

EARNINGS REVIEW

Hindustan Unilever (HLL.BO)

Neutral

Equity Research

In line with expectation: Better margin offsets weak volume; Neutral

What surprised us

HLL reported 2QFY17 sales growth of 1% and PAT growth of 12% (GSe: 4%/11%). Volume declined by 1% vs our expectation of 2.8% growth, largely due to weaker personal wash volumes. Key takeaways: **(-) Personal care** growth missed our estimates on weak volumes for personal wash and weaker consumer demand. Soap volumes, particularly for Lux and Lifebuoy, were impacted as HLL took price increases to offset higher palm oil costs, ahead of competitors, allowing HLL to protect margins. **(+) Home care** volume was also affected by weaker consumer sentiment, but continued premiumization drove a margin beat. **(-) Foods sales** and EBIT were lower on a weaker consumer environment. **(+) Refreshment** margins were buoyed by premiumization in both tea and coffee. **(+) Outlook** was more positive than in 1Q, with management guiding to a gradual recovery in 2H, as was seen in the latter half of 2Q. However, management also pointed to a rebalance in the price/volume mix as input costs rise.

What to do with the stock

We adjust our FY17E-19E EPS by -1% to -3% to reflect slower volume growth but slightly higher margins. We lower our 12-month target price to Rs692 from Rs703 (42.5% weight to DCF, 42.5% weight to 30X FY19E EPS and 15.0% weight to M&A valuation using 36X FY19E P/E; our target multiple and DCF assumptions are unchanged). We remain concerned about a premiumization-led strategy in an environment with high competitive intensity and limited affordability for urban mass consumers. Key risks: Upside: Faster rural recovery, higher GMs; parent (ULVR) increasing stake. Downside: high input costs, competition.

HLL 2QFY17 results variance

Hindustan Unilever 2QFY17 (YoY)	Actual	Estimate
Volume	-1%	3%
Sales	1%	4%
EBIT	4%	7%
PAT (bei)	12%	11%

Source: Company data, Goldman Sachs Global Investment Research.

INVESTMENT LIST MEMBERSHIP

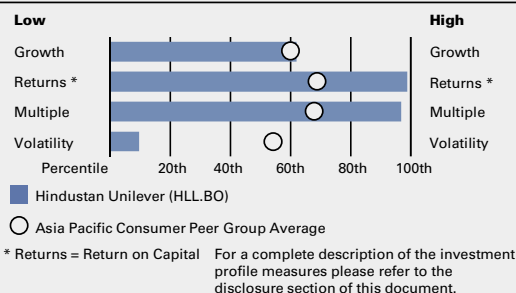
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Coverage View: Neutral

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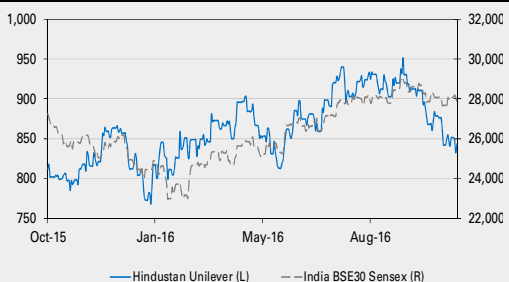
Investment Profile



Key data	Current
Price (Rs)	842.80
12 month price target (Rs)	692.00
Market cap (Rs mn / US\$ mn)	1,822,604.0 / 27,265.1
Foreign ownership (%)	--

	3/16	3/17E	3/18E	3/19E
EPS (Rs) New	19.70	20.14	22.45	25.21
EPS revision (%)	0.0	(3.3)	(1.6)	(1.5)
EPS growth (%)	(1.3)	2.2	11.5	12.3
EPS (dil) (Rs) New	19.52	20.14	22.45	25.21
P/E (X)	43.0	41.9	37.5	33.4
P/B (X)	49.7	48.4	46.1	43.2
EV/EBITDA (X)	30.7	30.2	27.0	23.8
Dividend yield (%)	1.9	2.0	2.3	2.5
ROE (%)	114.0	117.0	125.9	133.6
CROCI (%)	52.4	47.6	46.8	45.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(6.6)	(4.9)	4.4
Rel. to India BSE30 Sensex	(6.2)	(11.1)	2.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/26/2016 close.

