

# morning shout

Pakistan Daily Notes

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## Unilever: Strong result; Reiterate Buy

- Unilever reported 54% YoY growth in 2009 earnings to PRs229.80/sh and announced dividend of PRs229/sh.
- Robust topline growth of 23% YoY was fuelled by 27% growth in HPC, 22% growth in beverages, and 46% growth in the ice-cream business. Equivalent increase in costs meanwhile resulted in relatively flat gross margins (+23bp YoY).
- While on a QoQ basis topline declined 8% and gross margins dipped by 500bp in 4Q09, we attribute the same to 3Q09 seasonality (Ramadan/Eid peak consumption).
- We remain cognizant of the rising input costs, inflation and resurgent competition, but feel that higher product prices and relative infancy of competition should shield Unilever. We reiterate our Buy on Unilever with a fair value of PRs3,210/share.

### Strong CY09 results

Unilever posted 2009 earnings of PRs3.06bn or PRs229.80/sh (+54% YoY), in-line with our expectations. Dividend of PRs229/sh (100% payout) is higher than expectations of PRs192/sh and the same has reflected in stock price reaction post results. Key highlights from 2009 results are:

- Top-line grew by 23% YoY with a corresponding increase in the COGS, resulting in a meager increase of 23bp in gross margins. On a QoQ basis, top-line declined by 8% and margins fell 500bp QoQ. This can be attributed to (1) 3Q09 seasonality (Ramadan/Eid peak consumption); (2) increased customer down-trading to lower margin products; (3) decline in volume growth post hike in prices. Nonetheless, tight cost controls cushioned the bottom-line.
- While other income increased by 283% QoQ due to year end adjustment (dividend from Futehally Chemicals); on a YoY basis the same dropped 20%. This can be attributed to lower income from saving and term deposits as the company carried lower cash on its books.
- Financial charges declined by 52% QoQ in 4Q09, suggesting improving working capital and cash cycle. As of Sep-09, Unilever's short-term debt was PRs63mn down from the peak of PRs3.2bn in 2008.

### HPC Segment

HPC segment remains the key growth driver where the segment registered 27% YoY broad-based growth across all categories (Laundry, Hair Care & Skin Care). New launches, product innovation and market activations continue to be the drivers behind the growth of the segment. Although the company has reported improvement in gross margins in 9M09, however, 45% YoY rise in palm oil prices warrants caution, where we have build in a 200bp decline in gross margins in 2010.

### Beverages

Beverages segment which represents 30.6% of the total turnover suffered due to rampant smuggling through ATT (Afghan Transit Trade). Despite the persistent smuggling problem, tea business registered sales growth of 22% on the back of higher prices. However, margins of beverages were hit by higher Kenyan tea prices (+22% YoY) and lower volume off-take.

### Ice-cream

Ice cream turnover grew by 46% despite power cuts and an unfavorable economic and security environment, which adversely affects sales of impulse products. With gradual increase in skimmed milk prices we expect Unilever to expand margins by 200bp in 2010 by leveraging its cold chain supply. While sugar prices are already up 88% YoY, further hikes could hurt margins.

### Out-performance to continue - PO PRs3,210/sh

We maintain our Buy on Unilever as we believe that the recent out-performance (stock up 15% in 1M vs a flat market) is likely to continue. Our PO for Unilever of PRs3,210/sh offers a total return of 21% (9% DY & 12% upside) while the stock trades at a P/E of 8.1x 10E earnings and a PEG of 0.48x. Adverse commodity price movement remains a down-side risk to our base-case.

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Current Price PRs2,873.10  
Price Objective PRs3,210.00

KATS ULEVER  
Bloomberg ULEVER PA  
Reuters UNIL.KA

Shares Outstanding  
13.29mn

Market Cap  
PRs 38,184mn (US\$449mn)

3m average daily volume  
1,249 shares

12-month High/Low  
3044.39 / 1725.00

### Stock Performance

	1M	3M	12M
Absolute%	-4.8	24.9	59.6
Rel Index %	-3.9	20.0	-11.0
Abs. (PRs)	-143.8	573.1	1,073.1

### Unilever Result Snapshot

(PRsmn)	2009	2008	YoY
Sales Rev	38,188	30,957	23%
COGS	24,853	20,219	23%
GP	13,335	10,738	24%
Op Exp	8,210	6,850	20%
Op. Profit	5,125	3,888	32%
Other Exp	374	247	51%
EBIT	4,943	3,881	27%
Fin Charges	428	466	-8%
restructuring	-	489	
EBT	4,515	2,926	54%
Taxation	1,460	940	55%
Net Profit	3,055	1,986	54%
EPS (PRs)	229.8	149.39	54%
Gross Margin	34.92%	34.69%	23bps
Net Margin	8%	6%	200bps

Source: Unilever

**Morning News**

► **Banking spread declines by 10bp MoM in Jan 10 (SBP)**

After posting record high spread in 2009, an average of 7.48%, banking sector spread has declined to 7.25% in the first month of 2010. Month-on-month, spread was down 10bp in Jan-10 from a base of 7.35%. Both public and private sector banks witnessed MoM drop in spread in Jan-10. Our thesis of a secular decline in banking sector spread going forward is intact.

**Technical View**

Aiyaz M. Hassan

**First support 9,502 points, second support 9,421 points; first resistance 9,603 points, second resistance 9,665 points**

The index opened marginally positive and after initially dipping in the red it soon recovered and closed off the session in the green. Volumes showed an increase of 9.06% and stood at 109.29 mln. The index's 100-DMA created support from where it witnessed an appreciation. The pullback is likely to continue towards the 50-DMA which is presently at 9,667 points.

