World Champions – Consumer Staples

Predictable Organic Growth in a Time of Turbulence

- In this installment of Citi's global series, we have identified 19 finalist companies as World Champion Consumer Staples selected from nominations by the Citi Research Global Staples team. These finalist companies have been individually profiled in this report and evaluated across an array of performance metrics. In addition, based on quantitative screening with a fundamental overlay, we believe that PM, Pernod and EL can each claim the title of "best-of-the-best" World Staples Champions, with JT top in Asia. BAT, SAB and WMT are the runners up.

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Data Summary

		Rating		Target Price		Current Year Earnings Estimates	
Company	**Ticker**	**Old**	**New**	**Old**	**New**	**Old**	**New**
Japan Tobacco	2914	1	1	¥3,000	¥3,000	¥174	¥174
ABInBev	ABI.BR	1	1	€76.00	€76.00	US$4.53	US$4.53
Brit Am Tobacco	BATS.L	1	1	£37.85	£37.85	p207.2	p207.2
Brown Forman	BFb	1	1	US$74.00	US$74.00	US$2.65	US$2.65
Coca-Cola Amatil	CCL.AX	2	2	A$13.40	A$13.40	A$0.76	A$0.76
Colgate	CL	2	2	US$111.00	US$111.00	US$5.37	US$5.37
Danone	DANO.PA	1	1	€54.00	€54.00	€3.03	€3.03
Estee Lauder Inc	EL	2	2	US$64.00	US$64.00	US$2.58	US$2.58
Coca-Cola Co	KO	1	1	US$46.00	US$46.00	US$2.00	US$2.00
Mondelez	MDLZ	1	1	US$32.00	US$32.00	US$1.48	US$1.48
Mead Johnson	MJN	2	2	US$69.00	US$69.00	US$3.05	US$3.05
Nestle	NESN.VX	2	2	SFr60.00	SFr60.00	SFr3.39	SFr3.39
L'Oréal	OREP.PA	2	2	€97.00	€97.00	€4.79	€4.79
PepsiCo	PEP	2	2	US$74.00	US$74.00	US$4.07	US$4.07
Pernod-Ricard	PERP.PA	1	1	€101.00	€101.00	€4.85	€4.85
Procter & Gamble	PG	1	1	US$80.00	US$80.00	US$3.87	US$3.87
Philip Morris	PM	2	2	US$98.00	US$98.00	US$5.21	US$5.21
SABMiller	SAB.L	1	1	£30.00	£30.00	US¢234.8	US¢234.8
Wal Mart	WMT	1	1	US$82.00	US$82.00	US$4.94	US$4.94

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World Champions – Consumer Staples

In this seventh report of Citi's World Champion series, we name what we consider to be the 19 World Champions in the consumer staples[1] sector, including both the largest companies and some smaller ones that lead their particular subsectors.

Figure 1. World Champion Consumer Staples – Portfolio Managers' Summary

	Analyst	Why a Champion	Rating	Rationale
AB-InBev	Andrea Pistacchi	No1 brewer; dominant shares in biggest profit pools	Buy	Visible EPS growth; Mexican upside
British American Tobacco	Adam Spielman	No2 globally in tobacco, but leader in many EMs	Buy	Pricing in EMs
Brown-Forman	Vivien Azer	No1 in US whiskey. Jack Daniel's vol +8% CAGR in last decade	Buy	Brand strength + upside outside US
Coca-Cola	Wendy Nicholson	No1 drinks company with THE iconic brand	Buy	Still delivering despite macro & PR headwinds
Coca-Cola Amatil	Craig Woolford	Dominant in ANZ; one of the best Coke bottlers anywhere	Neutral	Fully valued
Colgate-Palmolive	Wendy Nicholson	Global No1 in dental care and liquid hand soap	Neutral	Fully valued despite quality
Danone	Robert Dickinson	Global No1 in yoghurt; No2 in water; No3 in infant formula	Buy	EU dairy concerns overdone; cheap rel to history
Estée Lauder	Wendy Nicholson	A leader in prestige cosmetics, with 63% of sales outside US	Neutral	Over 22x CY13E P/E
Japan Tobacco	Nobuyoshi Miura	Tobacco leader in Japan & Russia; best mkt share momentum	Buy	Russia upside & balance sheet
L'Oréal	Adam Spielman	No1 in cosmetics globally; highest spend on beauty research	Neutral	Fully valued despite its decade long derating
Mead Johnson	David Driscoll	No1 in infant nutrition; high margins and strong EM exposure	Neutral	Fully valued; well understood story
Mondelez	David Driscoll	Global No1 in biscuits and confectionary	Buy	EM exposure & low PEG ratio
Nestlé	Robert Dickinson	No1 in food overall & in many categories. Truly global footprint	Neutral	Exp. rel to history; we don't see upside surprises
PepsiCo	Wendy Nicholson	No2 in soft drinks and a leader in salty snacks	Neutral	Mkt shares declining
Pernod-Ricard	Andrea Pistacchi	No2 distiller globally, with best position in China & India	Buy	Great margin story in EMs
Philip Morris International	Vivien Azer	No1 global tobacco company, owning Marlboro outside the US	Neutral	Fully valued despite quality
Procter & Gamble	Wendy Nicholson	No1 in HPC overall, with 25 $1bln brands	Buy	Tighter focus should improve growth
SABMiller	Adam Spielman	No2 brewer with greatest frontier market exposure	Buy	Volume growth
Wal-Mart	Deborah Weinswig	No1 retailer globally, thanks to EDLP	Buy	Leverage of scale

Source: Citi Research

Inevitably the list is somewhat subjective, and indeed we could have chosen more[2]. Nonetheless we do believe that each of these companies is excellent at what it does, and collectively they represent a very good investment.

The Best of the Best

We believe the very best of these names are: Philip Morris, Pernod-Ricard, and Estée Lauder. In Asia, we think the local hero is Japan Tobacco, and we think the global runners-up are BAT, SAB and Wal-Mart. In addition, we think all investors should consider Nestlé – it's not the fastest-growing, or the most cash-generative, but of all our companies we regard it as the most defensive, owing to its unparalleled diversity of category and geography, and to the quality of its management.

[1] In this report we include food/ drug retailing in consumer staples.
[2] We are restricted on some potential candidates, for example.

Benefits of Investing in World Champions

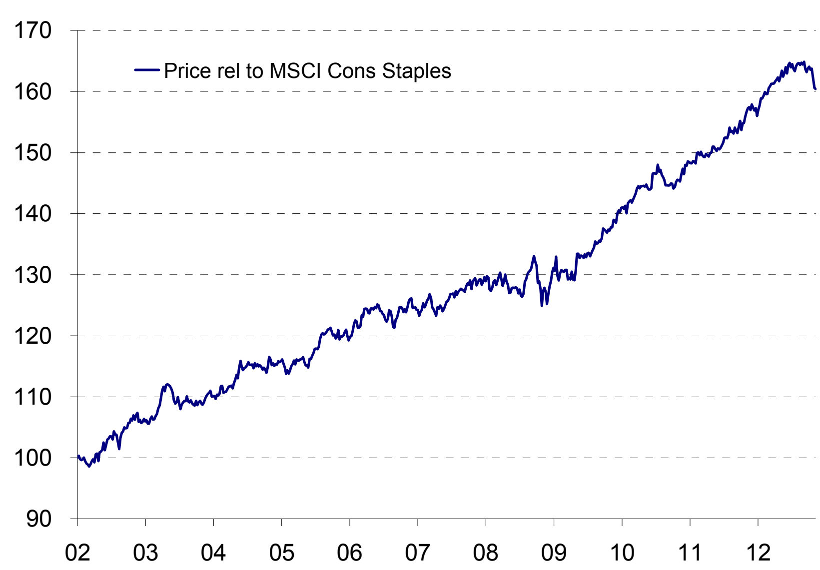
We like the consumer staples world champions as an investment group, because they offer:

- **Winning stock price performance:** Selecting Champions has been a winning strategy for investors with the components of our "Citi Staples" Index collectively outperforming the MSCI AC Con Staples Index each year since 2002 (Figure 2).

- **Predictable EPS growth**: These stocks are forecast to generate EPS growth of 7-16% during the next few years. In part this is because they all offer exposure to the growing EM consumer[3].

- **But a relatively low risk:** Their earnings trajectory is much steadier than in many other sectors, because they:
  - Operate in consumer staples, which is inherently non-cyclical;
  - Are highly diversified by geography in most cases.
  - Have relatively low financial leverage (except Pernod); and
  - Are based in developed markets, with the governance that this implies.

Figure 2. Citi Consumer Staples World Champions Relative Performance



Source: Citi Research

[3] Not only is consumer spending increasing faster in EMs, but inflation is also higher, which boosts their organic sales growth rates.

Differences Between the Sub-sectors

We have included Champions from each of the main sub-sectors of consumer staples: food, HPC, beverages (non-alcohol, beer, spirits), tobacco, HPC, and food/ drug retailing.

Figure 3. World Champion Consumer Staples -- Forecast Financial Performance

		Sales 2012-14E CAGR	EPS 2012-14E CAGR	Margin 2012E	Margin Expansion 2012-14E bps per yr	Capex/Sales 2012-14E Cumulative	Capex/EBIT 2012-14E Cumulative
AB-InBev	Beer	5.2%	12%	32%	50	7.3%	23%
SABMiller*	Beer	6.3%	12%	18%	60	5.5%	30%
Coca-Cola	Soft Drinks	5.2%	9%	23%	60	5.5%	23%
Coca-Cola Amatil	Soft Drinks	6.6%	7%	18%	20	7.7%	43%
PepsiCo	Soft Drinks	3.6%	8%	15%	30	4.4%	29%
Danone	Food	6.8%	8%	14%	0	4.1%	29%
Mead Johnson	Food	6.8%	8%	24%	30	5.2%	22%
Mondelez	Food	4.7%	9%	13%	30	4.0%	30%
Nestlé	Food	6.2%	8%	15%	30	5.5%	35%
Colgate-Palmolive	HPC	5.4%	10%	23%	40	3.2%	13%
Estée Lauder *	HPC	7.5%	16%	15%	70	4.6%	29%
L'Oréal	HPC	4.7%	8%	16%	30	4.0%	24%
Procter & Gamble*	HPC	3.8%	8%	19%	30	4.8%	25%
Brown-Forman*	Spirits	6.0%	11%	23%	70	2.5%	11%
Pernod-Ricard*	Spirits	7.0%	14%	26%	40	3.4%	13%
British American Tobacco	Tobacco	4.7%	10%	37%	100	4.0%	11%
Japan Tobacco*	Tobacco	3.7%	14%	24%	170	6.7%	26%
Philip Morris International	Tobacco	5.7%	12%	44%	90	3.2%	7%
Wal-Mart *	Retailing	4.8%	11%	6%	30	2.6%	41%

* These companies' financials are advanced by one year, as they have already reported FY12 results.

1 Excludes impact of Modelo acquisition. 14.2% including Modelo. 2 Includes impact of Modelo acquisition. 3 Margin on net sales. On gross sales the margin is 18%.

Source: Citi Research estimates

- **Food/HPC/Non-alcoholic Beverages**: These companies tend to have strong sales growth, balanced between volume and pricing, and their EPS growth tends to be in the high single digits. While this is strong, in the sense that it means their EPS should double at least every decade, it represents slower growth than the best alcohol and tobacco companies offer. This is because their margins expand relatively slowly (often 20-40bps a year), which in turn reflects the competitive nature of their markets, and the fact they are exposed mostly to mainstream consumers. EL is the notable exception, with faster-growing margins (typically 70bps a year) owing to its exposure to the rapidly growing luxury market.

- **Alcoholic Beverages**: Our World Champions in these sectors have sales growth of 5-7%, but their EPS are growing in the double digits, reflecting strong margin expansion (40-70bps). This in turn reflects the relatively limited competition the companies face in their strongest geographies, particularly in EMs.

  – For beer this is because the brewers face limited competition in their core markets;

  – For distillers this is because there is limited competition for premium spirits (Cognac, Scotch, American whiskey)

- **Tobacco**: For those who don't know the tobacco sector, it may be surprising to see tobacco companies in our list of the Best of the Best. However, they are projected to generate 10-14% EPS growth, even though volumes are likely to remain stagnant, and are in decline in advanced economies. This is because tobacco has unequalled pricing power (typically +6%), which in turn leads to margin expansion of 90+bps a year. Furthermore, their margins are already high, and they need little capex, so they are extremely cash-generative. Some investors view the volume trends as unsustainable, but this report is not the place to discuss the very long term (ie multi-decade) outlook for tobacco, or indeed any of the other companies.

- **Food retailing**: Retailing operates an entirely different model from consumer packaged goods, depending on real estate management, sales densities, and logistics chains in a way that has little parallel for, say, Nestlé or PG. We argue that for most food retailers international expansion has failed because retailing is rooted in local conditions. However, Wal-Mart, the largest company in this report (mkt cap: ≈$250 bln), is appears to be an exception. We argue WMT's economies of scale means it can make (and is making) a success of international. We project 11% EPS growth CY12-14, owing both to this and its low price points in the US.

Citi World Champion Series: Consumer Staples

Introduction from Rob Buckland, Citi Head of Global Strategy

According to Citi economists, the macro overhangs are likely to persist. Ongoing debt reduction will continue to be a significant drag on the developed economies. Forecasts for Eurozone GDP are worse than in Japan's two "lost decades". We expect the current Eurozone recession to last until the end of next year. The US government will eventually have to face up to its fiscal problems and our forecasts imply at least another year of sluggish economic growth. In Japan, too, the economy lumbers under a mountain of government debt. Jittery bond markets may become increasingly reluctant to fund stimulus.

While there will be occasional set-backs, long-term growth prospects look better for the emerging economies. Balance sheets are stronger for governments, households and banks. Also, markets are generally underpenetrated. According to Willem Buiter, Citi's Chief Economist, Asia and Africa are likely to be key "Global Growth Generators" for most of the next three or four decades.

According to MSCI, the investable global stock market is still 88% weighted towards developed markets, where GDP growth is likely to remain subdued. Only 12% of global market cap trades on Emerging Market exchanges. This leaves global equity investors facing a serious challenge. How can they invest in reasonable growth prospects, when the majority of companies in their portfolios are likely to be listed in sluggish economies? We think one answer is to invest in Consumer Staples World Champions. These are all listed in developed markets (in our selection 10 in the US, 7 in Europe, 1 in Japan, and 1 in Australia) but all have large EM exposures and we project good growth rates.

Origins of Citi's World Champions framework

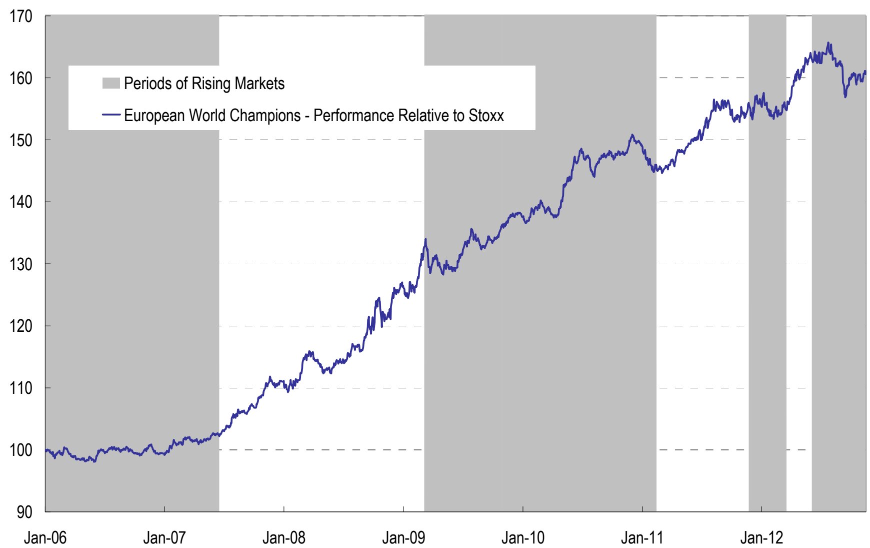
Citi's European equity strategists responded to the low growth in their continent by creating a subset of World Champions listed in their markets. These are companies with international businesses and those that our analysts believe are the leaders in their respective sectors. Our European strategists find that these companies have been able to display clear signs of pricing power, enjoy strong balance sheets, are well managed and often have meaningful revenue exposure to faster-growing emerging economies.

These are typical stock characteristics that have served investors well during previous lost decades around the world. Those companies that survived, and even flourished, during these dark economic episodes were able to offset weaker volume growth with new products or a shift in regional focus, superior pricing power, efficiency advantages or more likely a combination of all the above. Our European team notes that, collectively, the components of their World Champions basket have consistently outperformed over the past five years (Figure 4).

Despite the unashamedly qualitative selection criteria, the European World Champion basket rates well on more quantitative measures. Most of the outperformance has reflected superior earnings trends, not a relative re-rating. This makes our European strategy team hopeful that their World Champions can keep outperforming. As importantly, they highlight that recent outperformance has occurred against a backdrop of rising *and* falling equity markets.

Kenji Abe, our Japan equity strategist, also notes that companies with solid international businesses also tend to be outperformers in his market. The Japanese economy has struggled to grow over the last two decades. Kenji notes that companies that outperformed were the Japanese Global Champions. These were well-run international businesses that generated superior sales and EPS growth, so similar to their European counterparts.

Figure 4. European World Champions Share Price Performance



Source: Citi Research (for details please see European Portfolio Strategist - World Champions Revisited)

Applying Citi's World Champions Framework to the Global Consumer Staples Sector

On the following pages, we have extended our European strategy team's methodology in picking World Champions to the Global Consumer Staples sector. Our Citi analysts across the global regions nominated their selections for World Champions across their respective global sectors. The selection criteria were:

1. Market cap of at least $3 billion

2. At least a top 3 market share in a third of their businesses

3. A global reach as measured by significant revenue outside of their respective home market.

The Selection Committee then narrowed down the initial nominations to the 19 World Champions in this report, representing some of the most global and largest staples companies in the world.

We note that Neutral-rated CCA, Colgate, Estée Lauder, L'Oréal, Mead Johnson, Nestlé, PepsiCo and PMI were all nominated as World Champions, underscoring the idea that global positioning supersedes current valuation in this analysis.

Stiff competition among crowned 19 World Champions. Citi's staples analysts around the world nominated these 19 companies as World Champions in each of their respective industries. This exercise was done irrespective of current Citi investment ratings. On this point, we note that eight of the 19 companies designated World Champions we currently rate as Neutral, including the some of the biggest, because of valuation considerations. However, this thematic report is targeted to highlight companies with significant and enduring business models over the long term.

Figure 5. Citi Consumer Staples World Champions

Company	Sub Sector	Analyst	Rating	Share Price	Curr	Target Price	Upside to Target Price	Dividend Yield	ETR
AB-InBev	Beverages	Andrea Pistacchi	1	65.0	EUR	76.0	17.0%	2.3%	19.3%
British American Tobacco	Tobacco	Adam Spielman	1	31.5	GBP	37.9	20.2%	4.3%	24.5%
Brown-Forman	Beverages	Vivien Azer	1	65.3	USD	74.0	13.3%	1.4%	14.7%
Coca-Cola Amatil Ltd	Beverages	Craig Woolford	2	13.3	AUD	13.4	1.1%	4.3%	5.4%
The Coca-Cola Company	Beverages	Wendy Nicholson	1	36.6	USD	46.0	25.8%	2.8%	28.6%
Colgate-Palmolive Co	Household Products	Wendy Nicholson	2	105.2	USD	111.0	5.6%	2.3%	7.9%
Danone	Food Products	Robert Dickinson, CA	1	48.5	EUR	54.0	11.2%	3.0%	14.2%
Estee Lauder Inc	Personal Products	Wendy Nicholson	2	56.6	USD	64.0	13.0%	0.9%	14.0%
Japan Tobacco	Tobacco	Nobuyoshi Miura	1	2411.0	JPY	3000.0	24.4%	2.5%	26.9%
L'Oréal	Personal Products	Adam Spielman	2	99.3	EUR	97.0	-2.3%	2.2%	-0.1%
Mead Johnson Nutrition	Food Products	David Driscoll, CFA	2	66.0	USD	69.0	4.6%	1.8%	6.4%
Mondelez International Inc	Food Products	David Driscoll, CFA	1	25.6	USD	32.0	25.2%	2.0%	27.2%
Nestlé	Food Products	Robert Dickinson, CA	2	58.5	CHF	60.0	2.7%	3.6%	6.2%
PepsiCo	Beverages	Wendy Nicholson	2	68.3	USD	74.0	8.3%	3.1%	11.5%
Pernod-Ricard	Beverages	Andrea Pistacchi	1	82.6	EUR	101.0	22.3%	1.9%	24.2%
Philip Morris International	Tobacco	Vivien Azer	2	84.9	USD	98.0	15.4%	4.1%	19.5%
Procter & Gamble Co	Household Products	Wendy Nicholson	1	66.8	USD	80.0	19.7%	3.4%	23.1%
SABMiller	Beverages	Adam Spielman	1	26.3	GBP	30.0	14.1%	2.2%	16.3%
Wal-Mart Stores Inc	Staples Retailing	Deborah L Weinswig	1	68.0	USD	82.0	20.5%	2.3%	22.9%
						Average	**13.8%**	**2.6%**	**16.4%**
						Median	**14.1%**	**2.3%**	**16.3%**

Source: Powered by dataCentral Pricing as of November 19 2012.

FAQs that arise in selecting World Champions

Q: How can World Champions be chosen from such a disparate group of companies addressing different markets such as infant nutrition, soft drinks, spirits and tobacco?

A: We concede that this selection process becomes a bit more art than science as we screen for varying financial metrics and return trends to assess companies' long-term global growth prospects (see Figure 3). Our companies have high shares in the their product and geographic markets, as this tends to lead to better pricing power and margins.

Q: Which Champions offer investors the most significant upside today?

A: Citi's ratings, target prices and estimated total returns (ETRs) suggest a wide variation in expected returns, with JT, Mondelez and Coca-Cola (KO) leading the group. However, most names are trading at valuations that are fairly high relative to their history. Two notable exceptions are Danone and L'Oréal.

Q: Which champions stand out among the rest?

A: We argue that all 19 of the companies featured in this report are Champions but on qualitative measures and financial metrics we think Philip Morris, Pernod and Estée Lauder can each claim the title of "best-of-the-best" World Staples Champions, with JT top in Asia. We count BAT, SAB and Wal-Mart as the runners-up.

Our Staples World Champion Methodology

To narrow down the best of the best we utilized a 3 step, equally weighed approach:

1. **Historical financial performance**, focused on revenue growth, margin growth and capex, to gauge each company's track record of delivering (Figure 6). (We included capex as a percentage of sales and EBIT to provide a measure of how efficient the companies are at generating growth. We haven't included a returns measure like RoE because we think that measures of book equity or invested capital are not meaningful for most of the companies, and hence RoEs don't provide a useful measures of returns in this sector.[4]

2. Citi analyst **forecasts of these same financial measures** from 2012-2014, to gauge the medium-term growth opportunity (Figure 3); and

3. A **fundamental overlay**, focused on market share, competitive position, global reach, and barriers to entry.

Figure 6. World Champion Consumer Staples -- Historical Financial Performance

		Sales 2008-11 CAGR	EPS 2008-11 CAGR	EBIT Margin 2011	Margin growth 2008-11 bps per yr	Capex/Sales 2008-11 Cumulative	Capex/EBIT 2008-11 Cumulative	Net Debt/EBITDA 2012E
AB-InBev	Beer	18%	17%	32%	240	6.8%	23%	1.9[1]
SABMiller*	Beer	5%	16%	18%	50	7.5%	43%	2.9
Coca-Cola	Soft Drinks	13%	7%	24%	-130	6.3%	24%	1.0
Coca-Cola Amatil	Soft Drinks	5%	9%	18%	20	7.4%	41%	1.4
PepsiCo	Soft Drinks	15%	6%	16%	-80	5.2%	30%	1.8
Danone	Food	8%	4%	15%	-10	4.7%	31%	1.5
Mead Johnson	Food	9%	14%	24%	-70	3.7%	15%	0.5
Mondelez	Food	-5%	-8%	12%	-10	3.6%	28%	2.7
Nestlé	Food	-9%	3%	14%	0	4.6%	33%	0.8
Colgate-Palmolive	HPC	3%	9%	23%	60	3.7%	16%	0.9
Estée Lauder *	HPC	10%	47%	14%	240	3.9%	34%	0.0
L'Oréal	HPC	5%	7%	16%	20	3.9%	25%	-0.4
Procter & Gamble*	HPC	3%	-3%	19%	-40	4.2%	22%	1.3
Brown-Forman*	Spirits	4%	8%	22%	40	1.2%	6%	0.2
Pernod-Ricard*	Spirits	4%	3%	26%	0	2.7%	11%	4.1
British American Tobacco	Tobacco	8%	15%	36%	170	3.7%	11%	1.3
Japan Tobacco*	Tobacco	n/a	37%	23%	n/a	n/a	31%	0.2
Philip Morris International	Tobacco	7%	14%	43%	80	3.1%	8%	1.2
Wal-Mart*	Retailing	3%	9%	6%	10	3.0%	50%	1.1

*For these companies we use FY13 metrics as they have all reported FY12. [1] Excludes Modelo acquisition. We forecast 2.1x net debt/EBITDA in Dec 2013.

