current level.

Since 2001, Imperial's average forward multiple has been 11.9x, but we believe the operating and regulatory environment is worse than it was.

In 12 months, this will be based on calendar 2014E earnings, not 2013E earnings.

Risks

We highlight the following risks that may cause Imperial's share price to deviate significantly from our target price:

The shares may move either up or down due to **rotation** into or away from the tobacco sector, as investors get either more concerned about the outlook in higher beta sectors, or more confident.

Currencies could move in Imperial's favour, boosting profit above our estimates, or move against Imperial, lowering profit.

In **Spain**, there could be further price rises, or indeed price cuts, altering profit from our and consensus expectations.

The UK, French (or other governments) are likely to introduce rules requiring "**plain packaging**". We believe there might be more down-trading as a result.

The company is highly dependent on **Philip Morris's pricing decisions**. In the majority of its markets, it has little ability to make its own pricing decisions. Historically, PM has been willing, when provoked, to spark a price war.

Imperial is now at risk from **US tobacco litigation**; this is in abeyance, but it could flare up again.

Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

ITC

(ITC.BO; Rs254.10; 1)

Valuation

Our target price of Rs278 is based on 25x Mar14E earnings. ITC's stock has re-rated, as concerns pertaining to cigarette volume decline (post the excise/VAT imposition) have been largely unfounded, with overall cigarette volumes remaining firm and thus underscoring the resilience and defensive attributes of the core cigarette business. The aggressive price increases in turn augmented the operating margins. Moreover, while revenues and earnings have been somewhat volatile over the past few years on account of the different growth trajectories and life cycles of ITC's other businesses, some of which (esp. personal care) are at nascent stages of operations and have yet to attain sustainable cash generation. Our target P/E multiple of 25x is above the last three-year historical trading average (~22x).

ITC has a relatively stable earnings stream, so P/E is our primary valuation methodology.

Risks

Downside risks that could prevent the stock from reaching our target price include: 1) With most of its earnings coming from the tobacco segment, ITC is most at risk from controls and the government's tax policy. 2) Perceived as being a "sin" industry, the stock is prone to negative share price reactions. 3) Other significant risks for the company are dilution in capital efficiency from investments in nontobacco businesses and the possible acquisitions of capital intensive businesses that fail to enhance value.

KT&G

(033780.KS; W87,400; 1)

Valuation

Our target price for KT&G of W96,000 is based on a sum-of-parts valuation approach. Our 2013E target multiple for the cigarette business is at a ~20-30% discount to global peers, which we view as justified given lower growth and lower ROE in KT&G's domestic cigarette business. We believe P/E is an appropriate methodology given the company's low volatility in capex. Our fair-value multiple for the ginseng business is 11x P/E to reflect lingering lower margin trends, broadly in line with F&B leaders. Our target price implies a 2013E P/E of 13.6x, based on consolidated net earnings and market cap net of cash.

Risks

Key risks that may prevent the stock from achieving our target price include: 1) Loss of market share to more aggressive multinational brands; 2) Impact on sales of tougher domestic anti-smoking initiatives, such as graphic warnings on cigarette packaging; 3) Greater margin pressures in ginseng earnings; 4) Diversification into non-core areas such as pharmaceuticals and real estate; 5) Worse-than-expected macro slowing down demand for premium red ginseng products; and 6) Litigation, though this seems a longer-term issue.

BAT

(BATO.KL; RM62.30; 2)

Valuation

Our RM52.00 target price is based on DCF using a 9.1% equity discount rate (a 4.5% risk-free rate, 6.5% market risk premium, and 0.7 beta) and a 3% terminal growth rate. We consider the DCF method appropriate to value BAT because the group is focused on one main business that is cash generative, and its underutilized assets are minimal.

Risks

Key upside and downside risks to our target price include: [1] Better or worse than expected industry volumes; [2] Reduction or increase in illicit trade levels; and [3] Lower or higher than expected excise duty hikes. If any of these risk factors has a greater impact than we anticipate, BAT's share price could deviate from our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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