The Stochastic Oscillator has started to level off in the oversold region, while the 14-day RSI has shown some appreciation. However, the MACD has confirmed its downtrend, generating a sell signal in the process. This suggests that the pullback is likely to be short-lived as the overall trend remains bearish.

The first support is at 9,502 points and the second support is at 9,421 points. The first resistance is at 9,603 points and the second resistance is at 9,665 points.

**Gold Spot**

**Strategy: Buy on Weakness**

Gold maintained itself above its moving averages while its formation suggests consolidation. The Stochastic Oscillator maintains its steady uptrend as well as its buy signal, while the 14-D too maintains its steady uptrend. It is suggested to buy between \$ 1,111.80 and \$ 1,115.82 with stops below \$ 1,107.79. The first resistance is at \$ 1,123.55 and the second resistance is at \$ 1,127.56.

**West Texas Intermediate (WTI) Spot (Crude Oil)**

**Strategy: Buy on Weakness**

WTI is consolidating above its key moving averages, while its formation suggests that it could witness some pressure in the short-term. The Stochastic Oscillator continues to decline and is gradually approaching the oversold region. Moreover the MACD on the daily chart maintains its uptrend as well as its buy signal. It is suggested to buy between \$ 76.84 and \$ 77.89 with stops below \$ 75.90. The first resistance is at \$ 79.35 and the second resistance is at \$ 80.06.

**KSE-100 Intra-day Movement**



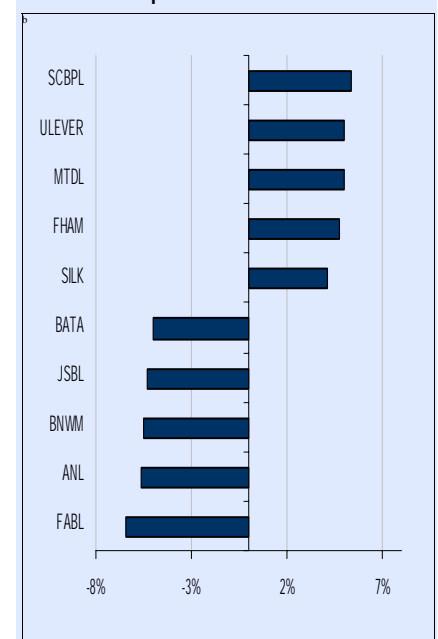
Source: KSE

**Index Data & Volume Leaders**

	Close	% Chg	Vol. US\$m
KSE30	9,974.84	0.51%	35.95
KSE100	9,546.39	0.50%	39.35
KSE All Share	6,755.34	0.42%	42.00
NBP	88.70	1.90%	4.37
MCB	214.95	1.97%	3.67
POL	230.00	-0.11%	3.26
ENGRO	179.00	0.20%	2.65
OGDC	117.48	0.83%	2.65

Source: KSE

**KSE-100: Top Gainers & Losers**



Source: KSE

## World Markets and Commodity Prices

### International Equity Markets

#### Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,709.90	15.00	0.32
Shanghai Composite	3,073.11	-14.73	-0.48
Hang Seng	20,906.11	-150.82	-0.72
BSE 30	16,772.56	343.01	2.09
Jakarta Composite	2,576.59	21.92	0.86
KLSE Composite	1,288.07	4.67	0.36
Nikkei 225	10,221.84	49.78	0.49
NZSE 50	3,183.24	19.09	0.60
Straits Times	2,772.20	-1.86	-0.07
Seoul Composite	1,615.12	20.54	1.29
Taiwan Weighted	7,597.62	19.87	0.26
<b>KSE-100 Index</b>	<b>9,546.39</b>	<b>47.82</b>	<b>0.50</b>

Source: Bloomberg

#### European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,470.91	17.30	0.71
BEL-20	2,558.77	15.36	0.60
CAC 40	3,811.92	42.38	1.12
DAX	5,776.56	63.05	1.10
AEX General	328.24	3.87	1.19
Swiss Market	6,820.04	28.56	0.42
FTSE 100	5,484.06	78.12	1.45
<b>American Markets</b>			
Dow Jones Ind. Average	10,405.98	2.19	0.02
NASDAQ Composite	2,280.79	7.22	0.32
NASDAQ -100	1,851.21	4.81	0.26
S&P 500 Index, RTH	1,118.31	2.60	0.23

### Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	3.1	10.3	10.3	42.3	NA	03-02
India	236.7	250.4	227.3	-3.1	99.8%	02-25
Indonesia	42.1	61.9	61.9	-101.5	42.5%	03-02
Japan	Na	405.1	2,323.9	20,463.6	190.3%	02-19
Philippines	2.2	4.6	4.6	126.4	449.3%	03-02
South Korea	368.9	368.9	368.9	933.2	252.5%	03-02
Taiwan	131.7	347.8	347.8	-2,526.2	4.2%	03-02
Thailand	134.3	134.3	134.3	71.8	127.9%	03-02
Vietnam	-5.0	-9.2	-9.2	48.9	841.2%	03-02

Source: Bloomberg, NCCPL

### Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	12.42	12.42	0.00
12-M T-Bill (Average)	12.27	12.27	0.00
10- year PIB (Average)	12.65	12.68	-0.03
PkR/ US\$	85.11	85.07	0.04

Source: KASB Money Market

### Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	79.68	0.88	1.12
Gold	1132.8	15.10	1.35
CRB Index (Mar 1 <sup>st</sup> )	427.93	0.41	0.10

Source: Bloomberg

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