Source: Powered by dataCentral

[4] (In general balance sheets are much less important for staples than for most other sectors. This is because their main assets are brands, not plant and property, and our companies don't include brand values on balance sheets, except occasionally in the form of goodwill.)

Best of the Best

To chose the Best of the Best we ranked the companies on three metrics:

1. **Growth** (=Equal weighting of the rankings of prospective sales growth and EPS growth)

2. **Margins** (=Equal weighting of the rankings of absolute margins and margin expansion)

3. **Capital Efficiency** (=Equal weighting of the rankings on capex/sales and capex/EBIT[5])

For our final list, we gave a double weighting to the Growth rankings, as we think this is the most important criterion.

Figure 7. Consumer Staples World Champions – The Best of the Best

	Growth		Margins + Expansion		CapEx Efficiency
1	Estée Lauder	1	Philip Morris International	1	Brown-Forman
2	Pernod-Ricard	2	British American Tobacco	2	Philip Morris International
3	Wal-Mart	3	Japan Tobacco	3	Colgate-Palmolive
4	SABMiller	4	SABMiller	4	Pernod-Ricard
5	Philip Morris International	5	AB-InBev	5	British American Tobacco
				6	L'Oréal
				7	Mead Johnson

Source: Citi Research

What Do These Champions Look Like?

There are several striking points about the list of the 19 World Champions.

- Most of the Staples Champions are very large indeed, with a global footprint; but
- They are effectively all from the US and Europe;
- They offer good, and predictable, EPS growth, with
- Low leverage; however
- The Staples Champions have widely varying margins, and margin strategies

[5] These measures tend to flatter spirits companies, as the spirits companies need to invest heavily in maturing inventory, so their working capital outflows are significant. For this reason we have listed 7 companies in the Capex Efficiency rankings)

Most of the Staples Champions are very large indeed, with a global footprint

Many of the Champions are genuine whales, with 8 of them having market caps of $100bln of more. We think it impressive that companies such as Nestlé and PMI can continue to grow so well despite their size.

- **In packaged consumer goods geographic spread** is a real advantage, as it allows companies to leverage consumer insights and innovations, and roll them out rapidly in many markets (almost) simultaneously. Every single one of the Champions has good exposure to emerging markets, where increased spending power is driving good top-line growth.

- However, there is much **less benefit in being in multiple categories,** which is why single category companies like Estée, Mead Johnson and Brown-Forman can be included even though they are comparatively small. It seems that in beverages it makes sense to leverage distribution , which is why the largest brewers also bottle/ distribute soft drinks[6]. It is also possible to argue that names that operate across many categories, like Proctor and Nestlé, get some economies of scale in purchasing and have slightly greater leverage over retailers. However, the benefits are clearly smaller than those they gain from their footprint.

- **For the food retailers the benefits of an international exposure are much less clear**, for reasons we discuss in detail later in the note. We have nominated Wal-Mart as a World Champion, because we believe it will be able to extract efficiencies from its supply chain, but we haven't nominated any others. We considered names like Carrefour and Tesco but we left them off the list because we think their international expansion efforts haven't proved particularly effective so far.

Figure 8. Consumer Staples World Champions – Ranked by Size (All data in US$ Billions)

	Market Cap 19 Nov 2012	Sales 2012E	Adjusted EBIT 2012E	Adj Net Income 2012E
Wal-Mart	229	447	26.6	15.6
Nestlé	199	97	14.9	11.5
Procter & Gamble*	183	84	15.9	11.4
Coca-Cola	164	48	11.2	9.1
Philip Morris International	142	31	13.9	8.9
AB-InBev	134	40	12.7	7.4
PepsiCo	106	65	9.6	6.4
British American Tobacco	97	24	9.0	6.4
L'Oréal	78	29	4.7	3.7
SABMiller*	66	25	4.4	3.7
Japan Tobacco*	56	27	6.3	4.2
Colgate-Palmolive	50	17	4.0	2.6
Mondelez	45	35	4.5	2.6
Danone	40	27	3.8	2.3
Pernod-Ricard*	28	11	2.9	1.6
Estée Lauder *	22	10	1.5	1.0
Mead Johnson	13	4	0.9	0.6
Brown-Forman*	14	4	0.9	0.6
Coca-Cola Amatil	10	5	0.9	0.6

*For these companies we use FY13 metrics as they have all reported FY12. Source: Powered by dataCentral

[6] Except in N America.

The World Champions are effectively all from the US and Europe

In the earlier reports in this series we found that World Champions in other sectors such as Industrials and Materials could come from any region of the world. However, this is emphatically not the case with Consumer Staples. All our Champions are listed in the US or Europe, with the exception of Japan Tobacco and CC-Amatil. However, even for these two, their underlying strength comes from US heritage brands:

- For JT from Winston and Camel mainly
- For Amatil from the Coca-Cola stable

So far at least, emerging market staples companies have not been able to engage consumers from different cultures successfully. This is clearly very different from discretionary consumer items, for example cars (eg Toyota) or electronics/tech (eg Samsung) where companies from other regions have become global leaders "simply" by offering high-quality products at good prices.

By contrast in packaged consumer staples, it is the brands that are most important, and these are the hardest to develop or copy. They usually require decades of investment because they are almost always more about trust and emotion than technological advances.

The World Champions offer good, and predictable, EPS growth

The Staples Champions are all expected to generate decent sales growth, ranging from about 3-4% compound for PepsiCo to about 7½% compound for EL during 2012-14, despite the weak global economy.

In EPS terms, we forecast growth of between 7% CAGR 2012-14 (for Amatil) to 16% for EL. (It is noticeable that with the exception of EL and Wal-Mart, the companies with the best EPS growth tend to be in the alcohol and tobacco industries – these Champions are forecast to produce 10-14% EPS growth rates, reflecting our forecasts for significant margin expansion, as we explain below[7].)

And because the Champions are quality names with global diversification, their growth is relatively secure (allowing for fluctuations in F/X, of course.)

For long-term investors the EPS growth means that there should be nicely compounding returns, assuming the current P/E multiples hold over time, which will be further boosted by divided yields.

[7] In addition, the brewers and the tobacco companies generate excellent cash flow, which allows them to pay down debt rapidly and / or buy back.

Low leverage

Figure 6 also shows that most of the World Champions have strong balance sheets, (ie low net debt/EBITDAs) reflecting their strong cash flows. This gives them flexibility both to withstand any downturn in funding conditions (which they hardly need, given their cashflows) and to either buy back or to make acquisitions.

For most of the last decade Pernod has been operating with very high leverage and it continues to do so, with net debt/EBITDA over 4x. Otherwise the only companies with more than 2x net debt/EBITDA are ABI (following the Modelo acquisition), SAB (following Foster's) and Mondelez (due to a conscious decision following the spin-off). Given the current interest rate environment, we think it is certainly possible that there will be more buybacks or M&A .

There are widely varying margins – and margin strategies

So far we have pointed out the broad similarities between the Champions. WMT inevitably has a completely different model because it's a retailer. But there are also important differences between the packaged goods categories. For example, among the Champions there is a big variation in FY12E operating margins, which (excluding Wal-Mart) range from 13% at Mondelez to 44% at PMI. In general the tobacco and alcohol companies have higher margins, and food/HPC have lower margins (with the notable exception of Mead Johnson, due to the strength of its franchise.)

Arguably part of the variation occurs because the alcohol and tobacco companies typically don't include excise tax in their sales numbers, and it is possible to argue that it would be fairer to compare sales and margins on gross sales (ie including excise tax) rather than on net sales (ie excluding it)[8]. (For example in 2011, PM's sales were either $76 billion or $31billion, depending on whether excise tax is included or not, giving margins of either 18% or 43%. In the beer sector, ABI, the global No1 by size, only reports and talks about net sales, and doesn't report its excise tax at all, and hence investors don't know its gross sales. By contrast SAB, the global No2, focuses almost exclusively on gross sales, not net sales.)

However, we think the difference in margins goes beyond the point about excise tax, and that the most interesting columns to look at in Figures 3 and 6 are those on margin and margin expansion because we are expecting the divergence in margins to widen, not narrow.

- The tobacco companies tend to get the best margin growth, 80-170 bps per year, even though they start from the highest margins. *This is because tobacco grows its top-line through pricing, and price increases almost inevitably drive margin expansion.*
- By contrast the food and HPC companies are likely to get only 0-40 bps a year (except for EL, again reflecting its premium franchise and focus). *By contrast with tobacco companies, the food/HPC companies are focused more on volume growth, and also typically operate in comparatively competitive categories that make it harder to increase margins.*
- The alcohol companies come somewhere in between (40-70bps a year). *Particularly in emerging markets these companies often face limited competition.*

[8] In reality the invoice price includes excise tax, and consumers have to pay it; but it is also true it is a distorting item that goes straight to governments.

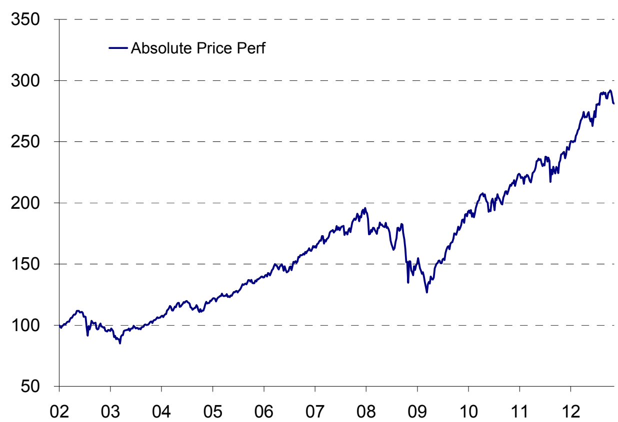
It is true that the top-line growth of the tobacco Champions (3.7-5.7% a year) is usually lower than that of the food/HPC Champions (3.8-7.5% a year), but it is also true that the alcohol companies combine good top line growth and strong margin expansion. As an aside, it is worth pointing out that those companies with the best margin growth also tend to require the least capex.

Amatil is the most capital-intensive company (measured by capex relative to EBIT) and PM the least, and arguably neither is particularly surprising. We think it's more interesting to note how little capex CL is using to drive its growth.

Acting Like World Champions: Outperformance

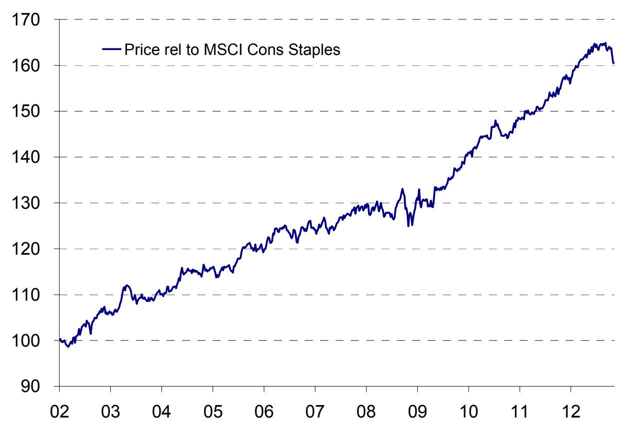
World Champions have strongly outperformed over 10-year periods. Similar to the European Strategy World Champions list, collectively the 19 Consumer Staples World Champions have significantly outperformed the MSCI over the past 10 years (Figure 12), so selecting Champions has been a winning strategy for investors.

Figure 9. Citi Consumer Staples World Champions Index Absolute Performance



Source: Datastream, Citi Research

Figure 10. Citi Consumer Staples World Champions Index Relative Performance



Source: Datastream, Citi Research

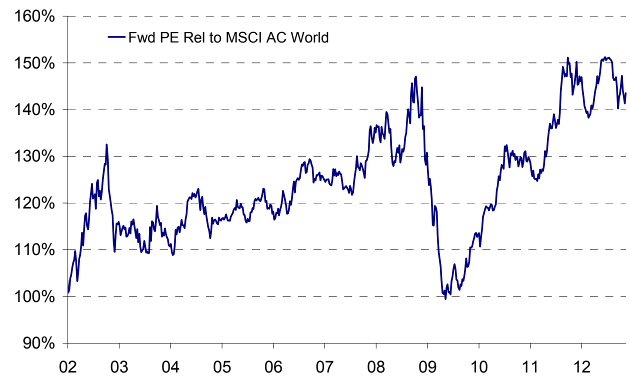
Consumer Staples "best in breeds" appear cheap relative to 2002-08. In Figure 13 we show the absolute P/E for the Index, and although we feel many of the largest stocks are expensive relative to their history, it is interesting to note that in the early part of the last decade they tended to be much more expensive.

In Figure 14 we show that the Index has rerated related to the MSCI AC World Index, presumably because investors have found the kind of steady solid growth that these names offer increasing valuable relative to other sectors. Furthermore we think it is important to note that, while these Champions are indeed more expensive than the Consumer Staples Sector as a whole, Figure 15 shows the premium is only about 10% currently, which, given the quality of these names, seems quite attractive to us.

Figure 11. Citi Consumer Staples World Champions Index Absolute P/E

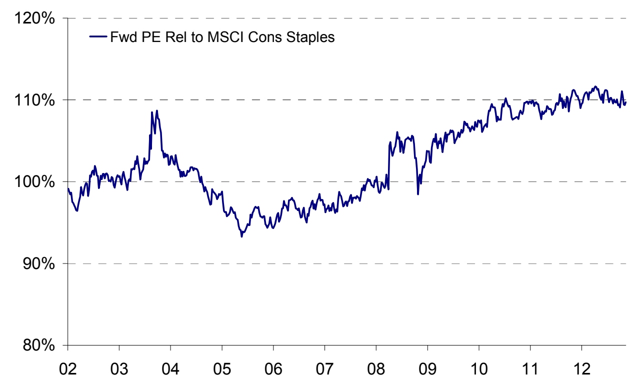
Source: Datastream, Citi Research

Figure 12. Citi Consumer Staples World Champions Index Relative P/E



Source: Datastream, Citi Research

Figure 13. Citi Consumer Staples World Champions Index P/E Relative to MSCI Consumer Staples

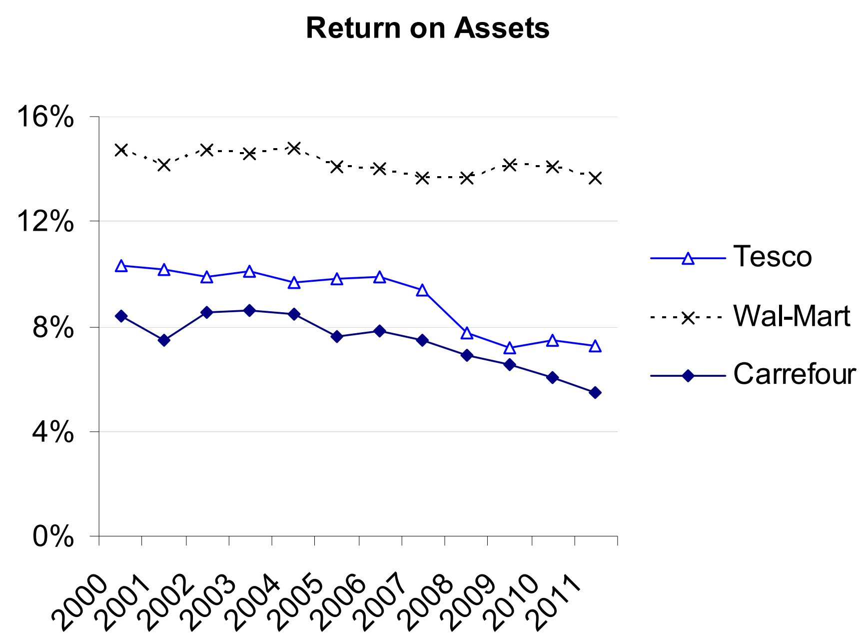


Source: Datastream, Citi Research

It's Hard for Food Retailers to Do Well Internationally

Among food retailers we offer up only Wal-Mart as a World Champion. Wal-Mart has almost the highest unlevered return-on-assets of any food retailer globally.

Figure 14. WMT vs Tesco & Carrefour – Return on Assets, 2000 to Present



Source: Citi Investment Research and Analysis

But other global food retailers, such as Tesco (TSCO.L; £3.16; 3) and Carrefour (CARR.PA; €17.78; 2), are difficult to characterize as Champions nowadays. Indeed, the heyday of both these European companies was grounded in success in their domestic markets and the globalization of their operations has, in our opinion, been *the* major driver of subsequent underperformance: International returns have proved dilutive and the domestic 'cash-cows' have been put under increasing strain as they carried investments elsewhere.

- In the case of Carrefour the domestic market ultimately crumbled, with operating margins declining from 6.0% in 2003 to just 2.5% in 2011. Within this mix the French hypermarkets, the hub within the hub, have seen their operating margins crash from around 8% to zero, we estimate.

- In the case of Tesco, the domestic business has shown poor sales performance for a number of years. Management put the recent profit warning down to the need to "re-set" the UK margin at a lower level (5.2% versus 6.0% historically). We think this might be the first crack.

Why do food retailers find international success hard to find?

At core food retail is a real-estate and services business: aggregating a myriad of products at centralized distribution centres and then merchandizing them at many outlets in a defined geographic area. There is branding, there are loyalty schemes, there are different business models, there are many other sides to the business but the heart of it involves managing logistics, managing people and managing real-estate. Highly successful food retailers usually win big on one or several of these core areas, for example:

- Tesco's heavy investment in UK freehold properties in the late 1980s and early 1990s was a key contributor to its later success, for instance.
- Colruyt, the highest-returning grocer we know of globally, is particularly successful in its home market of Belgium due to the low labour intensity of its stores in a country with extremely expensive grocery workers.

Unfortunately, the factors that raise a grocer to domestic success are often not replicable across borders.

- **Real estate**: While real estate may be important in most markets, the winning strategy might differ: owning freeholds in the two-generation long UK bull market has been a winning formula in the UK but in Japan leasehold operators have triumphed over those owning freeholds in the last 20 years. It is has also not been a particularly important ingredient for success in the US, where zoning laws for food retail outlets are typically less restrictive than in Europe.
- **Labor**: Formats that are labor intensive will not necessarily work as well in regions with high labor costs: even Morrison (MRW.L; £2.57; 2) has probably paid a penalty for its high labour cost model in southern England where wage rates are typically £1 per hour higher than in its northern heartland. Labour law can also have serious repercussions. In France, Belgium and many Scandinavian countries small business units often enjoy a cost advantage over larger units due to less onerous rules regarding hiring and firing. Accordingly, cooperative or franchise business models are more common in these regions.
- **Logistics**: In the area of logistics there may be some degree of internationally transferable know-how, which may in part explain why the German hard discounters have proven more successful than most at replicating themselves across international markets.

Why WMT Stands Apart from Food Retailers as a World Champion

We believe WMT stands out from the food retailer peer group as a World Champion in part because the company is much more than just a food retailer. Grocery comprised only 55% of Walmart U.S. and Sam's Club sales each in 2011. The company has seen a resurgence in general merchandise sales over the past year, driven by improved merchandising. A broader assortment and back-to-basics approach is resonating with the consumer while reducing markdown risk from fashion miscues.

WMT International has a diverse portfolio of approx. 70 banners across 26 different countries. The company has successfully implemented its EDLP-driven business model in several markets, and is in the process of transitioning Brazil. China is next. WMT is stepping up its global sourcing efforts, with potential over time to increase penetration to 70% of COGS, up from ~30%. International President and CEO Doug McMillon has led partnership efforts with vendors to drive cost savings and global supply chain efficiencies. While there have been some hiccups along the way (e.g. Germany and Korea exits), we believe that they are similar to the bumps in the road it has experienced at home. Meanwhile, the stock has powered forward on an overall strong top and bottom-line performance, climbing +23% to $73 over the past year, and we still see additional scope to drive disciplined growth and improve returns.

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Brewers (GICS) | Beverages (Citi)
Europe | Belgium

Company Focus

AB-InBev (ABI.BR)

One of the Best Defensive Growth Stories in the Market

- **Company Update**

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Buy	**1**
Price (19 Nov 12)	€65.32
Target price	€76.00
Expected share price return	16.4%
Expected dividend yield	2.3%
Expected total return	**18.6%**
Market Cap	€104,943M
	US$133,734M

Price Performance
(RIC: ABI.BR, BB: ABI BB)

- **What makes ABI a Champion** — ABI is the largest brewer in the world in terms of volume, profit and market cap. With beer volume of over 400 million HL (including Modelo), ABI has almost twice the volume of its largest competitor, SABMiller. In profit terms, ABI is even more dominant, with 2011 pro-forma EBITDA (incl Modelo) of around $17bn, greater than the number 2, 3 and 4 brewers put together. ABI has the largest market cap among alcoholic beverages companies globally and the 5th largest among all consumer staples companies. ABI counts 17 billion-dollar brands in its portfolio, including some of the largest globally (for example Budweiser, Bud Light, Corona, Skol).

- **What makes ABI a World Champion** — ABI not only dominates the Americas, but it is also strong in China (#3) and Russia (#3) and has pockets of strength in Europe too. In China ABI holds the biggest share of the premium segment, through the Budweiser brand. ABI holds the number one position in 4 of the 5 largest beer profit pools (US, Brazil, Mexico and Canada).

- **ABI's growth outlook** — Over the next three years, we forecast 8-9% EBIT and 12-13% EPS CAGR, underpinned by ABI's pricing power, deleverage and Modelo synergies, all of which are visible and defensive earnings drivers.

- **ABI's cash usage** — ABI is the most cash-generative staples company in Europe, converting more than 100% of its earnings into cash, as we show in a recent report (Consumer Staples – Cashing In On Brewers - For every $1.00 of net profit, ABI generates $1.11 of cash but Nestlé only 66¢. Shouldn't it trade on a higher P/E?). Over the next 18 months we expect most of the cash to be used to pay down debt, following the Modelo acquisition (expected to be completed in 1Q13). Despite the deleveraging, we still expect ABI's dividend to be raised, as management targets in the medium term a yield of over 3%, in line with other blue chip global staples.

- **Buy rating** — ABI remains our top pick in European beverages, and within European consumer staples more generally. Despite the stock's recent re-rating, we think investors will continue to be willing to pay a premium for one of the best defensive growth stocks in the market. In our opinion, ABI couples best-in-class EPS growth with good earnings visibility. We see upside risk to consensus numbers on a 12-month view, predominantly in the US and on Modelo. ABI is included in Citi Focus List Europe.

AB-InBev (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($M)	36,297.0	39,045.0	39,579.5	48,524.6	51,609.0
Net Income ($M)	5,040.0	6,449.0	7,355.5	8,145.8	9,326.2
Diluted EPS ($)	3.16	4.03	4.53	5.02	5.73
Diluted EPS (Old) ($)	3.16	4.03	4.53	5.02	5.73
PE (x)	26.4	20.6	18.4	16.6	14.5
EV/EBITDA (x)	13.9	12.7	12.7	11.6	10.6
DPS ($)	1.19	1.60	1.94	2.33	2.72
Net Div Yield (%)	1.4	1.9	2.3	2.8	3.3

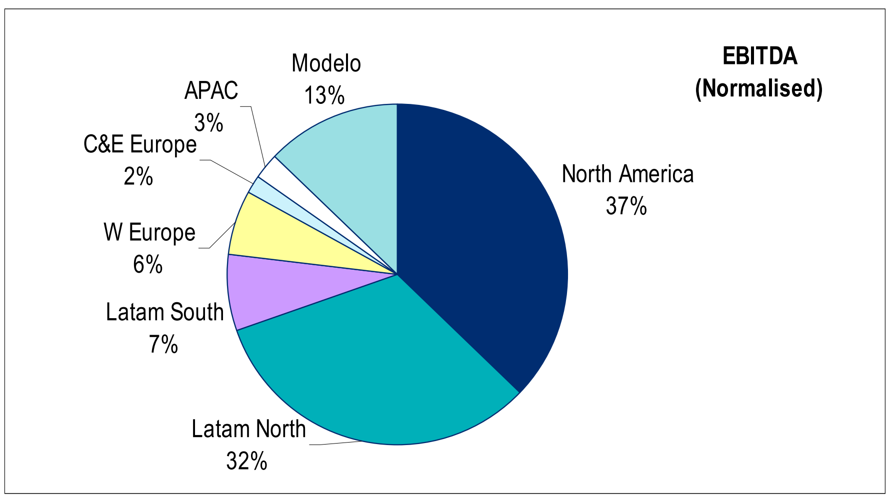
What Investors Are Asking

- **How conservative is ABI's $600m Modelo synergy target?** Very, in our view. We expect a much faster delivery of the $600m than the 4 years management has guided to, because A-B has had a stake in Modelo since 1993, and therefore knows the business well; and also because ABI management has a strong track record on integrating companies. Equally importantly, we think total cost synergies will end up being much higher than the $600m target. In Mexico? Way to Go! we benchmark Modelo's Mexican beer COGS and SG&A against regional peers (mainly ABI's Brazilian and LatAm South beer operations), concluding that incremental cost savings of $280-560m are achievable, mostly by reducing COGS. We don't factor this into our model. We also see a substantial revenue management opportunity in Mexico (1) through front line pricing ahead of inflation in what is a very consolidated beer market and (2) through mix, as we expect Modelo and its main competitor to develop the premium segment in the next few years.

