# Stock Update

**To become a strong and healthier consumer play**

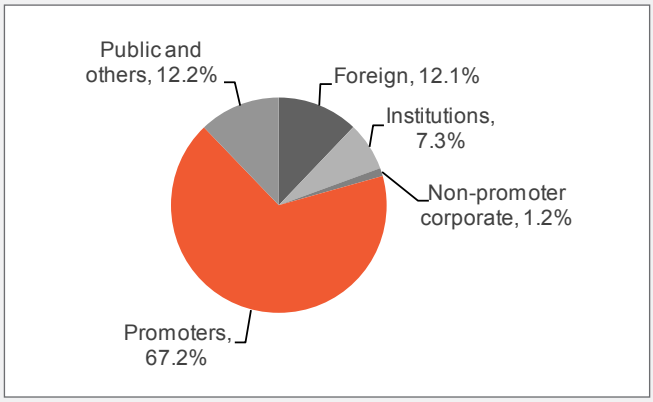
## Hindustan Unilever

Reco: Buy | CMP: Rs1,826

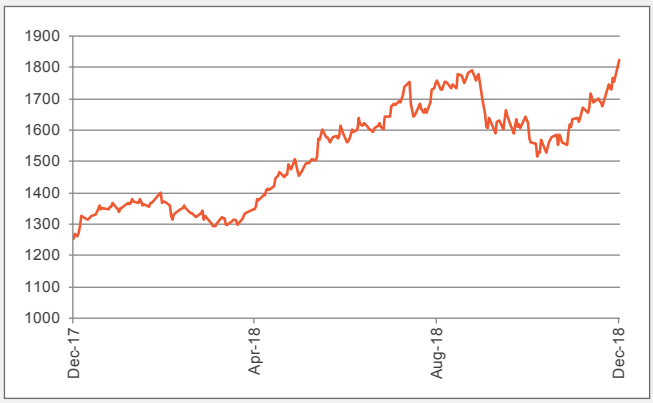
### Company details

| | |
|---|---|
| Price target: | Rs2,071 |
| Market cap: | Rs395,265 cr |
| 52-week high/low: | Rs1840/1241 |
| NSE volume: (No of shares) | 14.4 lakh |
| BSE code: | 500696 |
| NSE code: | HINDUNILVR |
| Sharekhan code: | HINDUNILVR |
| Free float: (No of shares) | 71.0 cr |

### Shareholding pattern




### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 8.2 | -0.9 | 10.3 | 39.7 |
| Relative to Sensex | 2.8 | 5.5 | 6.8 | 26.4 |

### Key points

- **Event – GSK Consumers acquisition will boost HUL growth prospects and will be earnings accretive:** The board of Hindustan Unilever Limited (HUL) has approved the merger of 100% Glaxo SmithKline Consumer (GSK Consumer) with itself for a transaction cost of Rs. 31,700 crore (price to sales of 6.5x) and subject to regulatory and shareholder approvals. The transaction is an all-equity merger with 4.39 shares of HUL being allotted for every one share held in GSK Consumer (equity dilution of 8.5%). GSK Consumer's business includes strong brands such as Horlicks, Boost and Maltova in the health food drinks (HFD) category coupled with over-the-counter and oral health products in India. With a strong brand portfolio, GSK Consumer has a leadership position in the domestic HFD category with about 60% market share (Horlicks has a volume market share of 49%). Though the swap ratio is favourable for GSK Consumers, the deal is EPS accretive for HUL as it brings in incremental PAT of Rs. 700 crore (13% up as per FY2018 financials), while equity capital gets diluted by just 8.5% due to the deal. Moreover, the company would further gain from synergy benefits and consolidate its leadership position in the high-growth and high-margin health food business. Post the merger, Unilever Plc's (parent company of HUL) holding in HUL will be diluted from 67.2% to 61.9%, while GSK Plc (including group companies) will own 5.7% of the merged entity.

- **Unlocking various synergistic benefits in the long run:** Though in the past 2-3 years, the HFD category's growth has been muted due to several macro factors, India is attractive for the HFD category with lower penetration of 24% (as 80-85% of category revenue comes from the Eastern and Southern parts of India). Further, the category is a more urban-centric category with rural penetration standing at just 14%. With pan-India distribution reach of ~8 million outlets and a strong presence in the rural market, HUL is well poised to scale up the category's growth in the coming years. GSK Consumer has a strong brand portfolio to offer across many consumer segments [energy and everyday nourishment (Boost and Horlicks) life stages (Women Horlicks) and specific health needs (Horlicks - Growth plus, Protein plus)]. We

might see HUL launching new products under the existing brands/introducing new packs with adequate advertisement spends, which will help in acquiring new customers in the near future. HUL will also drive significant cost synergies from a combination of supply chain efficiencies and operational improvements, go-to-market and distribution network optimisation, scale in a number of cost areas such as marketing and streamlining of overlapping infrastructure. HUL expects the business to grow in double digits in the medium term and margins are expected to be accretive to HUL post realisation of synergy benefits.

- **Deal is expected to be earnings accretive for HUL, maintain Buy with a revised PT of Rs. 2,071:** The acquisition is in-line with HUL's strategy to acquire sustainable profitable business with a strong brand portfolio in the domestic market. As per our earnings estimates of GSK Consumer for FY20/21, the deal is earnings accretive (4-5% accretion) for HUL (with consolidated OPM standing at 20-21% and earnings reporting a CAGR of ~18% over FY2018-FY2021). A well-established distribution reach and new launches under the existing brands would help HUL's food business to grow in double digits and improve profitability in the coming years. Thus, we maintain our Buy recommendation on the stock with an upgraded price target (PT) of Rs. 2,071 (considering earnings accretion and strong growth prospects through the acquired brands). We are not including GSK Consumers' estimates in our current estimates of HUL as the deal will be complete over the next 12 months.

**Valuation (Standalone)** **Rs cr**

| Particulars | FY2017 | FY2018 | FY2019E* | FY2020E* | FY2021E* |
|---|---|---|---|---|---|
| Net sales (Rs. crore) | 34,487.0 | 35,218.0 | 39,598.0 | 45,321.1 | 51,218.4 |
| Net profit (Rs crore) | 42,49.0 | 5,286.6 | 61,97.8 | 7,362.4 | 8,740.7 |
| OPM (%) | 17.5 | 20.7 | 21.5 | 21.3 | 21.7 |
| EPS (Rs.) | 19.7 | 24.5 | 28.7 | 34.1 | 40.5 |
| PER (x) | 92.8 | 74.6 | 63.6 | 53.6 | 45.1 |
| EV/EBIDTA (x) | 64.4 | 53.2 | 45.1 | 39.3 | 33.6 |
| RoCE (%) | 91.8 | 104.2 | 102.0 | 89.4 | 77.5 |
| RoNW (%) | 66.6 | 77.9 | 74.9 | 65.3 | 56.3 |

* Estimates are excluding the recently acquired GSK Consumers financials

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