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Hindustan Unilever: Summary Financials

Profit model (Rs mn)	3/16	3/17E	3/18E	3/19E	Balance sheet (Rs mn)	3/16	3/17E	3/18E	3/19E
Total revenue	315,679.9	344,441.0	376,605.1	414,272.2	Cash & equivalents	27,588.2	24,568.3	21,879.0	19,830.9
Cost of goods sold	(156,337.4)	(190,475.9)	(209,580.7)	(229,506.8)	Accounts receivable	10,645.2	11,615.1	12,699.7	13,969.9
SG&A	(109,442.6)	(104,212.5)	(110,954.4)	(120,425.4)	Inventory	25,283.6	30,804.6	33,894.4	37,116.9
R&D	--	--	--	--	Other current assets	7,357.5	7,357.5	7,357.5	7,357.5
Other operating profit/(expense)	5,619.0	5,900.0	6,194.9	6,504.7	Total current assets	70,874.5	74,345.5	75,830.6	78,275.2
EBITDA	58,726.4	59,441.4	66,784.1	75,816.0	Net PP&E	33,007.0	39,551.4	46,330.3	52,958.6
Depreciation & amortization	(3,207.5)	(3,788.9)	(4,519.3)	(4,971.3)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	55,518.9	55,652.6	62,264.9	70,844.7	Total investments	31,975.8	31,975.8	31,975.8	31,975.8
Interest income	2,340.6	4,138.2	3,685.2	3,281.9	Other long-term assets	5,813.0	5,813.0	5,813.0	5,813.0
Interest expense	(1.8)	0.0	0.0	0.0	Total assets	141,670.3	151,685.6	159,949.6	169,022.6
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	54,978.9	64,375.1	67,960.9	71,278.5
Others	2,665.7	3,148.4	3,463.3	3,809.6	Short-term debt	0.0	0.0	0.0	0.0
Pretax profits	60,523.4	62,939.2	69,413.3	77,936.1	Other current liabilities	36,392.6	36,245.0	39,045.1	42,146.6
Income tax	(17,882.2)	(19,353.8)	(20,824.0)	(23,380.8)	Total current liabilities	91,371.5	100,620.1	107,006.0	113,425.1
Minorities	0.0	0.0	0.0	0.0	Long-term debt	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	42,641.2	43,585.4	48,589.3	54,555.3	Other long-term liabilities	13,425.9	13,425.9	13,425.9	13,425.9
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	13,425.9	13,425.9	13,425.9	13,425.9
Net income (pre-exceptionals)	42,641.2	43,585.4	48,589.3	54,555.3	Total liabilities	104,797.4	114,046.0	120,431.9	126,851.0
Post-tax exceptionals	(390.3)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	42,250.9	43,585.4	48,589.3	54,555.3	Total common equity	36,872.9	37,639.6	39,517.7	42,171.6
EPS (basic, pre-except) (Rs)	19.72	20.15	22.47	25.23	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-except) (Rs)	19.54	20.15	22.47	25.23	Total liabilities & equity	141,670.3	151,685.6	159,949.6	169,022.6
EPS (diluted, post-except) (Rs)	19.52	20.14	22.45	25.21	BVPS (Rs)	17.05	17.41	18.27	19.50
DPS (Rs)	16.00	17.00	19.00	21.00					
Dividend payout ratio (%)	81.9	84.3	84.6	83.2					
Free cash flow yield (%)	1.8	2.1	2.3	2.7					
Growth & margins (%)	3/16	3/17E	3/18E	3/19E	Ratios	3/16	3/17E	3/18E	3/19E
Sales growth	4.6	9.1	9.3	10.0	CROCI (%)	52.4	47.6	46.8	45.9
EBITDA growth	12.8	1.2	12.4	13.5	ROE (%)	114.0	117.0	125.9	133.6
EBIT growth	12.8	0.2	11.9	13.8	ROA (%)	30.4	29.7	31.2	33.2
Net income growth	(2.1)	3.2	11.5	12.3	ROACE (%)	56.3	49.9	50.0	50.2
EPS growth	(2.1)	3.2	11.5	12.3	Inventory days	59.9	53.7	56.3	56.5
Gross margin	50.5	44.7	44.4	44.6	Receivables days	10.7	11.8	11.8	11.7
EBITDA margin	18.6	17.3	17.7	18.3	Payable days	125.9	114.4	115.2	110.7
EBIT margin	17.6	16.2	16.5	17.1	Net debt/equity (%)	(74.8)	(65.3)	(55.4)	(47.0)
					Interest cover - EBIT (X)	NM	NM	NM	NM
Cash flow statement (Rs mn)	3/16	3/17E	3/18E	3/19E	Valuation	3/16	3/17E	3/18E	3/19E
Net income pre-preferred dividends	42,641.2	43,585.4	48,589.3	54,555.3	P/E (analyst) (X)	43.0	41.9	37.5	33.4
D&A add-back	3,207.5	3,788.9	4,519.3	4,971.3	P/B (X)	49.7	48.4	46.1	43.2
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	30.7	30.2	27.0	23.8
Net (inc)/dec working capital	(1,016.0)	2,757.7	2,211.6	1,926.3	EV/GCI (X)	19.3	16.8	14.6	12.8
Other operating cash flow	(3,372.9)	(1,159.8)	(1,275.8)	(1,403.3)	Dividend yield (%)	1.9	2.0	2.3	2.5
Cash flow from operations	41,069.5	48,972.2	54,044.4	60,049.6					
Capital expenditures	(7,569.5)	(10,333.2)	(11,298.2)	(11,599.6)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	8,802.4	1,159.8	1,275.8	1,403.3					
Cash flow from investments	1,232.9	(9,173.5)	(10,022.4)	(10,196.3)					
Dividends paid (common & pref)	(39,978.2)	(42,818.7)	(46,711.3)	(51,901.4)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	3.5	0.0	0.0	0.0					
Other financing cash flows	(115.1)	0.0	0.0	0.0					
Cash flow from financing	(40,089.8)	(42,818.7)	(46,711.3)	(51,901.4)					
Total cash flow	2,212.6	(3,019.9)	(2,689.2)	(2,048.1)					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Weaker sales growth across categories offset by better margin