- **How exposed is ABI to current macro risks?** We think the risk of earnings downgrades is lowest for ABI among European beverages companies. ABI's main earnings drivers (pricing power, mix, reduction of financial charges, Modelo synergies) are not very dependent on the macro. Indeed we see upside to consensus expectations in Mexico and in the US from mix (see our report "Mix Clicks"). We have also got slightly more optimistic on Brazil recently.

- **Isn't ABI's valuation starting to look stretched?** We see less upside to the multiple now compared with a few months ago, as we do for most consumer staples names. We note, however, that ABI is only trading in line with its global blue chip staples peers, despite its track record of outperformance, visible earnings growth profile, potential for earnings upgrades and best-in-class cash conversion.

Figure 15. AB-InBev – Split of EBITDA, FY13E



Source: Citi Research estimates

Tobacco (GICS) | Tobacco (Citi)
Europe | United Kingdom

Company Focus

■ Company Update

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Buy	**1**
Price (19 Nov 12)	£31.59
Target price	£37.85
Expected share price return	19.8%
Expected dividend yield	4.3%
Expected total return	**24.1%**
Market Cap	£61,068M
	US$97,013M

Price Performance
(RIC: BATS.L, BB: BATS LN)

British American Tobacco PLC (BATS.L)

Leader in Innovation

- **What makes BAT a Champion** — BAT is the No2 tobacco company globally, with a strong presence in most markets. Arguably BAT has led the changes in the way tobacco is marketed over the past decade. It has the greatest commitment to direct store distribution, and it has led the surge of innovation, for example, introducing capsule products (which allow smokers to change the taste of their cigarettes as they smoke) and pioneering the trend to more modern packaging with slimmer cigarettes.
- **What makes BAT a World Champion** — BAT is the most global of the 4 major tobacco companies, due partly to its exposure to the US and India (via its stakes in RAI and ITC) as well as to Africa. It has clear leadership positions in many EMs (eg Brazil (73% share) and most of sub-Saharan Africa), as well as Australia (46%) and Canada (50%) – two of the highest margin markets. In both the EU and Japan it is the No3 player, but it has gained share in both.
- **BAT's growth outlook** — BAT, like PM, offers a highly predictable growth outlook, even though we have a fairly bearish view on volumes. On a 5-year, organic basis (2011-16E), we expect a 0.7% compound volume decline, but 5% compound sales growth and 7½-8% EBIT growth. Our (non-organic) projection for EPS growth is for 9½% compound growth in sterling terms, a figure that incorporates ongoing buybacks. We are assuming about 6% price-mix a year. The nature of the tobacco business means that there is relatively little variation in the growth rates year-to-year, and so the margin of error on these estimates is smaller than for most companies.
- **BAT's cash usage** — Like all tobacco companies, BAT is highly cash-generative even though capex is expected to run at about 50% more than depreciation in the next 3 years as the company installs new machinery to make new packs. BAT pays out 65% of adjusted net income in dividends. Currently it is also buying back about £1.25 bln a year, equivalent to about 30% of net, or 2% of market cap. We expect that the buyback will be gradually increased over time.
- **Buy rating** — We have a Buy on BAT because we believe that (1) BAT can be relied on to produce solid EPS growth, owing to extremely good pricing in almost every market globally, and (2) the stock's P/E multiple is likely to be broadly maintained. We note that BAT is cheaper on most measures than PM, its nearest peer. We expect BAT's profits to grow nicely from the strong pricing environment in Brazil and Russia. Volumes in the south of Europe are under unprecedented pressure, but BAT's exposure there is relatively small.

British American Tobacco PLC (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (£M)	14,883.0	15,399.0	15,459.7	16,153.1	16,959.8
Profit Before Tax (£M)	5,126.0	5,718.0	5,971.4	6,434.4	6,988.4
Diluted EPS (p)	175.8	194.6	207.2	227.6	252.3
Diluted EPS (Old) (p)	175.8	194.6	207.2	227.6	252.3
PE (x)	18.0	16.2	15.2	13.9	12.5
EV/EBITDA (x)	11.7	10.4	10.0	9.3	8.6
DPS (p)	114.2	126.5	134.6	147.9	164.0
Net Div Yield (%)	3.6	4.0	4.3	4.7	5.2

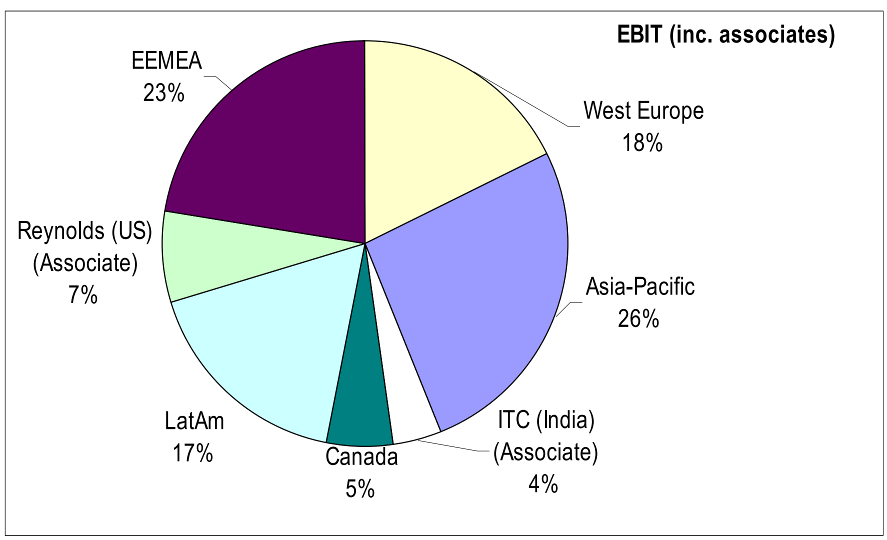
What Investors Are Asking

- **Is the pressure from regulation worse than before?** Profits for the tobacco industry are at an all-time high, even though it has been subject to increasingly harsh regulation for the past five decades. The question now is whether a new type of regulation (namely plain packaging) will start to make a difference. Whereas previous forms of regulation attempted to reduce volumes, the threat from plain packaging is that it may undermine brand values. We do believe that plain packaging will spread from Australia because we think many politicians will find it attractive, with the UK likely to be the next major market to announce on this. However, we think the impact on sales will be quite modest initially. We think it will take several years to work out if plain packaging really does impact profit.

- **What is the significance of the unprecedented volume declines in the EU?** This year EU cigarette volumes are likely to fall about 6%, with declines of about 10% in Southern Europe. This clearly has been caused by the weakness of the economy there, but nonetheless it is surprising as previous recessions have never had such large impacts before. Furthermore cigarettes aren't especially expensive, with Marlboro at €5.00 per pack in Italy and €4.50 in Spain, whereas it retails at €6.60 in France, about €9 in Ireland and €10 in Britain. We don't want to conclude that there has been a step change in the elasticity of demand; but we do believe that trends in Europe will remain very tough for as long as disposable income remains so bad. That said, only about 8% of BAT's profit comes from Southern Europe.

- **How is the pricing environment?** We believe that pricing is as strong as it has even been, with changes to the tax regime in Russia and Brazil being especially helpful. In addition, price increases continue to add materially to sales growth in the other regions. For more details see British American Tobacco PLC (BATS.L) - Smoking Prices in Emerging Markets. In tobacco, the companies usually try to offset weak volumes with better pricing, to ensure that their profit targets are met. With BAT more than 80% of profit comes from outside Europe, so we believe it has plenty of room to ensure that it meets its EPS goals.

Figure 16. BAT – Split of EBIT (including Associates), FY12E



Source: Citi Research estimates

Distillers & Vintners (GICS) | Beverages (Citi)
North America | United States

Company Focus

Brown-Forman (BFb)
Capitalizing on Bourbon Growth

- Company Update

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Buy	**1**
Price (16 Nov 12)	US$65.31
Target price	US$74.00
Expected share price return	13.3%
Expected dividend yield	1.5%
Expected total return	**14.8%**
Market Cap	US$13,679M

Price Performance
(RIC: BFb.N, BB: BF/B US)

- **What makes BFB a Champion** — Brown-Forman is the biggest seller of bourbon globally, led by its Jack Daniel's brand, which is the 5th largest premium spirits brand in the world (and for which volumes have grown at an 8% CAGR over the last decade). The 140-year-old company has steadily built up a portfolio of leading brands through acquisitions, most notably Jack Daniel's, which was acquired in 1956, but also adding tequila (Herradura and el Jimador) and vodka (Finlandia). Not only have these acquisitions helped round out the company's product offerings, they have also served as platforms for growth for Jack Daniel's, as these international acquisitions provided a much stronger distribution platform for the Jack Daniel's brand (for instance, Jack Daniel's volumes grew at a 35% CAGR in Mexico from 2000-2010).

- **What makes BFB a World Champion** — Over the last decade, BFB has made tremendous progress in terms of diversifying its geographic footprint. Specifically, non-US markets now account for roughly 55% of the company's sales (vs. only 23% in 2001). What is more, emerging markets now account for nearly 25% of the company's sales and grew a very healthy double-digits in FY12. Looking ahead, with bourbon continuing to grow in popularity in international markets, we believe that the company is well positioned to capitalize on that growth through its flagship Jack Daniel's brand.

- **BFB's growth outlook** — Over the last five years, BFB has grown sales at 5% CAGR, while EBIT has grown at 6% CAGR. Looking ahead, BFB has targeted high-single-digit earnings growth.

- **BFB's cash usage** — BFB has a long heritage of returning cash to shareholders, both through a regular dividend and share buybacks, as well as through occasional special cash dividends. Looking ahead, we expect that BFB will continue returning cash to shareholders, though in the near term, we expect higher levels of capital spending as the company looks to expand its bourbon distilling operations to meet increased demand.

- **Buy rating** — BFB is our favourite name in the US spirits industry, owing to: (1) the strength of the Jack Daniel's brand, which has returned to healthy growth, (2) the opportunity for continued outsized growth in international markets as bourbon becomes increasingly popular, which plays to BFB's strengths as it owns the world's leading bourbon brand, and (3) the opportunity to return the US business to growth, helped by the bourbon renaissance.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.54A	0.73A	0.62A	0.49A	2.38A	2.37A
2013E	**0.69A**	**0.75E**	**0.73E**	**0.48E**	**2.65E**	**2.65E**
Previous	0.69A	0.75E	0.73E	0.48E	2.65E	na
2014E	**na**	**na**	**na**	**na**	**2.99E**	**2.95E**
Previous	na	na	na	na	2.99E	na
2015E	**na**	**na**	**na**	**na**	**3.29E**	**3.31E**
Previous	na	na	na	na	3.29E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

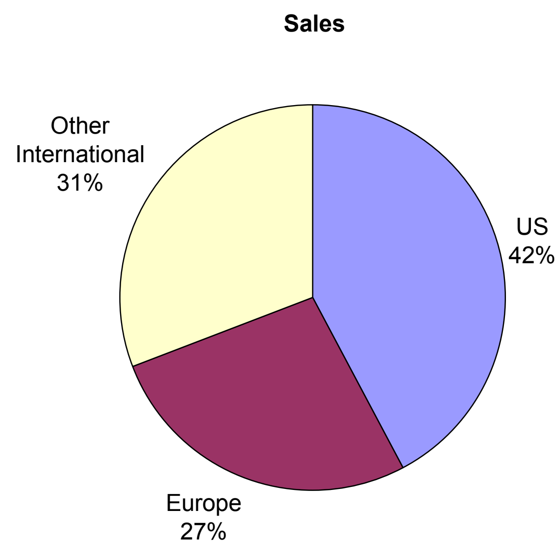
What Investors Are Asking

- **Is the current growth in US bourbon sustainable?** In the US, bourbon has become the fastest-growing major distilled spirits category, posting double-digit growth in Nielsen-tracked channels over the last year. While we believe it is reasonable to expect growth to moderate (owing to tough comps), we expect that bourbon should continue to post outsized growth as consumer adoption continues to grow off of a relatively small base.

- **How will the US consumer respond to recent price increases?** Earlier this year, BFB announced that it would be raising prices across its portfolio by roughly 3-5%. This is the first major price increase that we have seen from the company since 2008. While uncertainty exists around these products' price elasticities, we believe that at least for bourbon, these price increases will stick as demand for bourbon has been far more robust than we have seen in the past.

- **Why does BFB trade at such a rich multiple?** While BFB's valuation looks rich to some, we would remind investors that the stock has consistently traded at a premium to its consumer staples peers, given the scarcity value and attractiveness of the Jack Daniel's brand. What is more, we also believe that the stock today deserves to trade at a premium to its historical valuation, given that we are seeing an acceleration of both top-and bottom-line growth.

Figure 17. BFB – Sales Breakdown by Region, FY12



Source: Company reports

Soft Drinks (GICS) | Beverages (Citi)
Australia/NZ | Australia

Company Focus

- Company Update

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Neutral	**2**
Price (19 Nov 12)	A$13.25
Target price	A$13.40
Expected share price return	1.1%
Expected dividend yield	4.3%
Expected total return	**5.4%**
Market Cap	A$10,098M
	US$10,444M

Price Performance
(RIC: CCL.AX, BB: CCL AU)

Coca-Cola Amatil Ltd (CCL.AX)

Dominant Core Business With Emerging Markets Upside

- **Dominant share and competitive position** — Coca-Cola Amatil has a leading position in Australian carbonated soft drinks with ~56% share, and a growing presence in alcoholic and non-carbonated beverages. We expect this dominance to continue given the company's strong competitive advantages: 1) Coca-Cola Amatil has the benefit of superior distribution with greater than 60% share of shelf space in the convenience and leisure channel. 2) Strong track record of product and packaging innovation backed by successful mass-media advertising campaigns by The Coca-Cola Company. 3) Investments in IT and manufacturing processes have resulted in a lower cost base than competitors and superior levels of customer service.

- **Potential upside from Indonesia** — Outside of its core markets of Australia and NZ, Coca-Cola Amatil has a growing presence in Indonesia. Over the past five years, the Indonesian business has grown local currency revenue by almost 19% CAGR and now represents 18% of group revenue. Coca-Cola Amatil has ~89% market share in carbonated non-alcoholic beverages and is positioned to benefit from the increasing consumption of these beverages as disposable incomes rise in Indonesia. Currently, Indonesians on a per capita basis, consume one-sixth the amount of non-alcoholic ready to drink beverages compared to Australians.

- **High-single-digit growth maintainable** — We forecast a 3-year CAGR of 7% for both revenue and EBIT for Coca-Cola Amatil. This translates to 7-8% CAGR growth for EPS. However, with Coca-Cola Amatil's strong balance sheet, we think buybacks or acquisitions may provide upside.

- **Reinvestment in the business drives strong returns** — Coca-Cola Amatil generates strong cash flow and cash realisation is routinely above 100%. Demands from maintenance capex are low at only 4-5% of sales. Recently, the company embarked on a capex program of capital spend to improve manufacturing. This has yielded substantial cost savings and has produced strong returns on investment. As a result, pre-tax ROCE for the group has increased from 18% in FY05 to 24% in FY11. Management has identified further internal investments until 2015. Beyond this, we believe Coca-Cola Amatil may redirect any excess capital towards buybacks or M&A.

- **We rate Coca-Cola Amatil Neutral** — While we recognise that Coca-Cola Amatil is a high-quality business with a strong earnings outlook, we argue that the current share price reflects this, with the shares trading broadly in-line with our 12-month price target. We rate Coca-Cola Amatil Neutral.

CCL.AU revisions (Y/E Dec)	2010A	2011A	2012E	2013E	2014E
Sales (A$m)	4,490.3	4,801.2	5,174.6	5,537.3	5,876.2
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (A$m)	843.4	868.0	917.8	994.7	1,063.5
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core Net Profit (A$m)	506.6	532.0	574.6	623.8	663.5
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core EPS (A¢)	67.3	70.2	75.5	82.0	87.2
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
EPS Growth (%)	11.4	4.2	7.6	8.6	6.4
PE Ratio (x)	19.7	18.9	17.5	16.2	15.2
Dividend Yield (%)	3.7	4.0	4.3	4.6	4.9

Source: Company Reports and dataCentral, Citi Research.

What Investors Are Asking

Is Coca-Cola Amatil's ROCE sustainable? While we expect that Coca-Cola Amatil can continue to generate incremental returns on capital well above its cost of funding, we think it is unlikely that going forward returns on new capital will be as high as the recent rise in ROCE suggests:

- **Project Zero's conclusion -** The ongoing program of manufacturing and systems upgrades, referred to as Project Zero, will eventually slow. This has been a source of substantial earnings growth and ROCE accretion.
- **Distracted competitor and benign COGS pressures -** Margins are currently high, given the very high market share and price premium Coke is achieving against Pepsi in the Australian market, and the benign growth in COGS of late. These factors may not be as favorable going forward.
- **Eventual slow down in cooler roll-out -** While the roll-out of cold drink equipment is currently providing additional revenue growth and margin expansion in Australia, as the roll-out matures, more of the annual capex will be spent maintaining the fleet of equipment with no associated earnings benefit.
- **Growing sales from Indonesia -** As Indonesia becomes a larger part of the business, this may drag down group ROCE as the company is likely to be more focused on growth in this region, compared to returns, given the relative infancy of this market.
- **ROCE boosted by some one-off factors -** ROCE has been boosted by seemingly one-off factors such as the sale and lease back of warehouses; a strong Australian dollar resulting in lower equipment and COGS costs; a sharp decline in the cost of fridges (almost one third of annual capex spend); and the write-downs of assets.

What are CCL's prospects in alcoholic beverages? Following the end of Coca-Cola Amatil's JV with SABMiller, the company again has a relatively small presence in alcohol, the most significant of which is the manufacture and distribution of Jim Beam products in Australia and NZ. Although small, this has been highly successful and validates Coca-Cola Amatil's strategy of growing the proportion of earnings that comes from alcoholic beverages. In December 2013, Coca-Cola Amatil's non-compete agreement with SAB expires and the company intends to again manufacture and distribute premium beer brands for both third parties and in-house labels. We anticipate its push into beer will take time, given the absence of SAB's brand portfolio, but ultimately be successful due to Coca-Cola Amatil's national distribution and existing route to market; a history of successfully building brands; existing customer relationships; and high customer service levels. Management estimate the Australian and NZ premium beer market has an EBIT pool for manufacturers of A$200m.

Does Coca-Cola Amatil have any intention of acquiring additional bottler licenses? We think it is unlikely that the company will actively pursue further Coca-Cola bottling licences so long as the returns from internal projects are so attractive. As these projects reach their conclusion, we think Coca-Cola Amatil is likely to again target geographic expansion. Coca-Cola Amatil's balance sheet would permit such a move with FY12E Net Debt / EBITDA of only 1.4x. Management has indicated that any new bottling licences are likely to be in the Asian region.

Soft Drinks (GICS) | Beverages (Citi)
North America | United States

Company Focus

■ Company Update

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Buy	**1**
Price (16 Nov 12)	US$36.56
Target price	US$46.00
Expected share price return	25.8%
Expected dividend yield	2.8%
Expected total return	**28.6%**
Market Cap	US$163,978M

Price Performance
(RIC: KO.N, BB: KO US)

The Coca-Cola Company (KO)

KO's Consistent Strategy – Over Time and Around the World -- Pays Off

- **What makes KO a Champion** — KO is the world's largest beverage company with one of the world's most iconic brands, a broad distribution system featuring roughly 275 bottling partners around the world and leading market shares in most global regions. KO has managed to achieve volume growth in a very difficult external environment mainly due to its ability to generate growth in emerging markets from its Eurasia & Africa, Latin America and Pacific segments.

- **What makes KO a World Champion** — The majority of KO's sales (~60%) come from non-US markets, as the company currently markets over 500 NARTD (non-alcoholic ready-to-drink) beverage brands which are sold in over 200 countries around the world. In fact, the only two countries in the world where KO does not operate are Cuba and North Korea. (By contrast we note that Nestlé does operate in Cuba, but also isn't present in N Korea, which makes it the most global of all the companies mentioned in this report.)

- **KO's growth outlook** — We estimate that KO will have 3-year CAGRs of 4-5% in revenues, about 6% in EBITDA and 8-9% in EPS.

- **KO's Cash usage** — KO's ability to generate consistent cash flows in any environment is clearly what makes the company attractive to investors – KO currently has about $14 billion in cash on its balance sheet, which is being used to both grow the business and return funds to shareholders in the form of share repurchases ($2.5-$3.0 billion expected for FY12) and dividends (~3% dividend yield). In terms of capex, we expect capex to be roughly 6% of sales (~$3 billion) for 2012.

- **Buy rating** — KO is an expensive stock, trading at about 17x our 2013 EPS estimate. However, we believe investors will continue to pay a premium for KO given that overall, despite the difficult external environment (tough macro backdrop and all the negative PR surrounding CSDs and obesity caused by sugary beverages), the company continues to deliver.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.43A	0.58A	0.52A	0.39A	1.92A	1.92A
2012E	**0.44A**	**0.61A**	**0.51A**	**0.44E**	**2.00E**	**2.00E**
Previous	0.44A	0.61A	0.51A	0.44E	2.00E	na
2013E	**na**	**na**	**na**	**na**	**2.18E**	**2.19E**
Previous	na	na	na	na	2.18E	na
2014E	**na**	**na**	**na**	**na**	**2.37E**	**2.39E**
Previous	na	na	na	na	2.37E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

Top 3 Investor Questions — With CSD volumes slumping and plenty of negative publicity surrounding beverage makers possibly contributing to America's obesity epidemic, many investors are wondering how KO can continue to foster growth in today's environment. Here we address the top 3 investor questions:

- **How can KO perform well if CSD volumes are so weak in North America?** Even with the overall CSD category showing steady volume declines in North America over the past decade, KO has managed its business well by adapting to changing consumer trends and extracting growth from other NARTD beverage categories such as enhanced water (Vitaminwater), isotonics (Powerade) and liquid tea (Gold Peak). Also, given KO's geographic breadth, the company has achieved much of its overall growth from its emerging market territories, most of which has been bolstered by KO's consistent investment in developing regions over the years.

- **What will KO do with its North America bottling operations?** We think KO will stick to its initial plan of owning the North America bottling operations for a time period of at least 4 to 5 years, meaning we are still a couple years away from KO either divesting or spinning off the bottling assets. The bigger question that remains is to whom the company will sell the bottling assets – and in what structure (in one piece? in several pieces? with or without KO maintaining an equity interest?). While much of this is a guessing game right now, we believe the important aspect to remain focused on is the health of KO's bottling assets in the US. As a result of its transactions in the US, we think KO's distribution network is more well integrated, more efficient and likely more profitable than it has been in the past.

- **Will KO make an acquisition to diversify into other businesses such as energy drinks or beer?** We do believe it is possible that KO will eventually make a move to purchase a major player in the energy drink category given the attractive growth in this category, although we can't see this happening in the near term with the ongoing FDA investigation overhanging the energy drink companies. We would expect that KO might make a move after the dust settles on the safeness of energy drinks which could also coincide with a cheaper price tag for any assets as the energy drink category will likely see slower growth given greater competition as well as the law of large numbers settling in and the category beginning to mature a bit in more developed markets.

Household Products (GICS) | Home and Personal Care (Citi)
North America | United States

Company Focus

■ Company Update

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Neutral	**2**
Price (16 Nov 12)	US$105.15
Target price	US$111.00
Expected share price return	5.6%
Expected dividend yield	2.4%
Expected total return	**7.9%**
Market Cap	US$49,681M

Price Performance
(RIC: CL.N, BB: CL US)

Colgate-Palmolive Co (CL)
Strong Brands and an Immense Global Footprint

- **What makes CL a Champion** — CL is a global player in oral care, personal care and pet care. In the oral care category, CL has a 45% global market share in toothpaste (No.1), a 33% global market share in manual toothbrushes (No. 1) and a 22% global market share in mouthwash (No. 2). As well, with global leadership in liquid hand soap and other categories, CL is also a global leader in personal care. CL has been the global leader in the toothpaste category for at least 20 years and has generally gained shared from its closest global competitors over the years.

- **What makes CL a World Champion** — CL's products are marketed in over 200 countries and territories throughout the world and over 80% of its sales are generated outside of North America. We note that CL generates 18% of its sales in North America, 29% in Latin America, 21% in Europe / South Pacific, and 20% in Greater Asia / Africa. The remaining 13% of CL's sales are generated by the Hill's pet food business, which is split between the US, Europe and Japan.

