

## Hindustan Unilever – supportive results for UNA

# First Look

Breaking news, market events and company announcements

Hindustan Unilever has reported results for the quarter ended September generally ahead of consensus. Top-line trends look to have improved, with good growth across all divisions. Although the gross margin is still down sharply (-340bp), it is down less than in the previous quarter. Meanwhile, EBITDA margins were up, helped by lower A&P spend and cost savings. HUL has traded up 7% following the release of the results (vs. a local market -60bp).

We see the trends here as indicative of the shape of Unilever's H2 results with high levels of cost savings and lower A&P spend (as a percentage of sales), helping to offset gross margin pressure (we estimate group RM&P cost inflation in H2 to be higher than in H1 – a trend also indicative of recent reporting from P&G and Colgate).

For Unilever's Q3 sales (due out on Thursday, 3 November), HUL's results may support strong top-line momentum at its Asia Africa CEE division, while other peer group reporting for the September quarter has generally demonstrated a better-than-expected pricing environment. Developed market volumes remain a concern, as does cost commentary - and with Unilever trading at a 2012E P/E of 16.0x, there is little scope for disappointment in the valuation.

### Hindustan Unilever results quarterly results to September

- Hindustan Unilever accounts for c. 7% of Unilever's sales and 6% of group EBITDA, 3% of earnings and 8% of Unilever's equity value.
- The company reported sales 3.4% above cons. estimates at INR 55.2bn.
- The domestic consumer business grew by 18.5% (15.3% in the previous quarter). Within this, Soaps and Detergents saw growth of 21.8%, Personal Products 18.2%, Beverages 14.6% and Packaged Foods 20.9%.
- Volume growth of 9.8% compares with 8.3% in the previous quarter on a 300bp higher basis of comparison. Pricing also came in better than in the previous quarter at 8.1% vs. 6.5% though sequentially the improvement is more modest (Figure 2).
- The gross margin came in at 45.7%, which represents a 340bp decline y-o-y. This compares with a 480bp decline y-o-y in the previous quarter.
- The EBITDA margin came in at 15.9%, +100bp y-o-y vs. 14.3% and a 40bp decline in the previous quarter.
- A&P in the quarter was down 200bp of sales. Substantial cost savings initiatives also benefitted the EBITDA margin.
- There is a Hindustan Unilever conference call tomorrow at 11.00am (UK time)

October 31, 2011

<b>Rating</b> Remains	<b>Reduce</b>
<b>Target price</b> Remains	EUR 21.30
<b>Closing price</b> October 28, 2011	EUR 24.84

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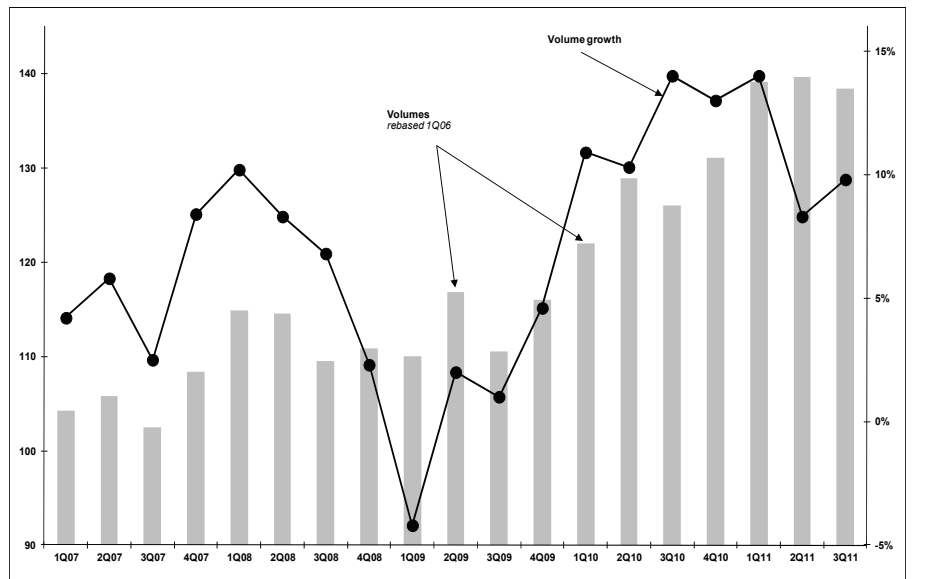
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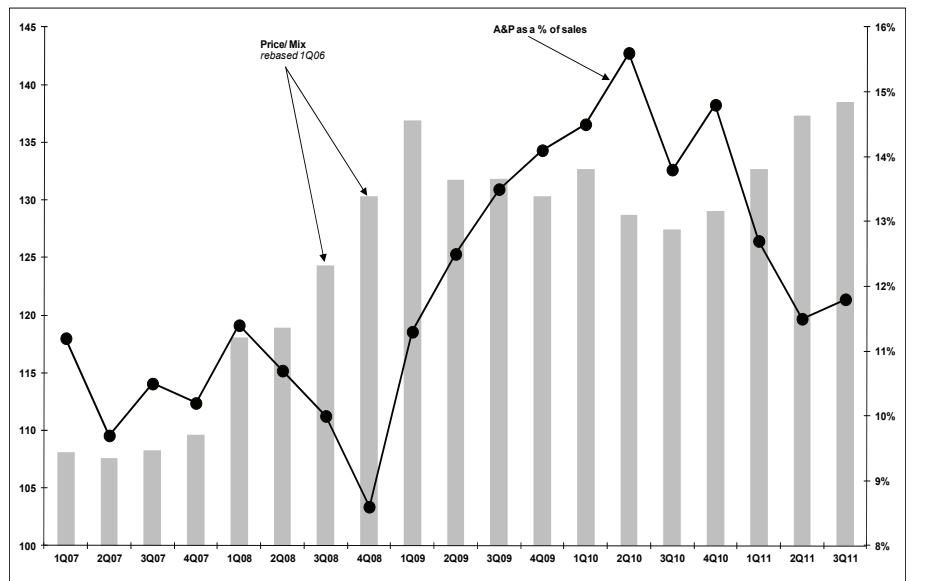
See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