Hindustan Unilever – 2QFY17 results summary

Hindustan Unilever 2QFY17	Growth (YoY)	
	Actual	GSe
Volume	-1%	2.8%
Pricing	3%	1.0%
Sales	1%	4%
COGS	2%	4%
Gross Profit	0%	4%
Employee costs	5%	5%
A&P spend	-8%	3%
Other expenses	2%	0%
EBITDA	5%	8%
EBIT	4%	7%
PAT (bei)	12%	11%

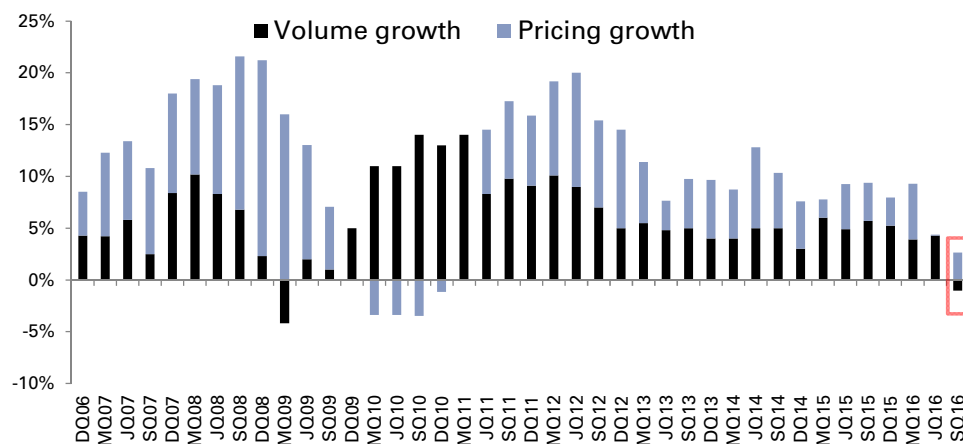
Segment sales Growth (YoY)	Actual	Expected
Home care	3%	6%
Personal care	0%	2%
Foods	2%	7%
Refreshments	8%	8%
Others	-15%	-10%

Segment results Growth (YoY)	Actual	Expected
Home care	25%	17%
Personal care	4%	1%
Foods	-16%	-13%
Refreshments	17%	13%

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 2: Weakest volumes since MQ09 and weakest sale growth in over 10 years

HLL – volume growth (yoy) and pricing growth (yoy)



Source: Company data, Goldman Sachs Global Investment Research.

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Reg AC

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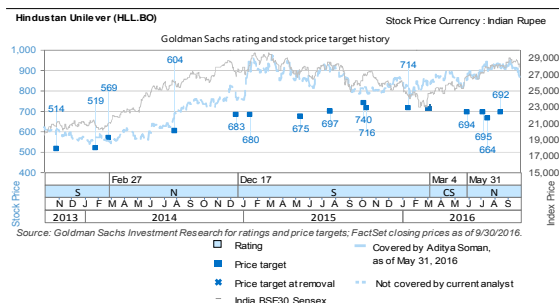
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