- **CL's growth outlook** — We estimate that CL will have 3-year CAGRs of 4-5% in revenues, 5-6% in EBITDA and 10% in EPS. (We note that over the longer term, CL has been one of the more consistent double-digit EPS growth stories in the group, with CL's EPS growth having been hurt recently primarily by the stronger US dollar and, to a lesser extent, by increased competitive activity.)

- **CL's cash usage** — CL currently holds roughly $1 billion in cash on the balance sheet and consistently generates strong free cash flow (upwards of $2 billion a year). It generally spends about 1.6% of sales on R&D and 10-11% of sales on advertising. In addition, CL typically has a share repurchase program under way with the latest 50 million share program announced in 2010 (roughly 35 million shares remain). The company also typically pays a strong dividend. From 2001 through 2011, the company's dividend grew at a 10-year CAGR of 10%. In 2011, the company's dividend payout ratio was 45%. Finally, CL makes the occasional acquisition, with the most recent being the 2011 acquisition of the Sanex personal care brand in Europe.

- **Neutral rating** — With CL posting strong local currency sales growth and positive pricing trends in most regions over the past few quarters, we believe the company has well established itself as a dominant global leader in the HPC category. However, with CL's shares trading at 18x our 2013 EPS estimate and with limited implied upside to our current target price, we find the stock to be fully valued and rate the shares Neutral.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.16A	1.26A	1.31A	1.39A	5.03A	5.03A
2012E	**1.24A**	**1.33A**	**1.38A**	**1.42E**	**5.37E**	**5.36E**
Previous	1.24A	1.33A	1.38A	1.42E	5.37E	na
2013E	**na**	**na**	**na**	**na**	**5.89E**	**5.89E**
Previous	na	na	na	na	5.89E	na
2014E	**na**	**na**	**na**	**na**	**6.46E**	**6.49E**
Previous	na	na	na	na	6.46E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

- **Can CL turn its Hill's pet care business around or might it be sold?** Owing to several factors – price increases that were too steep given the weak macro backdrop, delay in entering the Naturals category, etc. – CL's Hill's business has consistently posted volume and, until recently, pricing declines. And, while pricing for Hill's has been positive and has increased sequentially over the past few quarters, we continue to see negative volume trends. In order to reverse trends in the category, the company is launching several new products, including products in the Naturals category. While this recent relative weakness has prompted speculation that perhaps Hill's could finally be divested by CL, we think it more likely that CL will continue to invest in this business. That said, we note that Hill's has long been a very high-margin business for CL; so we wonder if perhaps the business is over-earning a bit, and perhaps CL needs to ramp up investment spending behind this business in a meaningful and sustained way.

- **Will CL's momentum in North America continue?** After several consecutive quarters of lower YoY sales in North America, this region delivered strong sales in 3Q11 (+3.1%), 4Q11 (+3.6%) and 1Q12 (+5.2%) and decent growth in 2Q12 (+1.9%). Part of this stronger growth has come from CL's strong innovation program, including its Optic White toothpaste in oral care. As comps get tougher, we believe some investors fear that the rebound in volume and pricing in the region could prove to be short-lived. However, given that CL intends to extend the Optic White brand into toothbrushes and mouthwash, and we believe CL's innovation pipeline remains robust across its US portfolio, we suspect that CL's momentum in the US can continue for the foreseeable future.

- **Will competitive activity heat up further, especially in emerging markets?** CL has historically enjoyed very high market shares and in turn, very strong profit margins in some large emerging markets (i.e. not just Latin America, but parts of emerging Asia as well). With PG and others (Unilever, Reckitt Benckiser, Henkel, etc.) all focusing on those emerging markets as sources of future growth, investors clearly fear that the promotional environment could heat up further in CL's categories. While we concur that this is a very real risk, we also believe that CL is anticipating this competition and shoring up its defenses – not only in terms of innovation but also in terms of identifying cost savings to fund higher levels of reinvestment – in an effort to hold competitors at bay.

Packaged Foods & Meats (GICS) | Food Manufacturers (Citi)
Europe | France

Company Focus

- **Company Update**

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Buy	**1**
Price (19 Nov 12)	€48.49
Target price	€54.00
Expected share price return	11.4%
Expected dividend yield	3.0%
Expected total return	**14.4%**
Market Cap	€31,184M
	US$39,739M

Price Performance
(RIC: DANO.PA, BB: BN FP)

Danone (DANO.PA)

Category Exposure Drives Long-Term Earnings Power

- **What makes Danone a Champion** — Danone is the global leader in yoghurt with 20% share of the category worldwide. The company also holds a strong No.2 position in bottled water and the No.3 position in infant formula.

- **What makes Danone a World Champion** — Danone has a good geographic spread of businesses, with 35% of revenues coming from Western Europe, 10% from North America and 55% from emerging markets including 11% from Russia. The company is the No.1 bottled water company in Latin America with 23% market share and No.1 in Western Europe with 15% share. In yoghurt Danone is No.1 in the US with 33% share, No.1 in Latin America with 34% share and No.1 in Western Europe with 24% share.

- **Danone's growth outlook** — We forecast revenue CAGR of 6-7% over the next 3 years leading to an 8-10% EPS CAGR over the same period.

- **Danone's cash usage** — The dividend and bolt-on acquisitions are Danone's priorities in utilising cash. We would expect the company still to be potentially interested in acquiring parts of Pfizer Nutrition that Nestlé has to divest particularly in Latin America and Middle East. There is also the possibility that Danone raises its existing 20% stake in Yakult.

- **Buy rating** — We understand the market's concerns around the Dairy business in Western Europe although would argue that much of this is in the price, particularly given Danone is one of the few European staples companies trading below its long-term average forward P/E. Fundamentally we like the fact that over 30% of earnings are generated from Nutrition, which is the fastest-growing food category globally. We also see potential upside from a successful launch of Souvenaid, which is a food product designed to help with Alzheimer's disease.

Danone (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	17,010.1	19,317.7	20,795.8	22,451.6	23,732.6
Net Income (€M)	1,669.0	1,748.7	1,812.9	1,911.0	2,110.7
Diluted EPS (€)	2.71	2.89	3.03	3.22	3.55
Diluted EPS (Old) (€)	2.71	2.89	3.03	3.22	3.55
PE (x)	17.9	16.7	16.0	15.1	13.6
EV/EBITDA (x)	10.9	10.3	9.4	8.8	7.9
DPS (€)	1.30	1.39	1.46	1.54	1.63
Net Div Yield (%)	2.7	2.9	3.0	3.2	3.4

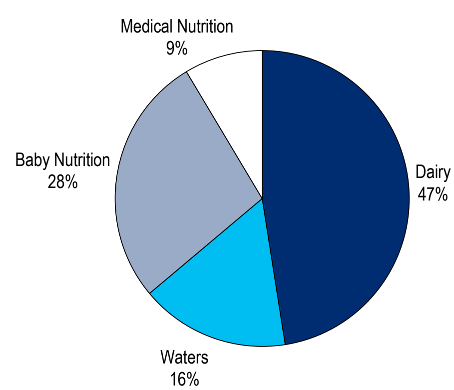
What Investors Are Asking

- **Will the Spanish Dairy situation be replicated in other European markets?** Not in our view. The Spanish Dairy business was unusual in having 1) exceptionally high margins, 2) Absence of branded competition and 3) a particularly high price gap between Danone's brands and private label (100% premium). Given Spain's unemployment rate of 25%, we suggest that consumers there are under worse financial pressure than in other Western European markets. In addition, Danone's portfolio in other markets is priced at much less of a premium to private label, e.g. a 35% premium in France.

- **Will there be overcapacity in Greek yoghurt in the US?** The explosive growth in Greek yoghurt has seen it become 30% of the category over the last 5 years. Danone recently expanded its Greek capacity by ~20%. The market leader, Chobani, is doubling capacity at the end of this year and Pepsi/Mueller will also expand in 2H13. We do expect this to have some impact on pricing within the segment although we believe that the positive mix impact by virtue of Greek being priced at a 100% premium to traditional yoghurt should more than offset some softening in Greek pricing.

- **Will an activist shareholder make a difference?** Activist shareholder Nelson Peltz has recently taken a 1% stake in Danone through his Trian investment fund. Peltz has a history of activism in the consumer sector and specifically with food companies having been involved in Heinz, Kraft and Cadbury. Newswires (e.g. Reuters) have suggested that Peltz may push for cost cutting measures to improve operating margins by 100bps by 2015. At its 3Q12 results, Danone already indicated that it was examining its business model in Europe. We think 100bps is a reasonably aggressive target given the ongoing pressure on margins in Southern Europe, although directionally any incremental pressure on management to be proactive on costs would be helpful. We currently forecast 25bps of margin expansion by 2015, and 100bps of expansion would imply 6% upside to EPS, on our estimates. Peltz is reported by Reuters to also be likely to push for increased cash returns through buybacks. We note the company already has a buyback in place; however, a key concern for investors remains around the company's capital discipline, with Danone having unsuccessfully bid for Pfizer Nutrition earlier this year and with potential for it to increase its stake in Yakult.

Figure 18. Danone – Breakdown of Operating Profit, FY12E



Source: Citi Research estimates

Personal Products (GICS) | Home and Personal Care (Citi)
North America | United States

Company Focus

- Company Update

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Neutral	**2**
Price (16 Nov 12)	US$56.62
Target price	US$64.00
Expected share price return	13.0%
Expected dividend yield	1.3%
Expected total return	**14.3%**
Market Cap	US$21,923M

Price Performance
(RIC: EL.N, BB: EL US)

Estee Lauder Inc (EL)

EL – An Increasingly Global Growth Stock

- **What makes EL a Champion** — EL is a global leader in the prestige cosmetics industry, with the franchise including 27 brands for skin care, makeup, fragrance, and hair care, which range from entry point in prestige to ultra-premium. Brands include Estée Lauder, Clinique, MAC, Bobbi Brown, and Aveda. EL's dominance extends across multiple geographies and the company's sales and profits are weighted towards the higher-margin skin-care category.
- **What makes EL a World Champion** — The majority of EL's sales (63%) come from non-US markets, as the company currently markets its brands in more than 150 countries worldwide. Europe, the Middle East and Africa represent 37% of sales (and this segment includes EL's travel retail business, which represents 11% of total company sales), while Asia Pacific is about 21% of sales. China alone is 5% and growing double-digits.
- **EL's growth outlook** — We estimate that EL will have 3-year CAGRs of 8% in revenues, ~12% in EBITDA and 16% in EPS.
- **EL's cash usage** — EL has significantly improved its operating cash flow in recent years, nearly doubling it in five years to $1.1 billion. EL currently has about $1.4 billion in cash on its balance sheet, which is being used to both grow the business and return funds to shareholders in the form of share repurchases and dividends (while the dividend yield is low, at 1.2%, we look for a substantial increase in the annual dividend in November 2012). In terms of capex, we expect EL to spend roughly 4.8% of sales (~$490 million) for FY13.
- **Neutral rating** — We believe the portfolio of EL's brands is without parallel, and it offers the best growth prospects among the HPC companies, on the top line due to its market share momentum and its underlying global category growth, and on the bottom line due to the strong potential for further profit margin expansion. Nonetheless EL's valuation seems high to us. Specifically, the stock is trading at c. 22x our CY13 EPS estimate, hence we have a Neutral rating.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.71A	1.01A	0.38A	0.17A	2.27A	2.27A
2013E	**0.79A**	**1.05E**	**0.48E**	**0.26E**	**2.58E**	**2.57E**
Previous	0.79A	1.05E	0.48E	0.26E	2.58E	na
2014E	**na**	**na**	**na**	**na**	**3.03E**	**2.95E**
Previous	na	na	na	na	3.03E	na
2015E	**na**	**na**	**na**	**na**	**3.47E**	**3.40E**
Previous	na	na	na	na	3.47E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

Given EL's rich valuation, we hear a lot of debate about the sustainability of the company's top and bottom line growth rates.

- **Can EL continue to growth faster than the global prestige category and how aggressive have competitors become?** We believe EL can continue to grow faster than the global prestige category, but we would caution that we think the delta between the growth rate of the category and EL's local currency sales growth rate will narrow compared to recent years. We attribute this slowdown in EL's relative growth to the more competitive landscape in the prestige cosmetics industry – both from local players in various markets and from multinationals such as L'Oréal. Indeed, we attribute EL's outsized growth in recent years to even more aggressive marketing spending on the company's part, and as EL nears the end of its restructuring program, we suspect EL's ability to continually spend more and more dollars on marketing may be pressured somewhat. That said, with the prestige cosmetics industry still growing faster than many other consumer staples categories, and with EL still a leader when it comes to innovation and marketing, we suspect EL will still be the fastest top line growth story in HPC for several years to come.

- **How is EL doing in China?** EL has benefitted from double-digit top line growth rates in China over the last couple of years, namely +33% in FY11 and +28% in FY12 (reflecting both like-door growth and new door openings). As such, China now represents 5% of EL's total sales. However, like-door growth rates decelerated notably in FY12, to +8%, from +20% in FY11. While some of this may be the law of large numbers kicking in, and some of this slowdown may reflect increased competition in the market, we suspect some of this slowdown may also be attributable to a general market slowdown in China's economy. Looking forward, we like that EL remains focused on growth in China, and the company has recently introduced a new brand, Osiao, to solely focus on "the unique needs of Asian skin."

- **What's a realistic long-term operating margin goal?** EL's gross and operating margins have expanded considerably since the start of the current restructuring program (FY09), with gross margin up 500 bps and operating margin up 720 bps. With one year left in the program, many investors wonder how much more might be left in terms of margin expansion for EL. We see the two big areas for gross margin improvement as (i) the benefits from the current SAP deployment come through and (ii) more positive pricing can be taken given the high level of brand loyalty for many of EL's businesses. With respect to SAP specifically, EL has offered that the deployment is a net expense in FY13, and will be a net benefit in FY14, but the company has not offered any specifics with respect to longer-term savings to come from SAP. In addition to gross margin expansion, we expect EL will realize more leverage from its advertising dollars and improve its indirect procurement in the coming years. All in, we are confident that EL should be able to generate at least 50-100 bps of annual operating margin expansion for the next several years.

Foods (GICS) | Tobacco (Citi)
Japan

Company Focus

Japan Tobacco (2914)

Impressive Growth Potential

- **Company Update**

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Buy	**1**
Price (19 Nov 12)	¥2,411
Target price	¥3,000
Expected share price return	24.4%
Expected dividend yield	2.5%
Expected total return	**26.9%**
Market Cap	¥4,591,255M
	US$56,473M

Price Performance
(RIC: 2914.T, BB: 2914 JP)

- **What makes JT a Champion** — JT is the No. 3 cigarette company globally, with advantages over its peers in terms of brand power and regional breakdown. It owns the global No. 2 brand (and No.1 sub-premium brand) Winston. Sales volume has been rising, with 2011 volume of 130.7bn units, 3.7x the level seen in 2000. Winston sales account for 25% of total volume. The Winston brand allows JT to take advantage of both downtrading in Western Europe (to sub-premium from premium) and uptrading in emerging markets (from low- and medium-priced brands to sub-premium). In addition, JT has high exposure to Russia (the world's No. 2 cigarette market) and Japan (the world's No. 5 market), where consumption is high and prices are low. Tax hikes and voluntary price increases are likely in these areas, which could accelerate JT's growth.

- **What makes JT a World Champion** — 53% of JT sales come from Japan, with Europe at 15%, Russia and other CIS nations at 14%, and Asia/Middle East and other nations at 18%. In 2011 overseas sales (dollar base) rose 11% YoY, driven by the CIS (+14%) and Asia/Middle East (+9%). JT has top market share in Japan (55%), Russia (37%), and Taiwan (38%), giving it pricing power in these areas.

- **JT's growth outlook** — Over the next three years, we look for sales CAGR of 4% and EBIT CAGR of 11%.

- **JT's cash usage** — JT plans to raise its dividend payout ratio from 30% of net income in FY11 to 40% by FY13 and then to 50% by FY16 at the latest. We forecast a doubling of DPS over the next three years. In addition, should the Japanese government divest itself of JT Holdings (it owns 17% of outstanding shares), JT plans to buy back ¥250bn in own shares, with further buybacks likely thereafter.

- **Buy rating** — Our rating is Buy, and JT is also one of Citi's top picks in the global cigarette sector due to its impressive growth potential (please see our February 16 report Japanese Tobacco in a Global Context - JT's global growth potential). Our DCF-based target price is ¥3,000. We use earnings forecasts for the four years from FY3/13 through FY3/16 to derive a theoretical share price of ¥3,010, on which we base our target price. We assume a 3% risk-free rate, a 5% equity risk premium, a beta of 1.2, a 31% tax rate, and terminal growth of 0%, producing WACC of 6.9%.

Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/11A	2,059,365	-66.4	401,321	35.4	19.5	385,242	50.9	243,315	75.7	127	19.0
3/12A	2,033,825	-1.2	459,181	14.4	22.6	441,355	14.6	320,884	31.9	168	14.4
3/13CE	2,120,000	4.2	483,000	5.2	22.8	na	na	318,000	-0.9	167	14.4
3/13E	2,127,000	4.6	504,800	9.9	23.7	491,000	11.2	333,800	4.0	174	13.8
3/14E	2,230,500	4.9	574,800	13.9	25.8	564,000	14.9	391,000	17.1	204	11.8
3/15E	2,285,500	2.5	619,900	7.8	27.1	614,100	8.9	430,600	10.1	225	10.7

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

What Investors Are Asking

- **Why did JT change the name of the global No. 4 brand to Mevius from Mild Seven?** A sudden change in brand name is unusual in consumer goods. We can think of three reasons why JT may have adopted this strategy. First, sales are skewed to Japan and Taiwan, so Mild Seven was seeing the largest rate of decline among global top 10 brands. As such, JT may have seen limits to its growth. Second, there are regulations on brand names themselves in Europe, and it looked possible that similar regulations in other regions could impact the Mild Seven name. Finally, JT has long desired a new global premium brand. JT plans to roll out its new design for the brand in early November (the name will remain Mild Seven at that point), followed by the actual name change the following February. Prior to this decision JT did surveys in several countries including Japan, and it says this research revealed that Mevius was better received than Mild Seven. Loyalty to cigarette brands depends on taste, design, and brand name, and it appears that Mild Seven smokers put a high priority on taste and design. JT intends to make every effort to inform consumers (via direct mail, ads in smoking areas, etc.) that the name will be Mevius but the taste and design will not change. Accordingly, we think there is little risk of a decline in market share after the brand name is changed. We note that BAT has changed the name of several of its brands like this, with little loss of share.

- **Might there be voluntary price hikes in Japan?** JT has long said that it wanted to price Mild Seven at the same level as Marlboro, and this strategy is unlikely to change even when the name switches to Mevius. If Mevius receives firm support from smokers, we think JT may raise its price. Also, Japan will raise its consumption tax in April 2014 and then again in October 2015. We believe JT may raise the price for this brand by more than for other brands when the consumption tax is hiked. JT announced a new medium-term plan for 2012-2014 in April of this year, in which it spelled out a strategy of growing EBITDA in the domestic cigarette business by hiking prices. At that time, it was unclear what would happen with the consumption tax. Therefore, we do not feel that the forecasts in this plan factor in price hikes accompanying the consumption tax hike.

- **What are the future profit drivers?** We believe they are price hikes in Russia and Japan. The Russian market was worth 369bn cigarettes in 2011, making it the second-largest market in the world behind China. Sales of foreign cigarettes are restricted in China, so for overseas cigarette companies Russia is effectively the No.1 market globally. In 2011 the average retail price for a pack of cigarettes was $0.90 in Russia. Based on per-capita GDP, the price for a pack of cigarettes in Russia should be around $2.60. Since the retail price is low from a global perspective in Russia, price sensitivity there is just 0.2. In FY12 we believe Russia will account for 23% of overall profits. Although Japan is a developed economy, prices for cigarettes are low, unlike prices for other consumer staples. JT is in a unique situation in this regard. We estimate that Japan will account for about 41% of JT profits in FY12, but the average retail price for a pack of cigarettes is just ¥410 ($5.20). Over the next three or four years, we anticipate a sharp rise in prices. We note that based on per-capita GDP, the price for a pack of cigarettes in Japan should be c¥600 ($7.50).

Personal Products (GICS) | Home and Personal Care (Citi)
Europe | France

Company Focus

■ Company Update

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Neutral	**2**
Price (19 Nov 12)	€100.20
Target price	€97.00
Expected share price return	-3.2%
Expected dividend yield	2.2%
Expected total return	**-1.0%**
Market Cap	€60,905M
	US$77,614M

Price Performance
(RIC: OREP.PA, BB: OR FP)

L'Oréal (OREP.PA)

Because It's Worth It

- **What makes L'Oréal a Champion** — L'Oréal is the global leader in cosmetics/beauty, with a particular strength in hair-care, especially colouring, and make-up. L'Oréal's traditional differentiator is its focus on R&D (L'Oréal spends more than 3% of sales on R&D), as well as its investments in A&P (30% of sales). This is reflected in its strong position in Professional Products (36% market share in the US and 28% in Europe). Over time it has generally gained share in most of its markets. For example in 2011, the global cosmetics market grew 4.4%, but L'Oréal outperformed this, growing 5.1%.

- **What makes L'Oréal a World Champion** — Of the overall cosmetics market (excluding soaps, razors, and toothpaste) L'Oréal has a 14% share in N America and a 20% share in Europe. It also has strong positions in the key emerging markets. In hair-colour it has a 45% share in North America and 36% in Europe, making it the undisputed Champion. In 2011, 38% of sales were from Europe, 22% from the US and 38% from the Rest of the World.

- **L'Oréal's growth outlook** — On a 5-year view, (ie from 2011-2016E), we are forecasting compound sales growth of 5.8%, growth in adjusted EBIT of 5.9% and 7.9% EPS growth. We expect the fastest growth to come from Asia, and from the Luxury Products division (9.5% CAGR EBIT growth). We expect the Consumer division to post 6.1% CAGR EBIT growth over this period.

- **Cash usage** — L'Oréal's R&D is relatively high for a consumer company at over 3% of sales, and we expect it to spend more than €900m on capex each year. The company is cash positive, and we expect more than €2bln of cash on the balance sheet by year end. The company pays out about 45% of adjusted net income in the form of dividends, but we're not expecting any other form of return to shareholders before the situation with respect to Nestlé becomes clearer – it is possible that L'Oréal will end up buying back some or all of this stake (31% of the company).

- **Neutral rating** — We rate L'Oréal Neutral despite its strong ability to drive sales growth in mid to high single digits, with an increasing weight of emerging markets in the mix. However, the valuation now looks fair to us and we think the discount relative to history is justified due to the comparatively slower growth profile of the company, which has higher European exposure than cosmetic company peers.

L'Oréal (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	19,496.0	20,343.1	22,287.5	23,234.4	24,439.4
Net Income (€M)	2,370.0	2,582.9	2,860.7	3,063.9	3,311.8
Diluted EPS (€)	4.01	4.32	4.79	5.13	5.54
Diluted EPS (Old) (€)	4.01	4.32	4.79	5.13	5.54
PE (x)	25.0	23.2	20.9	19.5	18.1
EV/EBITDA (x)	14.6	13.7	11.7	10.6	9.6
DPS (€)	1.80	2.00	2.20	2.40	2.60
Net Div Yield (%)	1.8	2.0	2.2	2.4	2.6

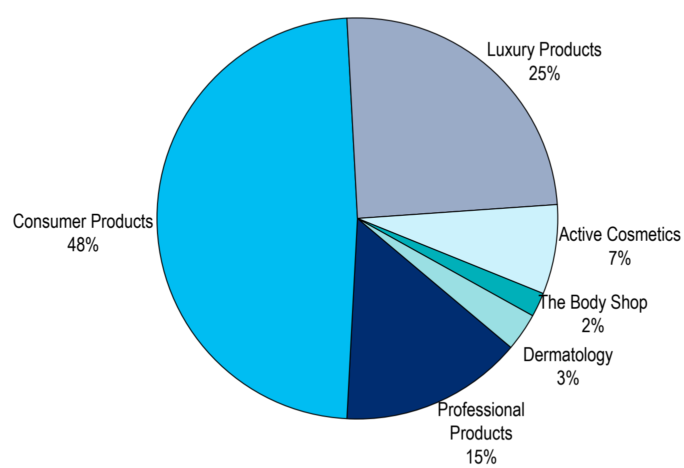
What Investors Are Asking

- **Can L'Oréal sustain its premium growth rate?** L'Oréal's premium rating has historically been supported by premium growth, relative to the cosmetics market and relative to the broader staples universe. However, over the past three years, the company's LFL growth premium against the category has diminished to ~1.5x from a historical rate closer to 2.0x. Following quite a sharp slowdown in Luxury sales momentum in 3Q12, due to headwinds in key markets in Asia and Southern Europe, as well as a potentially a lighter tailwind in North America, investors are asking whether the company can deliver the premium growth rate required to justify its premium valuation.