**Fig. 1: Hindustan Unilever absolute volume levels indexed to 2006 (LHS), y-o-y volume growth (RHS)**



Source: Company data, Nomura estimates

**Fig. 2: Hindustan Unilever absolute pricing levels indexed to 2006 (LHS) and A&P spend as a % of sales (RHS)**



Source: Company data, Nomura estimates

# Appendix A-1

## Analyst Certification

We, Alex Smith, David Hayes, Guillaume Delmas and Manjari Chatrath, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Unilever NV	UNA NA	EUR 24.84	28-Oct-2011	Reduce	Neutral	123

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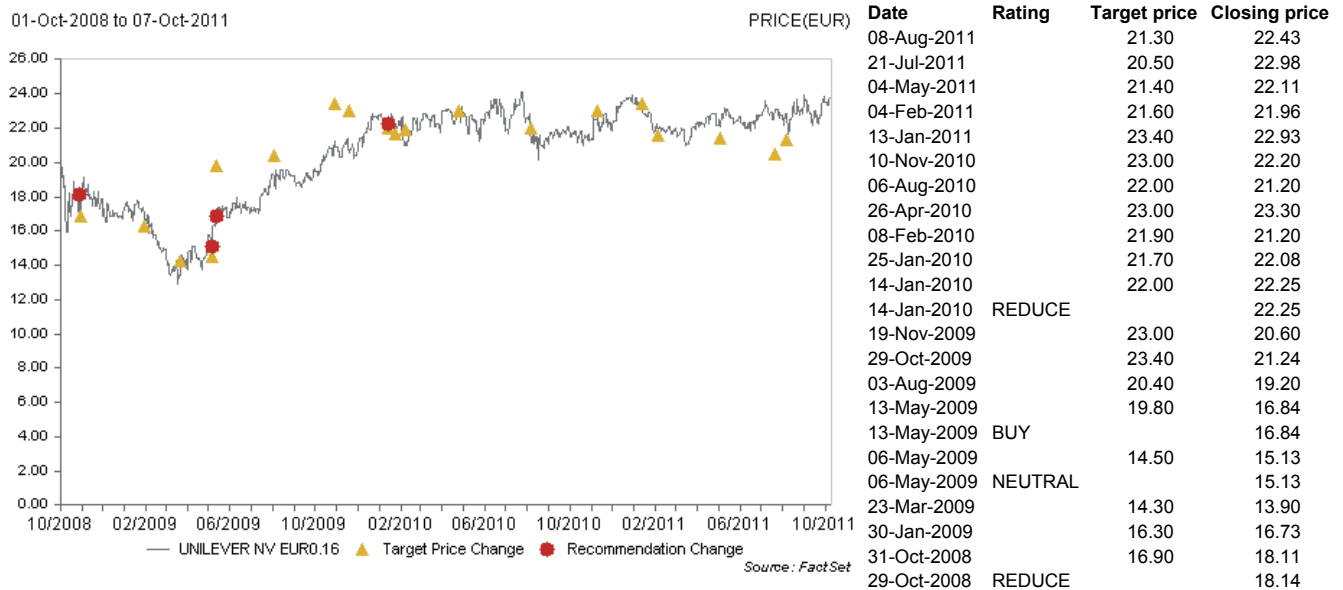
## Previous Rating

Issuer name	Previous Rating	Date of change
Unilever NV	Buy	14-Jan-2010

### Unilever NV (UNA NA)

EUR 24.84 (28-Oct-2011) Reduce (Sector rating: Neutral)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We derive our target price of EUR 21.3 from our DCF-based analysis. We use a WACC of 9.5%, a terminal growth rate of 4.1% discounted back from 2018E to 2011E, and a long-term ROIIC of 11.8%. The benchmark index for this stock is Dow Jones STOXX® 600 Food & Beverage.

**Risks that may impede the achievement of the target price** The risks to achieving our price target include competition, a deterioration in the economic environment, foreign exchange and that the company may not execute its stated strategy as effectively as forecast; all of which may cause variances from our earnings projections.

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