

4 June 2010

## Hindustan Unilever

*Buyback not to materially impact value; reiterate Sell*

Rating: **Sell**

Target Price: Rs204

Share Price: Rs245

- Buyback, a non-event; Sell into rally.** HUL announced buyback u/s 77A. We do not expect it to have any material price impact as it would be up to 1.1% of HUL's market cap and may be earnings dilutive. An open-market purchase like a buyback in 2007 will not attract investors. We retain a Sell, with a target price of Rs204.
- Buyback only up to 1.1% of market cap.** As per the Companies Act, HUL can buy back only up to 25% of its net worth. With a net worth of Rs24bn (end-Mar '10, HUL can buy back up to Rs6bn. At a market cap of Rs535bn, the buyback works out to only up to 1.1% of market capitalization.
- Impact on earnings.** Buyback at Rs250 would reduce the number of shares by 1.1% and earnings by 1.6% and hence may prove to be earnings dilutive. We, however, expect that, with 25% reduction in net worth, return ratios would expand drastically.
- Open-market purchase or open offer?** In 2007, HUL had announced a buy back of shares at up to Rs230 and a maximum consideration of Rs6.3bn. However, it bought back shares at an average Rs207 as prices were lower than Rs230. In case of an open market purchase, any impact on price would be limited.
- Valuation.** We retain our target price of Rs204, at a target PE of 20x FY12e earnings. Though the company is trying to expand shareholder value by way of the buy back, a weaker operational performance would continue to weigh on the stock price.

### Key financials

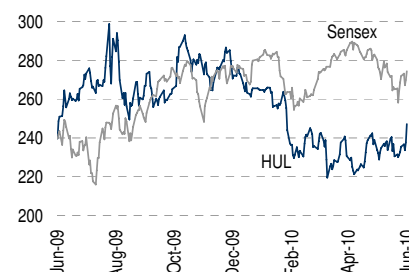
Year end 31 Mar	CY07	15MFY09	FY10e	FY11e	FY12e
Sales (Rsm)	139,134	205,011	177,643	190,119	208,751
Net profit (Rsm)	17,637	24,900	21,103	21,362	22,402
EPS (Rs)	8.1	9.1	9.7	9.8	10.3
Growth (%)	17.6	12.8	5.8	1.2	4.9
PE (x)	30.2	26.8	25.3	25.0	23.9
PBV (x)	41.2	28.3	22.1	18.4	16.0
RoE (%)	95.6	156.7	98.0	80.3	71.7
RoCE (%)	90.5	134.3	100.0	77.7	72.8
Dividend yield (%)	3.7	3.1	2.7	2.7	2.9
Net gearing (%)	(122.4)	(90.7)	(132.8)	(100.9)	(94.1)

Source: Company, Anand Rathi Research

### Key data

Key data	HUVR IN/HLL.BO
52-week high/low	Rs306/Rs218
Sensex/Nifty	17022/5111
3-m average volume	US\$14.9m
Market cap	Rs535bn/US\$12bn
Shares outstanding	2,182m
Free float	48.0%
Promoters	52.0%
Foreign Institutions	14.5%
Domestic Institutions	14.1%
Public	19.4%

### Relative price performance



Source: Bloomberg

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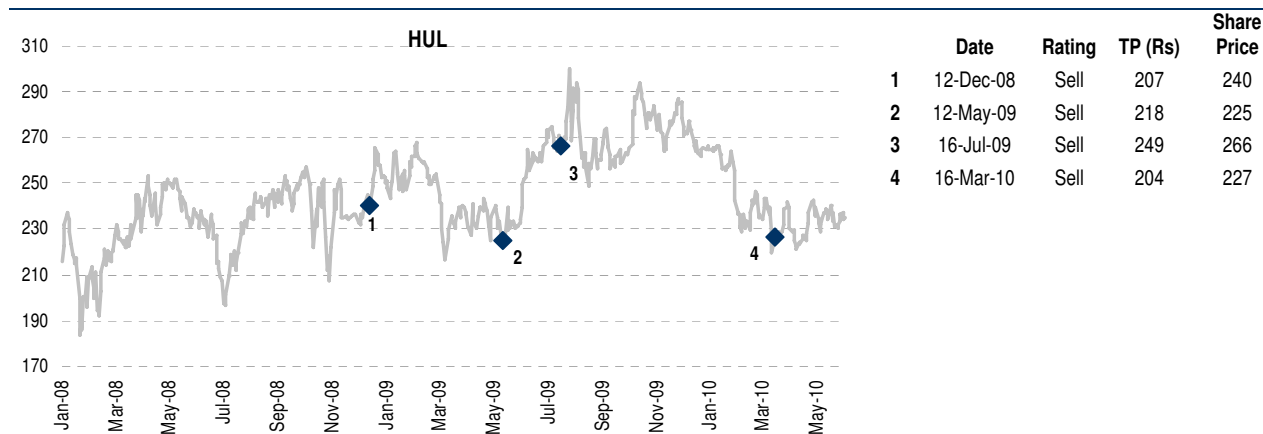
## Appendix 1

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

#### Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

#### Anand Rathi Research Ratings Distribution (as of 31 Mar 10)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (118)	61%	12%	27%
% who are investment banking clients	8%	0%	0%

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