- **Can L'Oréal drive margin expansion without stifling top-line momentum?** A perennial frustration for many investors has been the lack of operating leverage in the model. Further, there is little visibility on any internal cost savings targets and the perception remains that L'Oréal has limited appetite to aggressively tackle its significant administrative cost base. Without more impressive top-line momentum, investors ask can L'Oréal deliver peer-leading earnings growth?

- **What will happen to Nestlé's stake in L'Oréal?** Nestlé has stated that it will make a decision on its 30% stake in L'Oreal in 2014. This coincides with the expiry of the lock-up agreement between Nestlé and the Bettencourt family in April 2014. Under this agreement Nestlé cannot increase its stake in L'Oreal until six months after the death of Mme Bettencourt, with both parties having to give each other the right of first refusal if they want to sell. We believe that it is most likely that Nestlé will either retain its stake or sell it. Although Nestlé has previously said that there are synergies with L'Oréal, particularly from an R&D perspective, we believe that overall the potential synergies between the two businesses are relatively limited given that only around 50% of L'Oréal's business is sold through mass market distribution channels. It is also unclear whether L'Oréal fits into Nestlé's long-term strategy of focusing on Health and Wellness. We believe it is quite possible that L'Oréal buys back some or all of the stake, given the roughly €2 bln of cash on its balance sheet.

Figure 19. L'Oréal – Breakdown of Operating Profit, FY12E



Source: Citi Research estimates

Company Focus

■ Company Update

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Neutral	**2**
Price (16 Nov 12)	US$65.97
Target price	US$69.00
Expected share price return	4.6%
Expected dividend yield	1.8%
Expected total return	**6.4%**
Market Cap	US$13,393M

Price Performance
(RIC: MJN.N, BB: MJN US)

Mead Johnson Nutrition Company (MJN)

A True Giant in the Global Pediatric Nutrition Market

- **What makes MJN a Champion** — Mead Johnson Nutritionals is No1 globally in pediatric nutrition. Mead Johnson has food-industry leading gross and operating margins of 63% and 24%, reflecting the premium nature of the pediatric nutrition category as well as the strong equity embedded in Mead Johnson's brands, which we believe are the strongest within our branded food coverage and amongst the best globally. This is exhibited in Mead Johnson's outstanding 2012E ROIC rate of 65%, tops among the large-cap packaged food group.

- **What makes MJN a World Champion** — Mead Johnson's top tier margin structure is coupled with its significant international exposure as 65% of the firm's sales come from developing markets in Asia and Latin America, headlined by China, Mexico, the Philippines, and Thailand. This means the company can grow long-term sales at above the average rate for the peer group. The firm has No1 market shares in many of its major markets including China (15%), the US (37%) and the Philippines (44%). China, represents the firm's largest geography and generates over $1 billion in sales for the company. The business has grown at a CAGR of 31% since 2001.

- **MJN's growth outlook** — Our long-term projections call for top line growth of 7%, EBIT growth of 9%, and EPS growth of +8-10%, driven predominantly by Mead Johnson's significant emerging market exposure.

- **MJN's cash usage** — Mead Johnson has a dividend yield of 2% with a 38% payout ratio and we expect the payout ratio to remain roughly flat over time. Near term, we expect further capex in EMs, headlined by a new $325 million production facility in Singapore, likely to become operational in 2014.

- **Neutral rating** — We rate Mead Johnson Neutral. We believe that Mead Johnson offers investors the defensive quality of the branded food sector coupled with the significant long-term growth opportunities associated with the company's developing market exposure. The firm's defensive characteristics should prove especially important in the current environment as infants who are not on breast milk must consume infant formula, which makes the category highly resilient in economic downturns. Critically, there remains considerable room for organic growth within the overall Chinese pediatric nutrition market as more citizens enter the middle class and begin to utilize infant formula. Per capita consumption levels of infant formula in China remain well behind those found in the US (47 kg/birth US vs. 20 kg/birth Asia). However, we believe the valuation looks up with events.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.76A	0.72A	0.78A	0.52A	2.79A	2.79A
2012E	**0.82A**	**0.83A**	**0.71A**	**0.68E**	**3.05E**	**3.04E**
Previous	0.82A	0.83A	0.71A	0.68E	3.05E	na
2013E	**na**	**na**	**na**	**na**	**3.20E**	**3.35E**
Previous	na	na	na	na	3.20E	na
2014E	**na**	**na**	**na**	**na**	**3.55E**	**3.82E**
Previous	na	na	na	na	3.55E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

- **Can Mead Johnson reclaim lost Chinese market share?** Following years of market share gains in China, Mead Johnson lost approximately 3.5 points of share in the Chinese market from the beginning of 2012 to its lows in the middle of the year. This was caused by the double-digit pricing increase established by Mead Johnson in China to offset input cost inflation, which was not followed by competitors, who have become very promotional on the pricing front. We believe this has caused some concern for investors, given that China represents a key component of the company's growth story. Importantly, Mead Johnson regained 2 points of lost market share in 3Q12, as the firm in turn stepped up its promotions and increased focus on its trade execution. Thus, we see recent share improvements by Mead Johnson as positive, although the environment in China has become more challenging for the company.

- **Can Mead Johnson's US business resume growth?** Profitability in Mead Johnson's US business has declined in each of the past three years, as sales and volumes have been under pressure from declining US birth rates. We believe this is a function of a weak US economy, which has caused families to defer birth decisions. Thus, we believe that the US infant formula market should resume growth when the US economy begins to improve and pent-up demand is released. However, we do not see this occurring in 2012, as the US infant formula market remains under pressure, with year to date declines in sales and profits of -6% and -35% in MJN's North America/Europe segment. Moreover, given a soft US economy, we are not forecasting a robust recovery in 2013, with our forecast calling for modest +1.5% growth in both sales and profits.

- **What impact will slowing global economic growth have on Mead Johnson's business?** With 65% of its sales coming from developing markets, we believe investors are concerned regarding the impacts of slowing emerging market growth on Mead Johnson's emerging market business. The latest data suggests that slowing global economic growth is negatively impacting Mead Johnson's emerging markets, as the firm posted flat organic sales growth in its Asia/Latin America segment in 3Q12. While sales in the quarter were negatively impacted by -8 points from company-specific issues (inventory reductions in China, SAP implementation in Asia, and temporary supply disruptions in Thailand), growth is clearly decelerating from the 20%+ figures posted in 2011 and early 2012. Thus, we see Mead Johnson's emerging market growth sequentially slowing, in line with weakening macro economic conditions. Nonetheless, we continue to like Mead Johnson's growth story over the long term as emerging markets should continue to grow at solid rates due to the growth of the middle class.

Packaged Foods & Meats (GICS) | Food Manufacturers (Citi)
North America | United States

Company Focus

■ **Company Update**

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Buy	**1**
Price (16 Nov 12)	US$25.56
Target price	US$32.00
Expected share price return	25.2%
Expected dividend yield	2.0%
Expected total return	**27.2%**
Market Cap	US$45,424M

Price Performance
(RIC: MDLZ.O, BB: MDLZ US)

Mondelez International Inc (MDLZ)

Global Snacking Powerhouse

- **What makes MDLZ a Champion** — Following the October 1st separation of its North American grocery business, Mondelez is now a pure play global snacking company, with 44% of its sales coming from emerging markets, and 75% of its portfolio geared towards snacking (confections and biscuits). Within its portfolio, Mondelez has 8 global brands with sales over $1 billion.
- **What makes MDLZ a World Champion** — Overall, we believe that Mondelez should be able to grow its top line at above-average rates, as the firm is a dominant player in the fast-growing global confection and biscuit markets. The firm is the global leader in biscuits and confections and has leading shares in several emerging market regions such as Latin America (No1; 26% share), Eastern Europe (No2; 13% share), and Asia/Pacific (No3; 6% share).
- **MDLZ's growth outlook** — We see growth above the food industry average, driven by the expansion of the middle class in emerging markets, as increasing income levels are the key driver of the impulse-oriented snacking categories such as biscuits and confections. Long term we expect sales growth of +6% and EPS growth of +10%. The snacking category is highly fragmented, with several small local players competing in many of Mondelez's EMs, so we believe its global market share should grow over time, as there remains ample room for consolidation, and as the firm continues to grow organic sales at high rates.
- **MDLZ's cash usage** — Mondelez has a 2% dividend yield, owing to its 34% payout ratio. Over the next two years, we expect the dividend will remain at current levels, and do not forecast any buybacks, as we think Mondelez will likely seek to reduce its leverage, bringing its Debt to EBITDA ratio to 3.1x at the conclusion of 2013E, down from 3.5x at the end of 2012E.
- **Buy rating** — We apply a Buy rating and $32 price target on Mondelez shares, as at current prices for the stock, we do not believe the market is accurately reflecting the value embedded in this global snacking powerhouse, which derives 44% of its revenues from fast-growing developing markets, with a significant focus in the biscuits and confections categories. Our $32 price target is based upon an 18.5x multiple on 2014E earnings, as our analysis indicates that highly focused companies with significant emerging market exposure have historically been rewarded with premium valuations. At current prices, we estimate the firm is trading at a 1.7x PEG ratio, which is at the bottom of the range for companies with similar growth characteristics. See Snack Attack—Mondelez Represents a Global Snacking Powerhouse Driven by Emerging Markets—Buy.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.28A	0.35A	0.38A	0.39A	1.41A	2.29A
2012E	**0.32A**	**0.36A**	**0.37A**	**0.43E**	**1.48E**	**1.41E**
Previous	0.32A	0.36A	0.37A	0.43E	1.48E	na
2013E	**na**	**na**	**na**	**na**	**1.55E**	**1.58E**
Previous	na	na	na	na	1.55E	na
2014E	**na**	**na**	**na**	**na**	**1.75E**	**1.80E**
Previous	na	na	na	na	1.75E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

- **What impact will slowing global economic growth have on Mondelez's business?** While soft global economic growth remains a concern, Mondelez has performed well despite a weakening environment, as the firm's European and US businesses have been growing retail sales at approximately 3% over the past year based on scanner data. This is likely a function of Mondelez's snacking categories, headlined by chocolate, which has, over time, proven resilient to economic downturns. Moreover, Mondelez's developing markets business has grown sales by 13% over the past year, signaling that there remains a long runway for growth in these regions due to their low per capita consumption rates of confections and biscuits.

- **Is potential M&A part of the Mondelez story?** The global confectionary market is highly fragmented, with Mondelez's 14% market share accounting for the No1 position. As such, we see the opportunity for considerable consolidation, especially in the developing markets, where there are a number of smaller local players competing in the market. While we do not expect significant acquisition activity from Mondelez over the next 12-16 months (Mondelez will be de-levering its balance sheet following the recent separation of its North American Grocery unit), we believe that the firm is likely to be a major player in the global confection M&A market over the course of time.

- **Can Mondelez improve its operating margins?** Despite having solid gross margins of 38%, which are above average for the sector, Mondelez has the second-lowest operating margins within the US Large Cap Packaged Food group at 13% (ConAgra has operating margins of 10% and gross margins of 22%). We see opportunity for improvement in Europe, where, despite solid gross margins, Mondelez's operating margins are 400 bps below average European segment margins for its CPG peers due to an inefficient overhead structure. This is providing Mondelez with the opportunity to remove overhead costs and drive op. margin improvements over time. Moreover, we believe op margins in Mondelez's developing markets also hold upside due to the segment's robust sales growth, which should allow Mondelez to better leverage its fixed cost base over the coming years. Thus, we find the op. margin opportunity as a feature that makes an already appealing story even more attractive.

Packaged Foods & Meats (GICS) | Food Manufacturers (Citi)
Europe | Switzerland

Company Focus

- **Company Update**

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Neutral	**2**
Price (19 Nov 12)	SFr58.45
Target price	SFr60.00
Expected share price return	2.7%
Expected dividend yield	3.6%
Expected total return	**6.2%**
Market Cap	SFr188,490M
	US$199,365M

Price Performance
(RIC: NESN.VX, BB: NESN VX)

Nestle (NESN.VX)

The Global Heavyweight

- **What makes Nestlé a Champion** — Nestlé is the world's largest food company and is the market leader in categories such as coffee, infant formula, ready meals and frozen processed food. The company's long-term commitment to innovation has enabled it to deliver superior growth to peers in markets impacted by macro-economic downturns such as Western Europe through brands such as Nespresso and Nescafe Dolce Gusto. Its aim is to increase its exposure in Health, Wellness and Nutrition.

- **What makes Nestlé a World Champion** — Of all the companies featured in this report, Nestlé has the greatest geographic diversification, operating in all countries globally, with the sole exception of North Korea. Revenues are distributed; Europe (31%), North America (28%), Asia (18%), Latin America (17%), Africa (3%) and Oceania (3%). Over 40% of Nestlé's revenues are generated in emerging markets and this is expected to reach 50% within 10 years. Nestlé expects sales in Asia, Oceania and Africa to treble in 10 years.

- **Nestlé's growth outlook** —The 'Nestlé model' is to deliver 5-6% organic revenue growth and improvement in trading operating margin and underlying EPS in constant currencies. We forecast 3-year revenue and trading profit CAGRs of 6.2% and 8.0%.

- **Nestlé's cash usage** — Priorities for use of cash are to support the progressive dividend policy and for bolt-on acquisitions. Nestlé invests heavily in capex to ensure that it can capture the future volume growth opportunity in emerging markets. In addition, it believes it can use working capital to bolster its growth, by working with both suppliers and the distribution channel. We don't expect share buybacks to restart in the near term as management has indicated that it would use buybacks to prevent cash from building up on the balance sheet.

- **Neutral rating** — The attractions of Nestlé's geographic and category diversification are well understood by investors, in our view. At this point we don't see potential sources of earnings upside surprise. Given valuation is above the long-term historical average we believe a material re-rating is unlikely.

Nestle (CHF)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (SFrM)	104,619.4	83,770.4	91,592.3	97,242.3	103,324.7
Net Income (SFrM)	11,209.6	9,839.4	10,837.7	11,644.6	12,623.4
Diluted EPS (SFr)	3.31	3.08	3.39	3.64	3.95
Diluted EPS (Old) (SFr)	3.31	3.08	3.39	3.64	3.95
PE (x)	17.6	19.0	17.2	16.0	14.8
EV/EBITDA (x)	9.5	11.0	10.2	9.5	8.8
DPS (SFr)	1.85	1.95	2.10	2.30	2.50
Net Div Yield (%)	3.2	3.3	3.6	3.9	4.3

What Investors Are Asking

- **Is cash flow generation going to improve?** Nestlé has been criticized for relatively weak cash flow generation over the last 18 months. Part of this can be explained by the divestment of its remaining Alcon stake and Swiss franc strength. We believe that cash flow generation and in particular working capital will be more of a focus for the new CFO, Wan Ling Martello. However, the company has made it clear that negative working capital is not part of the Nestlé model as it wants sustainable relationships with its suppliers. Following a substantial step up in 2010-11, we expect growth in capex to moderate over the next few years. However, it will likely remain at elevated levels due to Nestlé's growth in emerging markets being driven by volume growth in its PPP (popularly positioned products) portfolio. Overall we expect cashflow generation to improve but we expect its cash conversion will remain below many of its consumer staples peers. See our recent report Consumer Staples – Cashing In On Brewers - For every $1.00 of net profit, ABI generates $1.11 of cash but Nestlé only 66¢. Shouldn't it trade on a higher P/E?

- **Can emerging market growth be maintained?** Growth in emerging markets has been very robust for Nestlé with 13% organic growth in 2011 which was maintained at the same level in 1H12. At its recent investor seminar Nestlé gave a directional target of trebling Zone AOA sales over the next 10 years which implies an 11% CAGR. We view this level of growth as sustainable due to Nestlé's bolstered presence in China through partnerships with Hsu Fu Chi and Yinlu and continued growth opportunities in markets such as Africa and India. While Nestlé is clearly not immune from a slowdown in emerging markets' GDP, the PPP focus of its business should provide insulation barring a sharp drop in consumer spending.

- **What will happen to Nestlé's stake in L'Oréal?** Nestlé has stated that it will make a decision on its 30% stake in L'Oreal in 2014. This coincides with the expiry of the lock-up agreement between Nestlé and the Bettencourt family in April 2014. Under this agreement Nestlé cannot increase its stake in L'Oreal until six months after the death of Mme Bettencourt, with both parties having to give each other the right of first refusal if they want to sell. We believe that it is most likely that Nestlé will either retain its stake or sell it. We don't expect it to increase its shareholding. Although Nestlé has previously said that there are synergies with L'Oréal particularly from an R&D perspective, we believe that overall the potential synergies between the two businesses are relatively limited given that only around 50% of L'Oréal's business is sold through mass market distribution channels. It is also unclear whether L'Oréal fits into Nestlé's long-term strategy of focusing on Health and Wellness. Given Nestlé's divestment of its Alcon stake and subsequent return of cash to shareholders, we see a similar scenario with L'Oréal post-2014 as quite likely. We believe it is quite possible that L'Oréal buys back some or all of the stake, given the roughly €2 bln of cash on its balance sheet.

Soft Drinks (GICS) | Beverages (Citi)
North America | United States

Company Focus

PepsiCo (PEP)

Despite Some Execution Challenges, PEP's Power of One Makes It a Global Powerhouse

- **Company Update**

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Neutral	**2**
Price (16 Nov 12)	US$68.31
Target price	US$74.00
Expected share price return	8.3%
Expected dividend yield	3.1%
Expected total return	**11.5%**
Market Cap	US$105,666M

Price Performance
(RIC: PEP.N, BB: PEP US)

- **What makes PEP a Champion** — PEP is a leading global food and beverage company with hundreds of brands that are sold in more than 200 countries around the world. Among PEP's largest 'billion dollar brands' are Pepsi, Mountain Dew, Tropicana, Gatorade, Lay's, Doritos, Cheetos and Quaker. Many of these brands are at or near the top in terms of market share of their respective categories in many global markets.

- **What makes PEP a World Champion** — Roughly half of PEP's sales come from markets outside the US, and an even larger portion of the company's growth is coming from emerging markets (such as Asia, Middle East, Africa and Russia) where PEP is currently achieving organic sales growth in the high single-digits. The PEP global system currently employs about 300,000 people, most of whom are located in overseas markets. Outside of the US, PEP's next largest operations are in Russia, Mexico, Canada, and the UK.

- **PEP's growth outlook** — 2012 is a 'reinvestment year' for PEP – we are forecasting a 1% decline in sales, a 6% decline in EBITDA and an 8% decline in EPS given the restructuring plan and incremental advertising spending announced in February 2012. However, management's plan is that, as a result of its higher reinvestments in 2012, PEP will have long-term targets of mid-single-digit growth in revenues, ~6-7% in EBITDA and high-single-digit EPS growth starting in 2013.

- **PEP's cash usage** — PEP currently holds about $4 billion in cash, which is being used to fund its share repurchases and dividends (more than $6 billion combined expected for the year). Although PEP is currently undergoing a restructuring phase that involves a $300 million reduction in capex for the year (to 4.5% of sales), the company has made it a focus to spend more on marketing investments (incremental $500-$600 million for the year).

- **Neutral rating** — With PEP's shares trading at roughly 16x our 2013 EPS estimate, we find the stock to be fully valued given the company's still-declining market shares across the majority of its product portfolio (despite the increased advertising budget in 2012). However, we do note that share losses have become more modest in recent months, which leaves room for debate about whether PEP can ultimately generate stronger market shares over time.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.74A	1.21A	1.31A	1.15A	4.40A	4.40A
2012E	**0.69A**	**1.12A**	**1.20A**	**1.06E**	**4.07E**	**4.06E**
Previous	0.69A	1.12A	1.20A	1.06E	4.07E	na
2013E	**na**	**na**	**na**	**na**	**4.40E**	**4.41E**
Previous	na	na	na	na	4.40E	na
2014E	**na**	**na**	**na**	**na**	**4.74E**	**4.79E**
Previous	na	na	na	na	4.74E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

Given PEP's struggles over the last 5 years, many investors have become impatient (and some have called for a change in management and/or a split of the company).

- **Can PEP's Power of One strategy survive or will the company's beverages and snacks businesses eventually be split apart?** We believe that PEP's Power of One strategy does make sense and that the company should not be split up. Especially with PEP's success in the faster-growing smaller-format channel, we think the company is better positioned for market share gains when leveraging its beverages and snacks businesses off one another.

- **How will PEP expand its geographical footprint in emerging markets?** Currently, there are very few emerging markets where PEP enjoys a market share advantage over KO in the beverage segment, although when combined with its snacks business, PEP is a larger company in total in many of these markets – and therefore should enjoy considerable economies of scale, especially in terms of distribution. While the company is focused primarily on its turnaround in North America, PEP must also keep an eye on emerging territories if it wants to continue to grow its business. If PEP wants to keep up with KO in these markets, we believe it will have to at least match KO's investments in the beverage category and, where possible, leverage any benefits it can bring to bear from its large snacks business.

- **What will PEP do to resuscitate its market shares?** As mentioned above, PEP's market shares continue to decline across the majority of categories in the US, although we do note these declines have become more modest in recent periods, likely due to the company's additional advertising spending. While we do see share declines continuing to improve with incremental marketing investments, ultimately, it comes down to whether or not PEP can execute across its 12 'focus' brands. We believe the current management team has bought enough time to properly execute a nice turnaround story but we remain cautious on whether the results will meet expectations.

Distillers & Vintners (GICS) | Beverages (Citi)
Europe | France

Company Focus

Pernod-Ricard (PERP.PA)

One of the Best Long-Term EM Plays in Staples

- Company Update

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Buy	**1**
Price (19 Nov 12)	€83.10
Target price	€101.00
Expected share price return	21.5%
Expected dividend yield	2.0%
Expected total return	**23.5%**
Market Cap	€22,047M
	US$28,096M

Price Performance
(RIC: PERP.PA, BB: RI FP)

- **What makes Pernod a Champion** — Pernod is the No. 2 spirits company globally, with a strong presence in nearly all international categories, except Tequila and Bourbon. It owns 10 of top-100 spirits brands in the world by volume. Pernod has a very strong position in emerging markets in Scotch and Cognac, which are relatively uncompetitive categories, given supply constraints. Pernod's EM distribution network and broad brand portfolio represent high barriers to entry for the smaller spirits players.

- **What makes Pernod a World Champion** — Pernod's business is well diversified geographically, with less than 30% of profit in W Europe, just under 20% in North America and around 50% in EMs. Pernod is the leading international player in China (about 55% share in Scotch, and about 40% in Cognac), India (10% share in Indian whisky, but around 40% in the premium segment) and Eastern Europe. It is the No.2 western spirits company in LatAm.

- **Pernod's growth outlook** — We forecast 8-10% EBIT CAGR for the next three years, driven by Asia (mainly China and India), which by FY14E should account for almost 1/2 of group profit. We expect double-digit EPS growth.

- **Pernod's cash usage** — Pernod has done three large transformational deals in the last decade (Seagram in 2001, Allied Domecq in 2005 and V&S/Absolut in 2008) and has consistently run a fairly leveraged balance sheet as a result. We expect organic growth and M&A to continue to be the preferred use of cash, but with net debt/EBITDA around 4x (June-12) and management committed to maintaining an investment grade credit rating, we see limited scope for large deals in the current environment. However, with about €1.5bn of debt-funded M&A fire-power (on our estimates), we wouldn't be surprised to see bolt-on deals in EMs or in the US over the next 12-24 months.

- **Buy rating** — We regard Pernod as one of the best EM plays among large cap staples. In Asia it is expanding margins consistently and sustainably (unlike many other companies), in addition to growing sales. In the short term, however, we expect a bit of a slowdown in EM top line growth, given the macro.

Pernod-Ricard (EUR)

Year to 30 Jun	2011A	2012A	2013E	2014E	2015E
Sales (€M)	7,643.0	8,215.0	8,754.5	9,295.2	10,025.7
Net Income (€M)	1,092.0	1,200.0	1,289.2	1,462.3	1,672.5
Diluted EPS (€)	4.12	4.53	4.85	5.50	6.29
Diluted EPS (Old) (€)	4.12	4.53	4.85	5.50	6.29
PE (x)	20.2	18.4	17.1	15.1	13.2
EV/EBITDA (x)	15.8	14.0	12.7	11.5	10.2
DPS (€)	1.44	1.58	1.67	1.90	2.15
Net Div Yield (%)	1.7	1.9	2.0	2.3	2.6

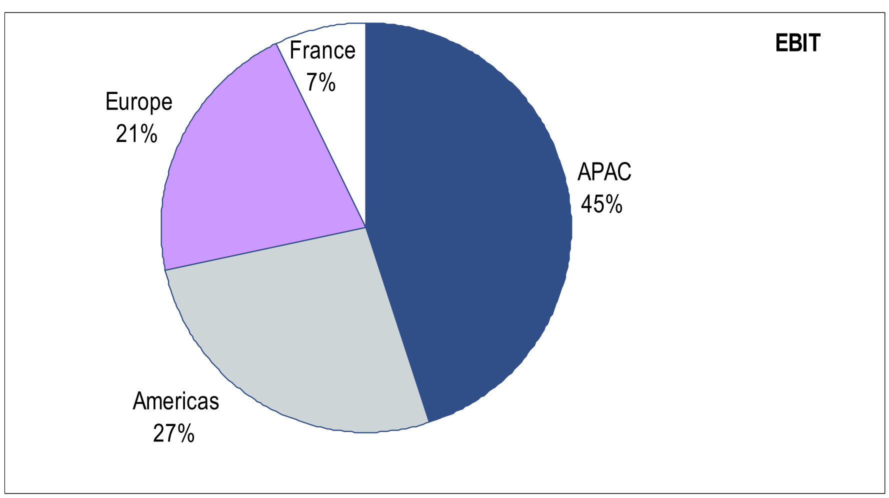
What Investors Are Asking

- **Will China slow?** This is investors' biggest concern at present, given that (1) in the past couple of years China has driven about half of Pernod's EBIT growth and (2) luxury sales have slowed sharply over recent months. Besides the inventory-related slowdown management has been guiding to consistently (they say 15% sales growth is sustainable for the Martell brand globally going forward), we don't expect a sharp cyclical downturn for western spirits in China. About 2/3 of the growth in Cognac is coming from price/mix, which we think will remain strong given: (1) the category's pricing power, (2) a favourable backdrop created by significant price increases in baijiu over recent years and (3) that Cognac is an important face-giving mechanism in China. Volumes should be resilient too, given that Cognac is supplied to customers and distributors "on allocation", which in theory provides a buffer to potential demand slowdown. The biggest risk, in our view, could be distributors destocking, but we believe that inventory levels aren't high and companies now have better visibility on this than they did in 2008/09.

- **Will Pernod's cash flow improve?** We think the answer is "not materially in the short term". Pernod's cash generation (and degearing) has been held back in the past couple of years mainly by investment in strategic inventories and capex. We don't think this will change on a 2-year view, unless Absolut growth accelerates, which is unlikely given the competitive environment in US vodka.

- **What's the risk to FY13 earnings?** Consensus seemed high to us a few weeks ago at 8.7% organic EBIT growth for FY13 (essentially in line with FY12 growth rate), but we believe expectations have come down since the 1Q13 sales release in October, given the slowdown in some EMs and management's guidance of 6% organic EBIT growth for the full year. We forecast +6.9% and we believe downside risk is limited as we would expect management to temporarily reduce A&P, if the environment were to deteriorate further. This is what happened in 2009 and it is hard to argue that the temporary cut in marketing spend back then had any negative impact on the health of Pernod's brands. Besides organic growth, we believe consensus forecasts have also caught up with recent FX movements and tax changes in France.

Figure 20. Pernod Ricard – Split of EBIT, FY13E



Source: Citi Research estimates

Tobacco (GICS) | Tobacco (Citi)
North America | United States

Company Focus

■ **Company Update**

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Neutral	**2**
Price (16 Nov 12)	US$84.93
Target price	US$98.00
Expected share price return	15.4%
Expected dividend yield	4.1%
Expected total return	**19.5%**
Market Cap	US$141,880M

Price Performance
(RIC: PM.N, BB: PM US)

Philip Morris International (PM)

The Leader in the Global Cigarette Industry

- **What makes PM a Champion** — PM is the global leader in the cigarette industry. Operating in over 180 markets, the company owns three of the world's largest cigarette brands: Marlboro, L&M and Bond Street. The company's Marlboro brand alone is over 2x bigger than its next biggest competitor brand and, as a result, PM holds a 28% share of the global cigarette market (excluding the US, China and duty free). The company has a balanced portfolio of cigarette brands, which span the price ladder, and are led by Marlboro (which boasted a 9.2% share of the category in 2011). Over time we expect that PM's market share trends should continue to improve in the faster-growing non-OECD markets, which should also favourably impact the company's operating margins in these geographies, as emerging middle-class consumers trade up to more premium-priced products.
- **What makes PM a World Champion** — The strong and balanced market shares that PM boasts in both OECD and non-OECD markets reflect PM's well-balanced portfolio. The company generates roughly 34% of its EBIT in the EU, 24% in Asia-Pacific, 35% in EEMA, and the remainder in the Americas. What is more this geographic diversification continues to evolve, as PM's reliance on the EU has fallen steadily (with EBIT contribution down from 50% in 2005). PM is the dominant competitor in the developed OECD markets, with a 36.5% share in 2011 (up from 34.6% in 2009). It is also the market share leader in emerging non-OECD geographies, with a 23.8% share (up from 23.7% in 2009). This should prove to be a significant advantage as cigarette volume trends are far better in non-OECD markets.
- **PM's growth outlook** — On a local currency basis, the company aims to deliver mid-single-digit revenue growth and double-digit earnings growth over the medium term.
- **PM's cash usage** — PM returns a majority of its cash to shareholders. The company has a 65% dividend payout ratio target. The company buys back large quantities of stock. Its current run rate is about $6 bln a year (~4% of mkt cap)
- **Neutral rating** — PM's market share dominance and growth opportunities in faster-growing emerging markets are a clear competitive advantage. However, we find the shares to be fully valued, as the stock is trading at roughly 15x our FY13 EPS estimate. This falls at the high end of the stock's historical trading range (of 10x to 16x).

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.06A	1.34A	1.37A	1.10A	4.88A	4.88A
2012E	**1.25A**	**1.36A**	**1.38A**	**1.23E**	**5.21E**	**5.21E**
Previous	1.25A	1.36A	1.38A	1.23E	5.21E	na
2013E	**na**	**na**	**na**	**na**	**5.91E**	**5.81E**
Previous	na	na	na	na	5.91E	na
2014E	**na**	**na**	**na**	**na**	**6.58E**	**6.43E**
Previous	na	na	na	na	6.58E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

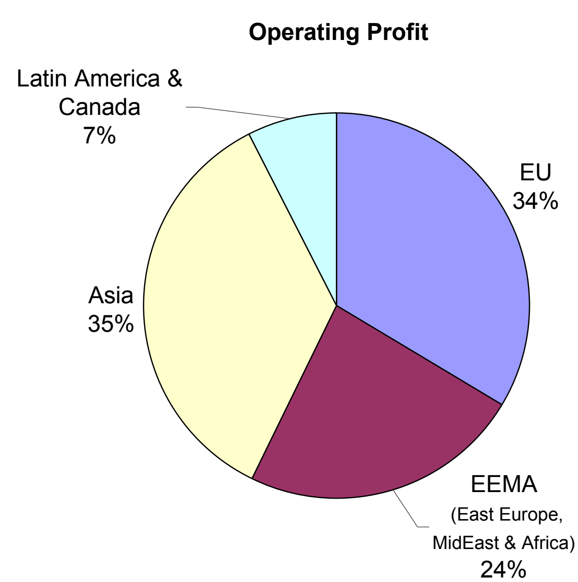
What Investors Are Asking

- **Is there a risk of plain packaging in the EU?** A number of EU countries (including the UK and France) are considering the introduction of plain packaging for tobacco products. Furthermore, the EU is currently working on revisions to its Tobacco Products Directive (which may be published in late 2012) and this will probably include product packaging changes. These potential changes continue to be a concern for the industry given the deterioration in EU volumes (which are projected by the company to decline approximately 6% in 2012).

- **Is PM's pricing power coming under pressure?** In developed markets where the cigarette industry is in structural decline, pricing is the most important component of the sales growth algorithm. As cigarette prices in developed markets continue to reach new highs, cigarettes may become cost prohibitive for consumers, especially in Western Europe where the consumer is under pressure. However, PM is still achieving good pricing variance, and we expect that to continue over time.

- **How much growth opportunity exists in Asia?** The Asia Pacific region boasts some of the fastest-growing cigarette markets in the world, with the Philippines posting 3% volume growth YTD in 2012, while cigarette volumes in Indonesia have grown a robust 7%. With PM holding the No1 share in both of these markets, the volume growth seen by the company has been robust. The opportunity for trade-up looks to be meaningful, in particular for PM where the company has dominant market shares in particular in premium-priced cigarettes, which should prove to be margin-accretive over time.

Figure 21. Philip Morris – Operating Profit by Region, 2011



Source: Company Reports

Household Products (GICS) | Home and Personal Care (Citi)
North America | United States

Company Focus

■ Company Update

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Buy	**1**
Price (16 Nov 12)	US$66.82
Target price	US$80.00
Expected share price return	19.7%
Expected dividend yield	3.4%
Expected total return	**23.1%**
Market Cap	US$182,701M

Price Performance
(RIC: PG.N, BB: PG US)

Procter & Gamble Co (PG)

PG's Growth Algorithm Captures Both Emerging Markets and Developed Markets

- **What makes PG a Champion** — PG is a global leader in the home and personal care industry, boasting among others, 25 brands that each generate over $1 billion in sales (and even one that generates over $10 billion in annual sales). PG's business extends across all price tiers – from value, to mid, premium, and super-premium, though PG skews to the higher tiers, where greater pricing power exists, and, as a result, where PG generates generally higher margins.
- **What makes PG a World Champion** — The majority of PG's sales (65%) come from non-US markets, though emerging markets represent less than 40% of overall sales. PG sells its products in 35 different categories in the US but a far fewer number of categories in many of its international markets, giving the company the opportunity to grow further as it expands its presence in many of the 180 countries in which it operates. Western Europe represents about 19% of sales, while Asia contributes 18%, Central and Eastern Europe, Middle East and Africa account for 14%, and Latin America contributes 10%. PG's manufacturing footprint includes 42 countries globally, with more facilities coming online in emerging markets over the next several years.
- **PG's growth outlook** — We estimate that PG will have 3-year CAGRs of 2-4% in revenues, ~5% in EBITDA and 6-8% in EPS. We note that over the longer term, PG expects it can return to generating high single-digit EPS growth, but in the near term, we suspect PG will fall short of this long-term goal.
- **PG's cash usage** — PG generates $10+ bln in operating cash flow each year. PG currently has about $4 billion in cash on its balance sheet, which is being used to both grow the business and return funds to shareholders in the form of buybacks ($4.0 billion expected for FY13) and dividends (~3% yield). We expect capex to be roughly 5.5% of sales (~$4.5 billion) for FY13.
- **Buy rating** — Despite PG's relatively poor performance on the top and bottom lines over the last several quarters, PG is a somewhat expensive stock relative to its peers and also its historical 10-year average. Part of the current strength may be owing to activist investor Bill Ackman's new, roughly 1% stake in PG. However, we maintain our Buy rating as we think the combination of PG's new restructuring program and its new 40/20/10 strategy (whereby PG is focused on its 40 largest and most profitable businesses, 20 largest innovations and 10 most important developing markets) should lead to an acceleration in earnings growth and, in turn, lead the stock higher.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.01A	1.09A	0.94A	0.82A	3.85A	3.85A
2013E	**1.06A**	**1.07E**	**0.91E**	**0.83E**	**3.87E**	**3.96E**
Previous	1.06A	1.07E	0.91E	0.83E	3.87E	na
2014E	**na**	**na**	**na**	**na**	**4.18E**	**4.29E**
Previous	na	na	na	na	4.18E	na
2015E	**na**	**na**	**na**	**na**	**4.48E**	**4.62E**
Previous	na	na	na	na	4.48E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

Given PG's weak operating performance of late, investor sentiment with respect to the stock is largely negative, and we sense that investors are broadly sceptical of PG management's ability to right the ship.

- **How can PG reassert itself in developed markets, when the economies in the US and Western Europe are still weak?** Developed markets still represent about 60% of sales and 70% of operating profit, and market shares have been dismal recently. Despite the poor macro environment in the recent past and currently, we would assert that the majority of PG's problems in the US and Western Europe are of the company's own doing. For instance, PG stumbled badly in summer 2010 re-staging Pantene, then had capacity constraints with its newest razor innovation early in 2011 and finally made overly aggressive pricing hikes in late 2011 across several categories. With the US the country with the broadest category set for PG, and with PG more focused than ever on not just the top tier in these categories, but the mid-tier as well (so as to not lose out to cheaper products and also to maintain an option for trade-up), we think PG can turn the tide on its shrinking market shares in the US.

- **It has been several years since PG has had a major breakthrough innovation. When might we expect to see something meaningful?** We think the recent innovation of Tide Pods counts as a major innovation, and we think it's off to a good start. Indeed, we are optimistic that this product has already begun to transform the laundry category, and we hope that the early success of Tide Pods can boost PG's momentum and morale when it comes to the company's ability to innovate. With PG spending over $2 billion annually on R&D, we are optimistic that there are major new innovations yet to come from PG.

- **Will PG sell any more businesses, or could the whole company be broken up?** With Ackman's investment, the issue of either breaking up the company and / or selling more businesses has arisen anew. We continue to believe that PG largely in its current form makes the most sense, and have a hard time arguing for a breakup. That said, even before Ackman, and still today, we think some businesses may best be pruned (just as we thought about Pringles prior to its divesture in FY12). Namely, we view pet food, Duracell and Braun as the businesses in PG's portfolio currently that might represent the least-good fits both from a strategic perspective as well as from a financial attractiveness perspective.

Brewers (GICS) | Beverages (Citi)
Europe | United Kingdom

Company Focus

- **Company Update**

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Buy	**1**
Price (19 Nov 12)	£26.25
Target price	£30.00
Expected share price return	14.3%
Expected dividend yield	2.4%
Expected total return	**16.7%**
Market Cap	£41,859M
	US$66,497M

Price Performance
(RIC: SAB.L, BB: SAB LN)

SABMiller (SAB.L)
The Global Frontier Market Brewer

- **What makes SAB a Champion** — SAB is the No. 2 brewer globally, with a particularly strong franchise in frontier markets. More than 90% of its volumes come from markets where it is either No1 or 2. One of the characteristics of SAB is its focus on local brands in every significant market in which it operates, which contrasts with the usual approach from global companies of focusing on a handful of global brands. In emerging/ frontier markets it is committed to growing the beer category by ensuring it can offer affordable products – for example, beers made from sorghum in Africa – as well as capturing the economics of local and international premium brands. During the past 5 years (FY07-12), its organic volume growth has been 2.4% for lager, with 7.0% organic sales growth and 8% organic EBITA growth.

- **What makes SAB a World Champion** — SAB is the most diversified brewer geographically. For FY13, we estimate 31% of EBITA will come from LatAm, 20% from South Africa, and about 12% each from Australia, Africa ex SA, the US and Europe. SAB dominates many of its key markets, for example Colombia and South Africa. Its track record in developed markets is poor, however.

- **SAB's growth outlook** — Over the next three years (FY12A-15E,) we look for organic volume of 3%, sales of 6%, EBITA of 9% and EPS (not organic) of 12%.

- **SAB's cash usage** — SAB coverts about 90% of its earnings into free cash flow. This is low compared with the other brewers (because of its large capital investments in Africa in particular) but is quite strong relative to most other consumer staples names. Following the acquisition of Foster's, it is paying down debt, so we don't expect any returns to shareholders beyond dividends. The payout ratio is traditionally about 40-42%, giving a 2013E yield of 2.4% at current prices.

- **Buy rating** — Our rating is Buy because of SAB's best-in-class growth, which in turn derives from its geographic exposure, enhanced by its marketing ability. For a number of quarters management has been highlighting the risks to margins from downtrading in its biggest European markets (notably Poland and Romania) so we believe this is probably in the price by now. Our most recent big reports are SABMiller (SAB.L) - Grab a SAB — It's Miller Time! (which upgraded the stock to Buy) and SABMiller (SAB.L) - Margin-ally Disappointing, But We Retain Buy (which explained why we were still optimistic despite the FY12 results.) We think that away from Europe, the margin progression will remain strong despite the macro slowdown.

SABMiller (USD)

Year to 31 Mar	2011A	2012A	2013E	2014E	2015E
Sales ($M)	19,408.0	21,760.0	24,512.1	25,968.3	27,708.6
Profit Before Tax ($M)	4,491.0	5,062.0	5,588.7	6,263.3	7,060.6
Diluted EPS (¢)	190.3	212.5	234.8	261.9	294.0
Diluted EPS (Old) (¢)	190.3	212.5	234.8	261.9	294.0
PE (x)	21.9	19.6	17.8	15.9	14.2
EV/EBITDA (x)	12.9	12.5	11.7	10.6	9.5
DPS (¢)	81.0	91.0	99.5	111.1	124.8
Net Div Yield (%)	1.9	2.2	2.4	2.7	3.0

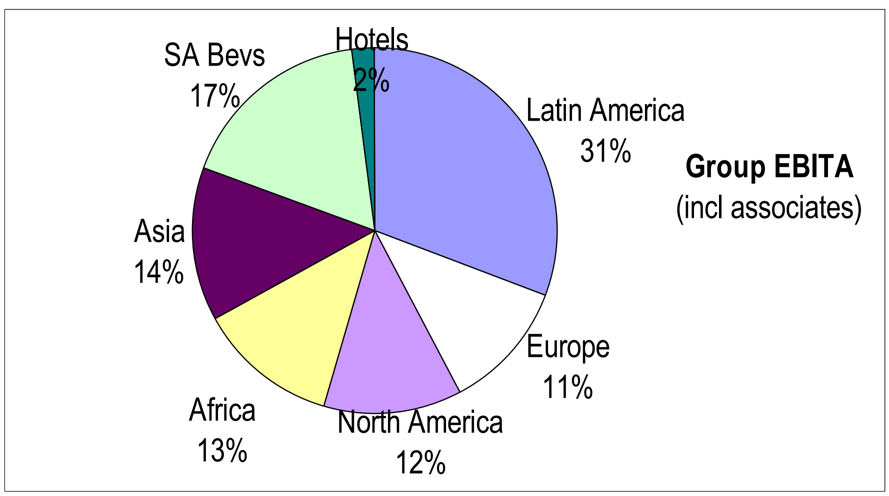
What Investors Are Asking

- **Will the slowdown in EM GDP slow volume trends? If so, will margins be affected?** A number of the World Champions have recently reported slowing sales in some EMs and furthermore Citi economists believe that in many EMs GDP growth rates will continue to slow during the rest of this year, due partly to a reduction in commodity prices. Partly as a result, we cut our estimate of FY13 volume to + 3.6% from 4.4% on Oct 19. (See SABMiller) For us the central question for investors is whether this deceleration will drive a material worsening of margins. We believe it won't , and this is why we retain our Buy rating. We are optimistic about this because we believe management will be able to hit its targets through revenue management (via price, mix and changes in packaging), and lower-than-feared input and energy costs.

- **When will trends in Australia improve?** We've always been quite skeptical concerning the Australian acquisition, believing the company over-paid. Trends continue to be very weak, with LFL sales at -8% in the September quarter. Even before SAB bought Foster's the company was losing share within beer (and beer within alcohol), with volumes falling from 9.7m HL in FY05 to 8.8m HL in FY11. However, management has said that its marketing programs are ready to roll for the peak season (Nov-March) and therefore they hope to be able to report better results in 1H next year.

- **Will the recent strife affect demand in S Africa?** We think the strikes in the S Africa mining industry will have a fairly modest impact on beer demand as few consumers were involved. However, the transport strikes might be more damaging, as they may have reduced supplies coming to SAB's breweries (e.g. of bottles). The effect on downstream distribution is likely to be mild, as SAB's truckers are generally self-employed, owning their own trucks.

Figure 22. SAB – Split of Group EBITA (Including Associates), FY13E



Source: Citi Research estimates

Hypermarkets and Supercenters (GICS) | Retailing - Broadlines (Citi)
North America | United States

Company Focus

■ **Company Update**

Deborah L Weinswig
+1-212-816-1860
deborah.weinswig@citi.com

Buy	**1**
Price (16 Nov 12)	US$68.03
Target price	US$82.00
Expected share price return	20.5%
Expected dividend yield	2.3%
Expected total return	**22.9%**
Market Cap	US$228,679M

Price Performance
(RIC: WMT.N, BB: WMT US)

Wal-Mart Stores Inc (WMT)

WMT Packs a Punch in the Heavyweight Division

- **What makes WMT a Champion** — WMT is the world's largest retailer, and a leader in the US with ~10% total retail market share. WMT drives traffic and sales with a broad assortment and everyday low prices (EDLP). The company can then realize greater leverage and reduce expenses, with a portion of the savings funneled back to customers to repeat the productivity loop in a virtuous cycle. WMT is especially well positioned in terms of our "Empty Pockets" theme for 2H12. We expect the company to attract a broader base of customers that are looking to save money on non-discretionary purchases, especially as it gets more aggressive on price investments, with $6 bln announced through 2016.
- **What makes WMT a World Champion** — WMT International represents 28% of total WMT sales and serves as a growth engine for the company. International spans 26 countries, and all markets except China outperformed in 1H12. While International's returns have lagged those of the total company, the division is targeting +100-200 bps of ROI improvement by 2015, driven by EDLP, better merchandising, and global leverage. Brazil and China are key potential contributors: 100 bps of leverage in those countries translates to 20 bps of International ROI lift. Finally, WMT has significant global sourcing opportunities, with potential over time to increase penetration to 70% of COGS, up from ~30%.
- **WMT's growth outlook** — We expect WMT to generate strong top line growth with a 3-year CAGR of +5%, including accelerating US comp store sales of +2.3% in 2012E, +2.2% in 2013E, and +2.8% in 2014E. The roll-out of 500+ small format stores and improvements in e-commerce should contribute, and WMT International should continue to drive aggressive but disciplined growth abroad. We also expect EPS to achieve a 3-year CAGR of +11%.
- **WMT's cash usage** — WMT aims for disciplined growth by keeping capex and expenses in check. The company guided 2013 capex to be $12-13 bln, down 4% YoY. With strong expected free cash flow, we think WMT is poised to drive shareholder value through organic business growth and M&A, dividends and share repurchases. WMT achieves one of the highest ROIs in retail at nearly 20%.
- **Buy rating** — We have a Buy rating and an $82 price target, reflecting a ~15x target forward P/E multiple on our FY14 EPS estimate. Our target multiple assumes multiple expansion from current levels, driven by: 1) market share gains, 2) strong growth in International, 3) cost savings from improved global sourcing, and 4) opportunity to improve traffic and sales performance in the US Interestingly, only 12 of 28 analysts covering WMT rate the stock Buy.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.98A	1.09A	0.97A	1.44A	4.49A	4.49A
2013E	**1.09A**	**1.18A**	**1.08A**	**1.59E**	**4.94E**	**4.93E**
Previous	1.09A	1.18A	1.08A	1.59E	4.94E	na
2014E	**1.21E**	**1.30E**	**1.20E**	**1.76E**	**5.47E**	**5.39E**
Previous	1.21E	1.30E	1.20E	1.76E	5.47E	na
2015E	**na**	**na**	**na**	**na**	**6.14E**	**5.95E**
Previous	na	na	na	na	6.14E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

What Investors Are Asking

- **Is US momentum sustainable?** Walmart US posted a solid 1H12 with comp sales up +2.4%, total sales up +4.8%, and operating profit up +6.6%. Traffic was up +0.7%, representing ~24M more transactions YOY. Management is confident that momentum can continue through the back half of the year. Broad and localized merchandising improvements will contribute, while EDLP remains the strategic cornerstone to drive the productivity loop. The new advertising campaign around local basket comparison shopping has driven +100 bps in comp sales and traffic in its 31 markets. Meanwhile, WMT shows no signs of relenting with $6B in investments planned through 2016.

  We believe Walmart US is well positioned through the holidays, building on a +70 bps market share gain for the 26-weeks ended 9/15. The small format roll-out continues to gather steam, as WMT expects to operate 500+ Neighborhood Markets by 2015, representing over ~$10B in sales, with over 240 stores by the end of 2012.

- **How will International weather the global slowdown and also improve returns?** Despite the global economic slowdown, with lower expectations for China in particular, International remains a growth vehicle for WMT. Price leadership continues to be a key target, although EDLP is not yet adopted by all countries. International still has some markets practising high-low advertising, which drives costs into the system and does not allow for optimal returns. International will look to grow top line through comp store sales, new store growth, e-commerce/multi-channel initiatives, and M&A. Management is also prioritizing improved returns through operating efficiencies and global leverage. Specifically, the goal is to drive +100-200 bps of ROI improvement through 2015. Brazil and China are key potential contributors due to their scale and ROI gap to developed markets: 100 bps of leverage in those countries translates to 20 bps of International ROI lift. Brazil has gained +50 bps of share while reducing costs by 126 bps in 1H12. This year, management expects to add 20-22M sq. ft., reduced from 30-33M originally, to reflect more disciplined growth, with most investment to be in emerging markets.

- **Can WMT take on Amazon?** WMT isn't complacent when it comes to AMZN. The company is improving the in-store experience, including Scan and Go self check-out. Self check-out is already in half of the Sam's Club base and has been used by 42% of members in locations with the option. Next, Sam's will introduce convertible registers enabling all lanes to be open at all times, mobile check-out, and tablet registers. WMT saves $12M annually for every second shaved off the average check-out at its US stores.

  Online, WMT has launched its Polaris search engine, which achieves a conversion rate that is +10-15% higher than the old system. Walmart.com pricing is also improving. Before, the company was essentially flying blind on price with no understanding of where the online competition was. Now, WMT has technology to monitor online prices almost in real-time, and react as needed.

  Meanwhile, the brick-and-mortar stores are also working as DCs similar to Macy's. WMT is piloting same-day delivery in four markets: Philadelphia, Washington D.C., Minneapolis, and San Francisco/San Jose, and picking items from stores. We believe the small format roll-out could allow national execution of same-day delivery.

Figure 23. Consumer Staples World Champions – Valuation

	PE (x)			EV / Sales (x)			EV / EDITDA (x)			PEG Ratio	Dividend Yield
Company	**2012**	**2013**	**2014**	**2012**	**2013**	**2014**	**2012**	**2013**	**2014**	**2014**	**2012**
AB-InBev	18.3	16.5	14.4	4.2	3.6	3.4	10.8	9.3	8.7	0.55	2.3%
British American Tobacco PLC	15.2	13.8	12.5	4.3	4.1	3.9	10.5	9.9	9.2	0.57	4.3%
Brown-Forman	27.5	24.6	21.8	3.8	3.7	3.5	16.6	15.2	13.8	0.84	1.4%
Coca-Cola Amatil Ltd	17.5	16.2	15.2	2.3	2.1	2.0	10.2	9.3	8.7	0.98	4.3%
Colgate-Palmolive Co	19.6	17.9	16.3	3.1	2.9	2.8	12.0	11.1	10.3	0.80	2.3%
Danone	16.0	15.1	13.7	1.7	1.6	1.5	9.7	9.0	8.2	0.80	3.0%
Estee Lauder Inc	24.9	22.0	18.7	2.3	2.1	2.0	13.1	11.8	10.5	0.56	0.9%
Japan Tobacco	14.4	13.8	11.8	2.3	2.0	1.8	8.1	6.9	5.7	0.54	2.1%
L'Oréal	20.7	19.4	17.9	2.4	2.2	2.1	11.9	10.9	9.9	1.14	2.2%
Mead Johnson Nutrition Company	21.7	20.6	18.6	3.7	3.4	3.1	14.2	13.4	11.9	1.13	1.8%
Mondelez International Inc	17.3	16.5	14.6	1.8	1.7	1.6	11.2	10.6	9.4	0.81	2.0%
Nestle	17.2	16.0	14.8	2.0	1.9	1.7	10.7	9.8	9.1	0.90	3.6%
PepsiCo	16.8	15.5	14.4	1.9	1.9	1.8	10.4	9.8	9.2	0.87	3.1%
Pernod-Ricard	18.3	17.0	15.0	3.9	3.6	3.3	14.0	12.7	11.5	0.70	1.9%
Philip Morris International	16.3	14.4	12.9	5.1	4.8	4.6	10.7	10.0	9.3	0.49	3.8%
Procter & Gamble Co	17.3	17.3	16.0	2.5	2.5	2.4	11.1	10.9	10.4	1.87	3.2%
SABMiller	19.6	17.8	15.9	3.2	3.0	2.8	13.6	12.6	11.3	0.69	2.2%
The Coca-Cola Company	18.3	16.8	15.4	3.5	3.3	3.1	12.9	11.8	10.8	0.83	2.8%
Wal-Mart Stores Inc	15.2	13.8	12.4	0.6	0.6	0.6	7.9	7.6	7.0	0.57	2.1%
Average	**18.5**	**17.1**	**15.4**	**2.9**	**2.7**	**2.5**	**11.6**	**10.7**	**9.7**	**0.8**	**2.6%**
Median	**17.5**	**16.5**	**15.0**	**2.5**	**2.5**	**2.4**	**11.1**	**10.6**	**9.4**	**0.8**	**2.3%**

Source: Citi Research estimates

Figure 24. Consumer Staples World Champions – Stock Performance

	Price Performance				
Company	**6M**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
Estee Lauder Inc	3.8%	0.6%	137.8%	164.0%	294.8%
Brown-Forman	14.3%	30.6%	94.1%	78.8%	244.6%
AB-InBev	21.7%	51.7%	92.7%	77.6%	362.1%
Philip Morris International	0.7%	16.2%	69.4%	NA	NA
Japan Tobacco	18.3%	28.9%	94.4%	-27.7%	206.7%
Mead Johnson Nutrition Company	-18.6%	-6.6%	50.8%	NA	NA
SABMiller	8.6%	22.8%	53.3%	101.2%	477.0%
British American Tobacco PLC	4.5%	9.0%	63.2%	77.7%	386.0%
Pernod-Ricard	8.4%	25.0%	46.7%	19.1%	182.1%
Wal-Mart Stores Inc	9.0%	18.9%	24.7%	49.6%	28.6%
L'Oréal	8.4%	29.0%	38.0%	6.1%	36.5%
The Coca-Cola Company	-1.3%	8.5%	28.6%	17.4%	57.6%
Colgate-Palmolive Co	6.4%	18.7%	24.6%	35.7%	99.2%
Nestlé	7.2%	12.5%	22.2%	7.3%	87.3%
Coca-Cola Amatil Ltd	5.1%	10.0%	24.6%	27.4%	159.8%
Procter & Gamble Co	5.2%	5.7%	7.5%	-8.2%	53.4%
PepsiCo	0.3%	6.9%	10.4%	-9.0%	52.1%
Danone	-5.5%	2.1%	19.4%	-14.1%	55.2%
Mondelez International Inc	-33.6%	-26.5%	-5.2%	-20.9%	-32.7%
Average	**3.3%**	**13.9%**	**47.2%**	**34.2%**	**161.8%**
Median	**5.2%**	**12.5%**	**38.0%**	**19.1%**	**99.2%**

Source: Powered by dataCentral

Notes

Notes

Appendix A-1

Analyst Certification

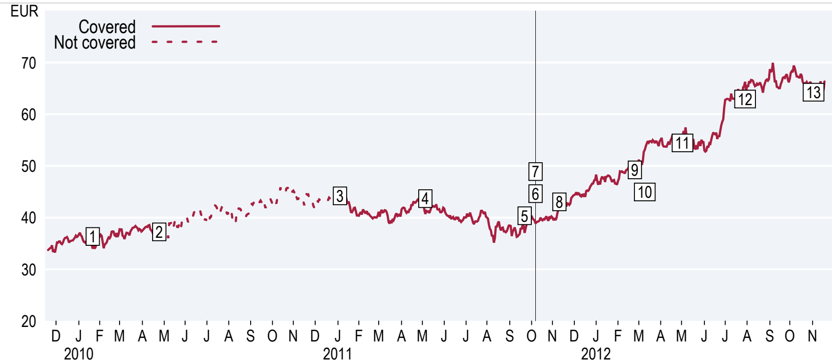
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

AB-InBev (ABI.BR)

Ratings and Target Price History
Fundamental Research

Analyst: Andrea Pistacchi
Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	21-Jan-10	1M	*42.00	33.99
2	26-Apr-10	Coverage terminated		
3	5-Jan-11	1M	*51.00	43.08
4	5-May-11	1M	*48.00	40.70
5	22-Sep-11	1M	*46.00	37.04
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	46.00	38.84
8	10-Nov-11	1	*48.00	41.94
9	24-Feb-12	1	*55.00	49.23
10	9-Mar-12	1	*62.00	53.11
11	2-May-12	1	*63.00	55.50
12	29-Jul-12	1	*77.00	65.45
13	2-Nov-12	1	*76.00	65.01

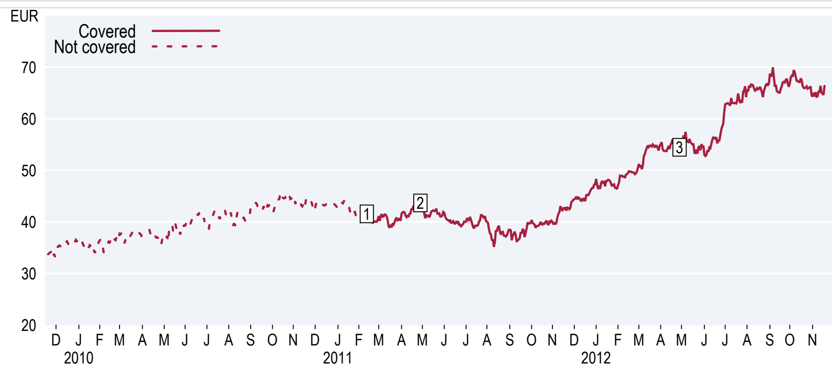
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AB-InBev (ABI.BR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Andrea Pistacchi
Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	41.26
2	28-Apr-11	*REM MP	-	43.01
3	27-Apr-12	*ADD MP	-	55.10

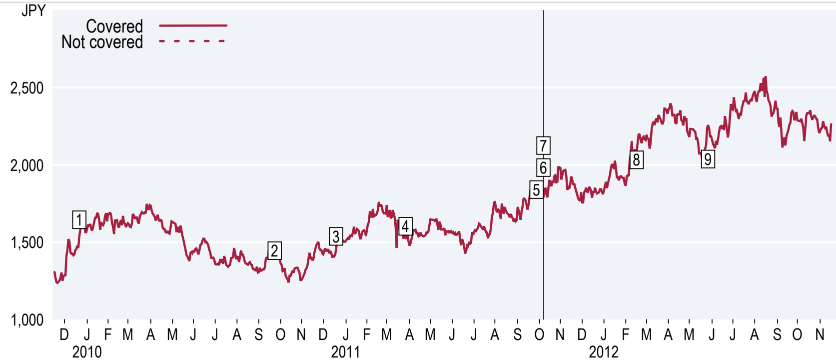
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Japan Tobacco (2914)

Ratings and Target Price History
Fundamental Research

Analyst: Nobuyoshi Miura



	Date	Rating	Target Price	Closing Price
1	22-Dec-09	1M	*2,400	1,540
2	23-Sep-10	1M	*1,950	1,411
3	20-Dec-10	1M	*2,050	1,460
4	27-Mar-11	1M	*1,850	1,570
5	28-Sep-11	1M	*2,250	1,783
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	2,250	1,790
8	16-Feb-12	1	*2,600	2,088
9	28-May-12	1	*3,000	2,258

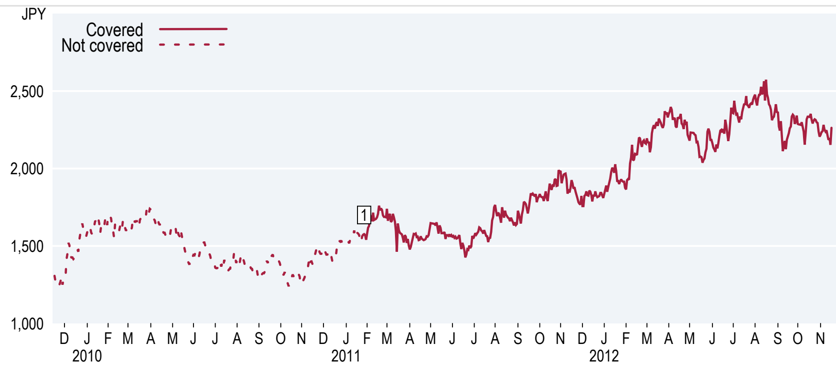
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Japan Tobacco (2914)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Nobuyoshi Miura



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD MP	-	1,578

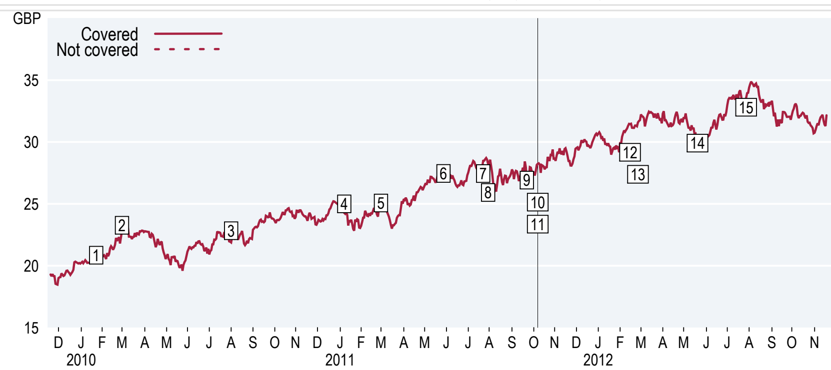
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

British American Tobacco PLC (BATS.L)

Ratings and Target Price History
Fundamental Research

Analyst: Adam Spielman



	Date	Rating	Target Price	Closing Price
1	22-Jan-10	1L	*23.30	20.54
2	1-Mar-10	1L	*24.60	22.89
3	2-Aug-10	1L	*25.70	21.88
4	7-Jan-11	*2L	*25.00	24.27
5	1-Mar-11	2L	*24.50	24.71
6	27-May-11	2L	*28.00	27.20
7	22-Jul-11	2L	*28.90	28.48
8	29-Jul-11	2L	*29.90	28.21
9	22-Sep-11	2L	*28.75	26.92
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*2	28.75	28.24
12	15-Feb-12	2	*32.50	31.45
13	27-Feb-12	2	*33.30	31.59
14	21-May-12	*1	*34.00	30.21
15	27-Jul-12	1	*37.85	33.57

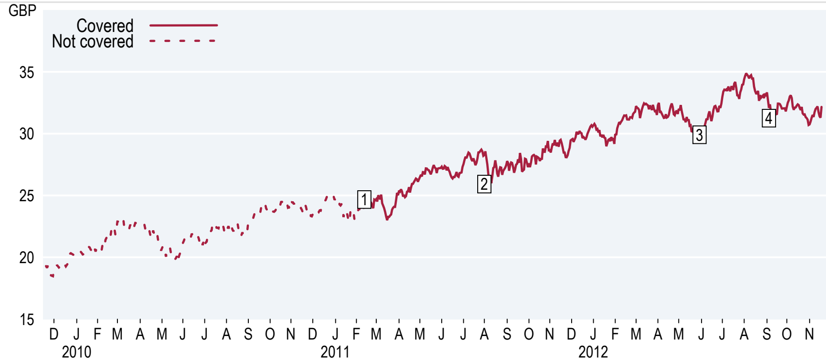
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

British American Tobacco PLC (BATS.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Adam Spielman



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	24.24
2	1-Aug-11	*REM LP	-	28.28
3	30-May-12	*ADD MP	-	30.03
4	5-Sep-12	*REM MP	-	32.08

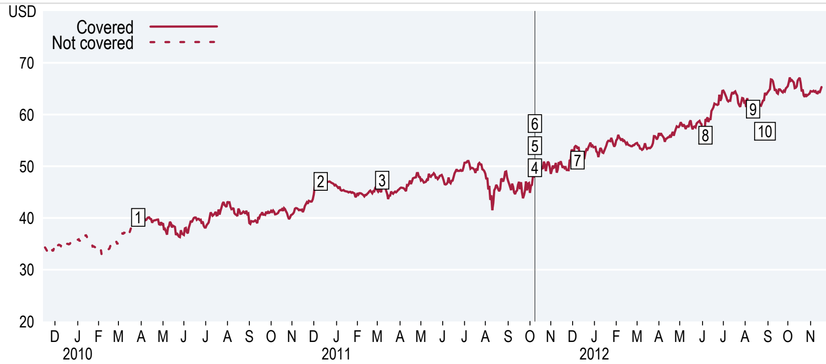
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brown-Forman (BFb)

Ratings and Target Price History
Fundamental Research

Analyst: Vivien Azer
Covered since March 29 2010



	Date	Rating	Target Price	Closing Price
1	29-Mar-10	*1M	*44.67	39.19
2	10-Dec-10	1M	*53.33	45.91
3	8-Mar-11	1M	*54.67	47.11
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	54.67	47.98
6	10-Oct-11	1	*56.67	49.03
7	8-Dec-11	1	*62.00	53.38
8	6-Jun-12	1	*67.33	59.10
9	13-Aug-12	1	*67.00	61.48
10	29-Aug-12	1	*74.00	64.20

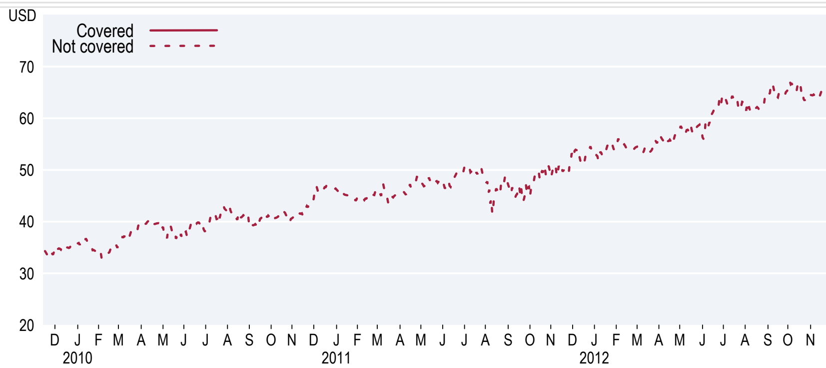
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brown-Forman (BFb)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Vivien Azer
Covered since March 29 2010



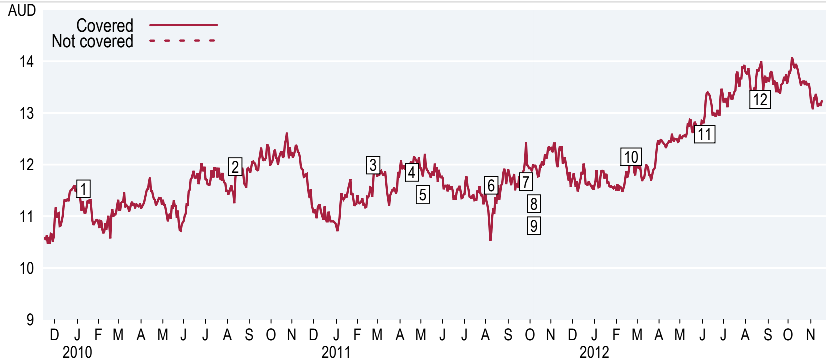
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Coca-Cola Amatil Ltd (CCL.AX)

Ratings and Target Price History
Fundamental Research

Analyst: Craig Woolford
Covered since May 11 2012



	Date	Rating	Target Price	Closing Price
1	11-Jan-10	2M	*10.80	11.17
2	12-Aug-10	*2L	*11.50	11.72
3	23-Feb-11	2L	*11.80	11.68
4	19-Apr-11	2L	*12.10	11.85
5	4-May-11	2L	*12.00	11.77
6	9-Aug-11	*1L	*11.60	10.69
7	27-Sep-11	*2L	*12.00	12.43
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*2	12.00	11.95
10	22-Feb-12	2	*12.30	12.06
11	5-Jun-12	2	*12.60	12.94
12	22-Aug-12	2	*13.40	13.92

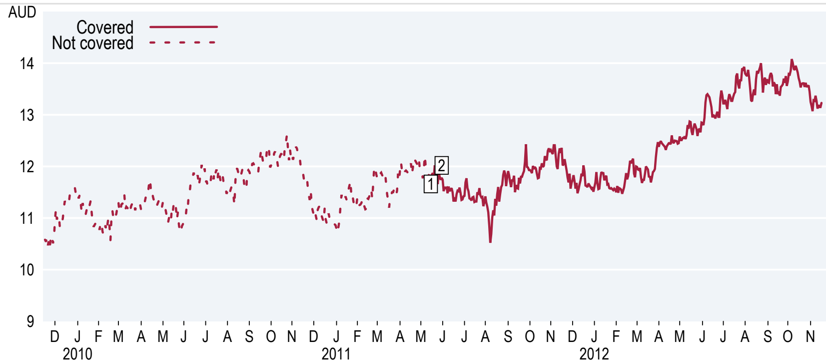
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Coca-Cola Amatil Ltd (CCL.AX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Craig Woolford
Covered since May 11 2012



	Date	Rating	Target Price	Closing Price
1	15-May-11	*ADD LP	-	11.82
2	31-May-11	*REM LP	-	11.78

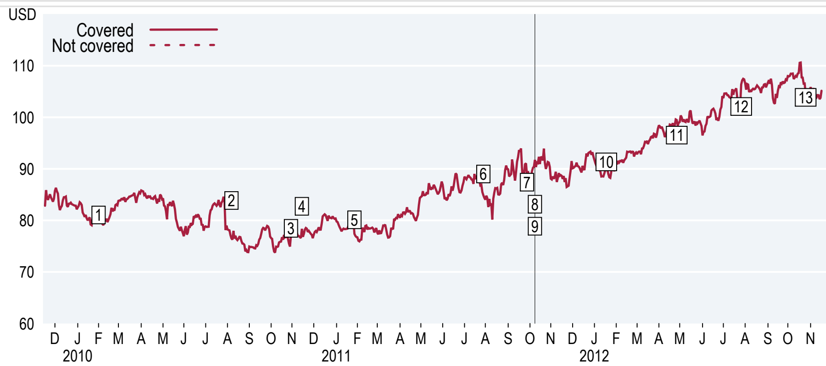
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Colgate-Palmolive Co (CL)

Ratings and Target Price History
Fundamental Research

Analyst: Wendy Nicholson



	Date	Rating	Target Price	Closing Price
1	1-Feb-10	2L	*84.00	79.94
2	6-Aug-10	2L	*79.00	76.50
3	29-Oct-10	2L	*77.00	77.12
4	15-Nov-10	*1L	*85.00	78.37
5	27-Jan-11	1L	*86.00	77.39
6	28-Jul-11	1L	*93.00	84.88
7	28-Sep-11	*2L	*95.00	88.73
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	95.00	90.41
10	18-Jan-12	2	*96.00	90.31
11	26-Apr-12	2	*105.00	99.47
12	26-Jul-12	2	*107.00	106.38
13	25-Oct-12	2	*111.00	104.60

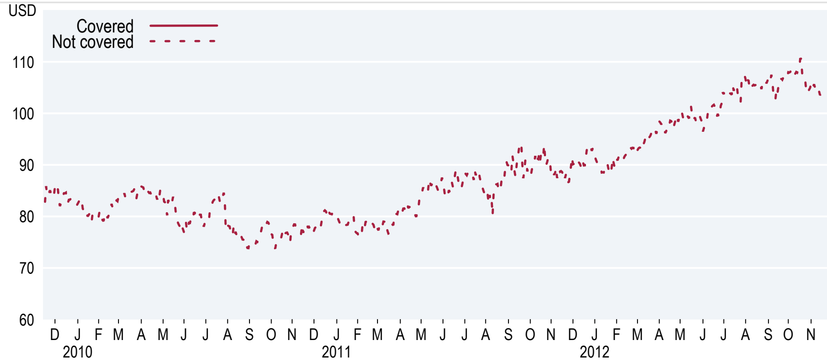
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Colgate-Palmolive Co (CL)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Wendy Nicholson



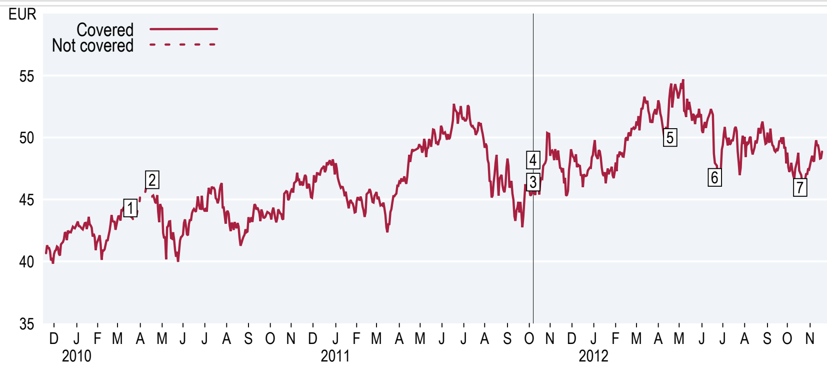
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Danone (DANO.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Robert Dickinson, CA
Covered since August 26 2011



	Date	Rating	Target Price	Closing Price
1	18-Mar-10	Coverage terminated		
2	18-Apr-10	*2L	*48.00	45.56
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*2	48.00	45.59
5	18-Apr-12	*1	*62.00	53.88
6	20-Jun-12	1	*56.00	47.94
7	18-Oct-12	1	*54.00	47.14

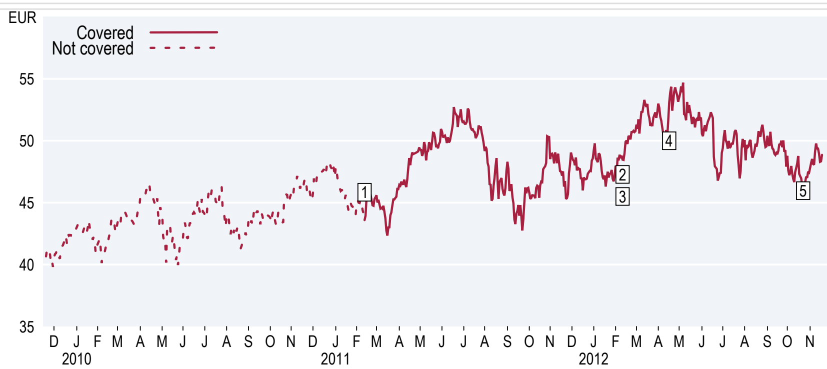
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Danone (DANO.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Robert Dickinson, CA
Covered since August 26 2011



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	43.59
2	10-Feb-12	*REM LP	-	48.47
3	10-Feb-12	*ADD LP	-	48.47
4	17-Apr-12	*ADD MP	-	53.08
5	23-Oct-12	*REM MP	-	45.97

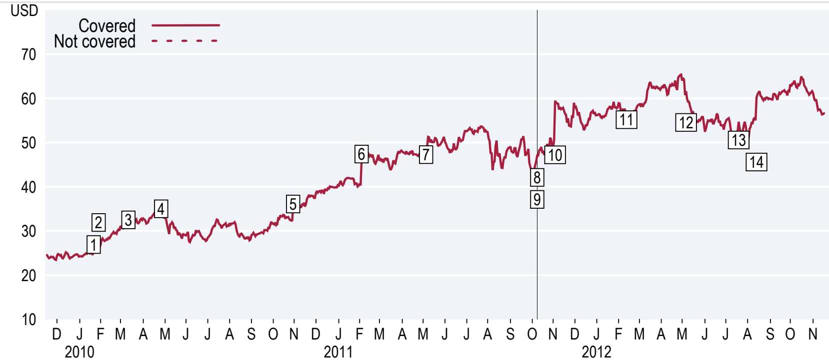
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Estee Lauder Inc (EL)

Ratings and Target Price History
Fundamental Research

Analyst: Wendy Nicholson



	Date	Rating	Target Price	Closing Price
1	21-Jan-10	1M	*31.00	26.77
2	28-Jan-10	1M	*33.50	26.52
3	11-Mar-10	1M	*36.50	31.60
4	27-Apr-10	1M	*37.00	33.53
5	29-Oct-10	1M	*42.00	35.59
6	3-Feb-11	1M	*52.50	45.97
7	5-May-11	1M	*56.00	48.50
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	56.00	45.84
10	3-Nov-11	1	*67.50	59.46
11	12-Feb-12	*2	*64.00	56.90
12	6-May-12	2	*65.00	60.72
13	19-Jul-12	2	*59.00	54.68
14	14-Aug-12	2	*64.00	60.13

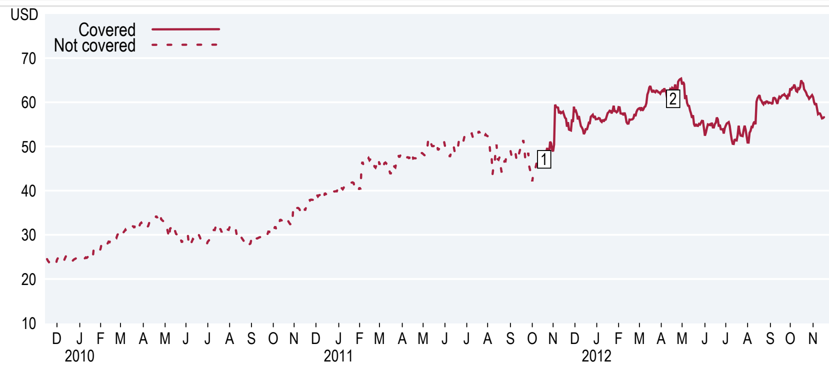
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Estee Lauder Inc (EL)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Wendy Nicholson



	Date	Rating	Target Price	Closing Price
1	19-Oct-11	*ADD MP	-	47.21
2	18-Apr-12	*REM MP	-	63.06

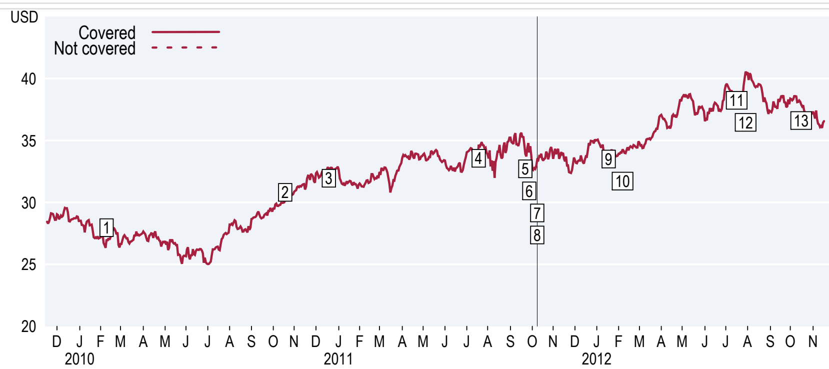
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Coca-Cola Company (KO)

Ratings and Target Price History
Fundamental Research

Analyst: Wendy Nicholson



	Date	Rating	Target Price	Closing Price
1	9-Feb-10	1L	*31.00	27.01
2	19-Oct-10	1L	*32.50	30.17
3	20-Dec-10	1L	*36.00	32.66
4	19-Jul-11	1L	*37.00	34.66
5	22-Sep-11	1L	*38.00	33.91
6	28-Sep-11	1L	*38.50	34.03
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	38.50	32.95
9	18-Jan-12	1	*39.00	33.80
10	7-Feb-12	1	*40.50	34.28
11	17-Jul-12	1	*44.00	38.85
12	30-Jul-12	1	*45.50	40.56
13	16-Oct-12	1	*46.00	37.90

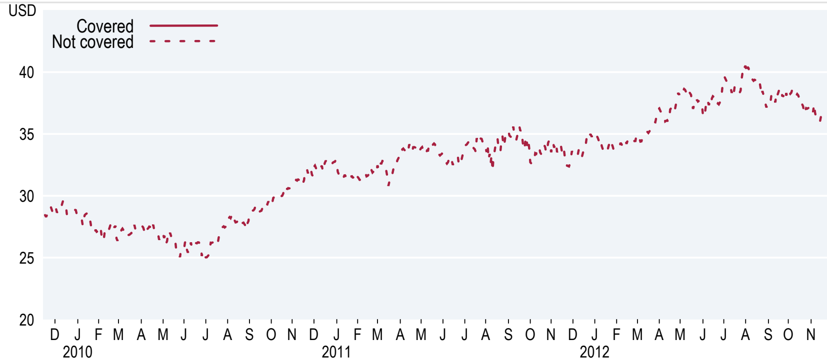
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Coca-Cola Company (KO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Wendy Nicholson



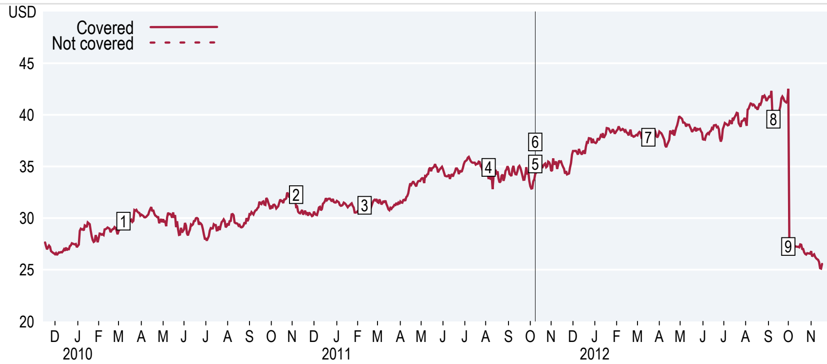
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Mondelez International Inc (MDLZ)

Ratings and Target Price History
Fundamental Research

Analyst: David Driscoll, CFA



	Date	Rating	Target Price	Closing Price
1	8-Mar-10	1M	*36.00	29.17
2	5-Nov-10	1M	*40.00	31.08
3	10-Feb-11	1M	*38.00	31.11
4	4-Aug-11	1M	*42.00	33.78
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	42.00	33.76
7	16-Mar-12	1	*46.00	38.38
8	10-Sep-12	1	*48.00	40.21
9	1-Oct-12	1	*32.00	42.52

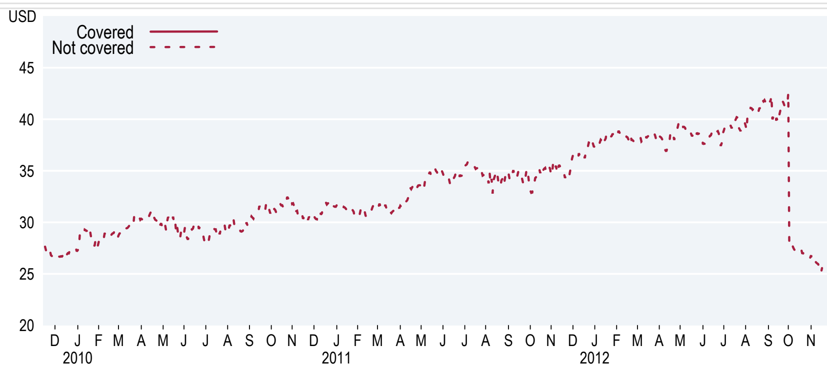
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Mondelez International Inc (MDLZ)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: David Driscoll, CFA



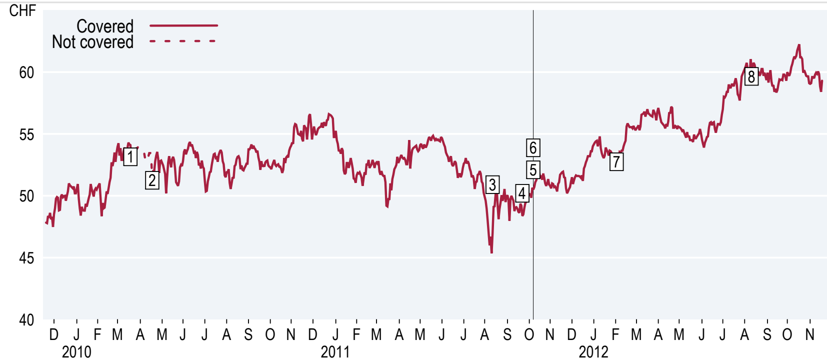
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Nestle (NESN.VX)

Ratings and Target Price History
Fundamental Research

Analyst: Robert Dickinson, CA
Covered since August 26 2011



	Date	Rating	Target Price	Closing Price
1	18-Mar-10	Coverage terminated		
2	19-Apr-10	2L	*56.00	51.25
3	11-Aug-11	2L	*49.00	47.00
4	22-Sep-11	2L	*52.00	48.37
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*2	52.00	50.50
7	2-Feb-12	2	*55.00	52.80
8	10-Aug-12	2	*60.00	60.40

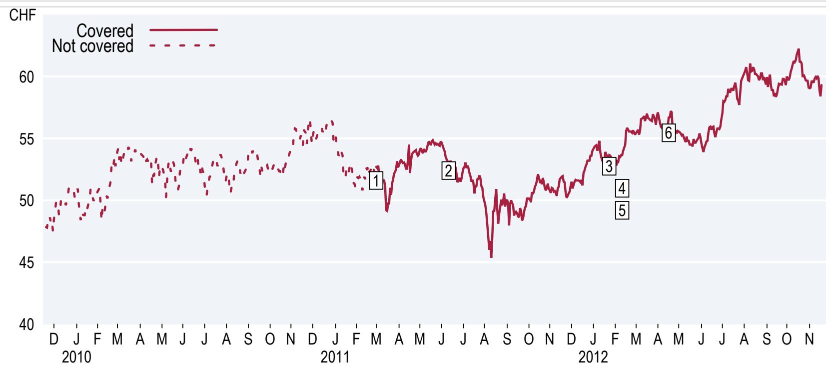
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Nestle (NESN.VX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Robert Dickinson, CA
Covered since August 26 2011



	Date	Rating	Target Price	Closing Price
1	1-Mar-11	*ADD MP	-	52.70
2	10-Jun-11	*REM MP	-	52.75
3	24-Jan-12	*ADD MP	-	53.65
4	10-Feb-12	*REM MP	-	53.65
5	10-Feb-12	*ADD MP	-	53.65
6	17-Apr-12	*REM MP	-	56.75

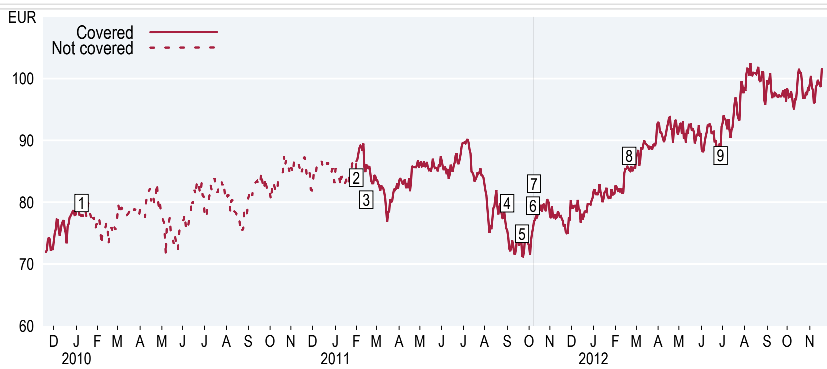
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

L'Oreal (OREP.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Adam Spielman
Covered since January 18 2012



	Date	Rating	Target Price	Closing Price
1	8-Jan-10	Coverage terminated		
2	1-Feb-11	*1L	*98.00	86.63
3	15-Feb-11	1L	*100.00	86.11
4	1-Sep-11	1L	*94.00	75.46
5	22-Sep-11	1L	*93.00	71.28
6	7-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	93.00	75.85
8	21-Feb-12	*2	93.00	85.19
9	28-Jun-12	2	*97.00	88.81

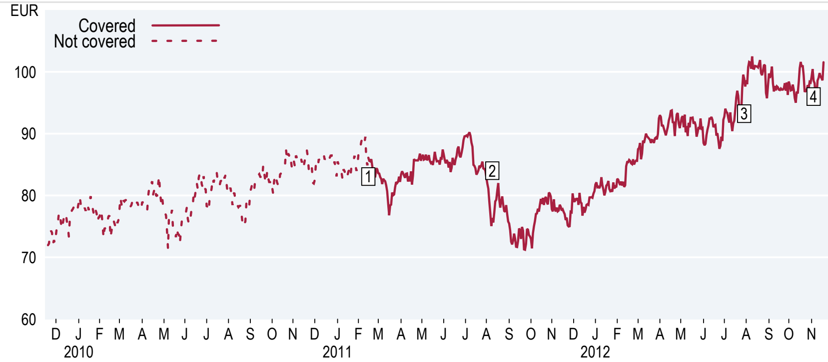
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

L'Oreal (OREP.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Adam Spielman
Covered since January 18 2012



	Date	Rating	Target Price	Closing Price
1	15-Feb-11	*ADD MP	-	86.11
2	9-Aug-11	*REM MP	-	76.35
3	30-Jul-12	*ADD LP	-	98.90
4	5-Nov-12	*REM LP	-	98.56

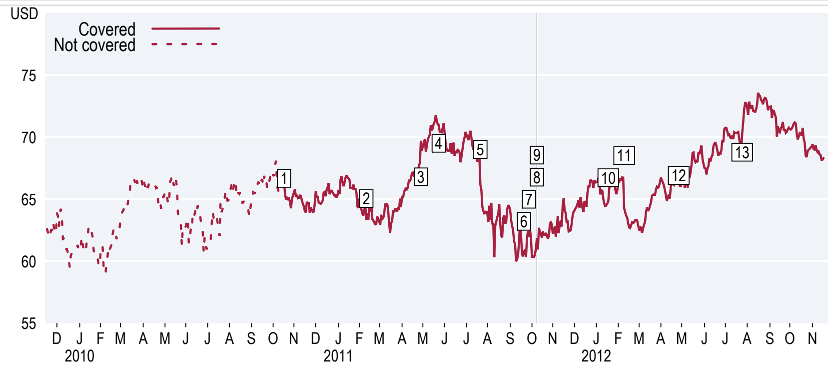
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

PepsiCo (PEP)

Ratings and Target Price History
Fundamental Research

Analyst: Wendy Nicholson
Covered since October 17 2010



	Date	Rating	Target Price	Closing Price
1	17-Oct-10	*2L	*71.00	66.68
2	10-Feb-11	2L	*67.00	63.36
3	28-Apr-11	2L	*69.00	69.72
4	24-May-11	2L	*73.00	70.98
5	21-Jul-11	2L	*70.00	66.17
6	21-Sep-11	2L	*65.00	60.79
7	28-Sep-11	2L	*66.00	61.94
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	66.00	61.02
10	18-Jan-12	2	*70.00	64.85
11	9-Feb-12	2	*68.00	64.27
12	26-Apr-12	2	*70.00	66.37
13	25-Jul-12	2	*74.00	70.30

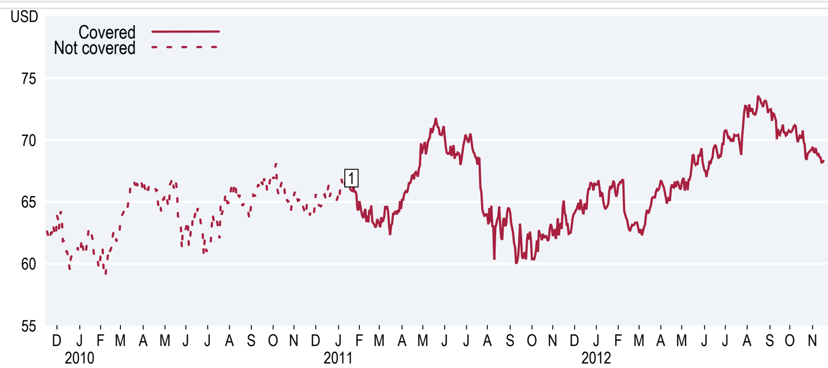
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

PepsiCo (PEP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Wendy Nicholson
Covered since October 17 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	65.90

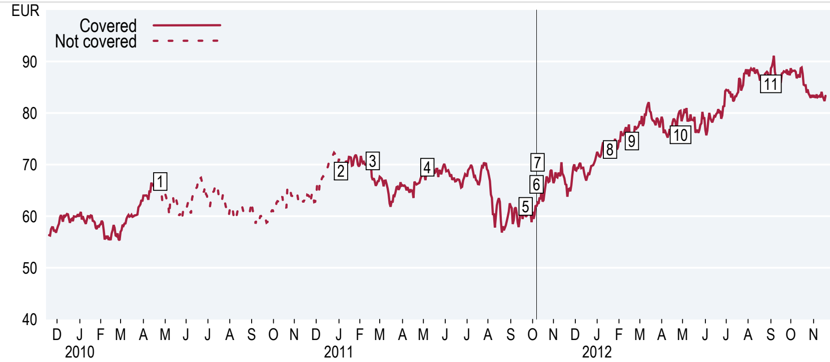
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Pernod-Ricard (PERP.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrea Pistacchi
Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	26-Apr-10	Coverage terminated		
2	5-Jan-11	*1M	*85.00	68.90
3	18-Feb-11	1M	*83.00	67.01
4	6-May-11	1M	*81.00	69.00
5	22-Sep-11	1M	*75.00	59.90
6	7-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	75.00	61.87
8	19-Jan-12	1	*86.00	73.53
9	20-Feb-12	1	*88.00	75.26
10	27-Apr-12	1	*91.00	80.45
11	3-Sep-12	1	*101.00	88.67

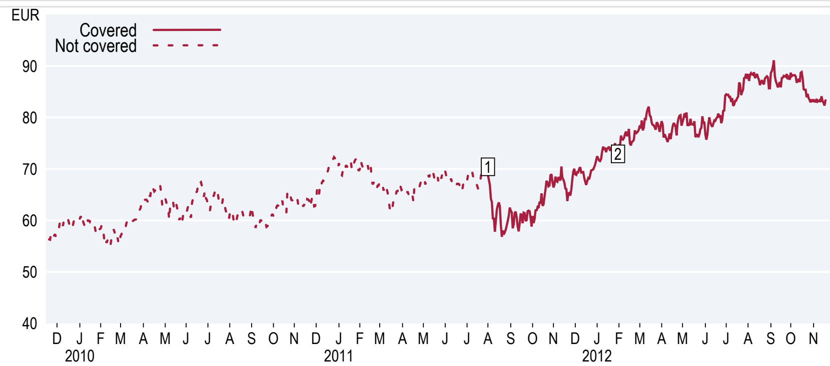
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Pernod-Ricard (PERP.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Andrea Pistacchi
Covered since January 5 2011



	Date	Rating	Target Price	Closing Price
1	1-Aug-11	*ADD MP	-	68.82
2	31-Jan-12	*REM MP	-	73.39

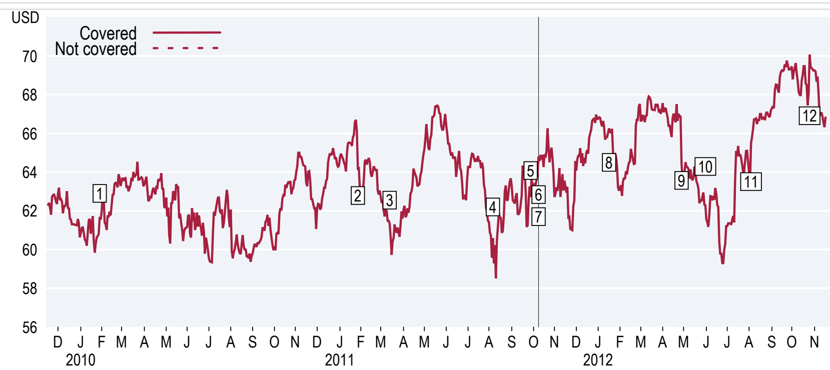
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Procter & Gamble Co (PG)

Ratings and Target Price History
Fundamental Research

Analyst: Wendy Nicholson



	Date	Rating	Target Price	Closing Price
1	28-Jan-10	1L	*69.00	61.68
2	27-Jan-11	1L	*70.00	64.18
3	13-Mar-11	1L	*69.00	61.49
4	5-Aug-11	1L	*67.00	60.59
5	28-Sep-11	1L	*74.00	62.71
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	74.00	63.91
8	17-Jan-12	1	*76.00	66.26
9	27-Apr-12	1	*74.00	64.44
10	31-May-12	1	*70.00	62.29
11	3-Aug-12	1	*75.00	65.50
12	25-Oct-12	1	*80.00	70.07

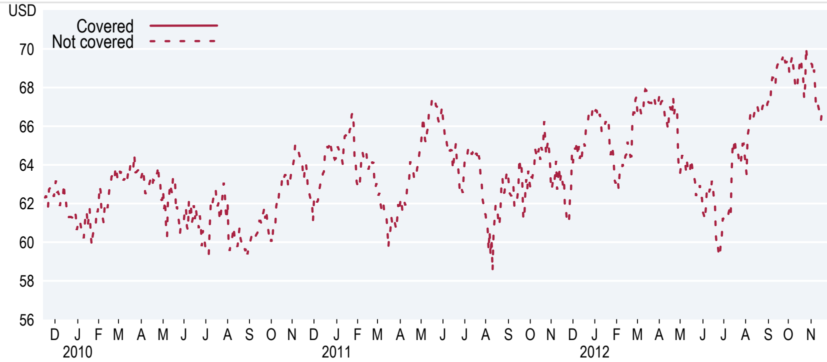
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Procter & Gamble Co (PG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Wendy Nicholson



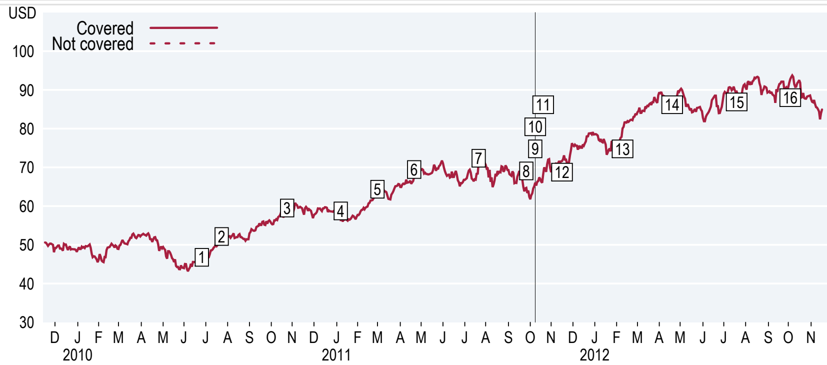
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Philip Morris International (PM)

Ratings and Target Price History
Fundamental Research

Analyst: Vivien Azer
Covered since March 1 2011



	Date	Rating	Target Price	Closing Price
1	25-Jun-10	1M	*54.00	45.90
2	23-Jul-10	1M	*58.00	50.66
3	25-Oct-10	1M	*66.00	59.47
4	7-Jan-11	*2L	*60.50	56.42
5	1-Mar-11	2L	*63.50	62.27
6	21-Apr-11	2L	*68.50	67.61
7	21-Jul-11	2L	*73.00	71.49
8	27-Sep-11	2L	*68.00	64.71
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*2	68.00	65.13
11	20-Oct-11	2	*71.00	68.19
12	16-Nov-11	2	*75.00	71.62
13	9-Feb-12	2	*81.00	80.06
14	19-Apr-12	2	*88.00	86.75
15	19-Jul-12	2	*90.00	89.55
16	3-Oct-12	2	*98.00	92.77

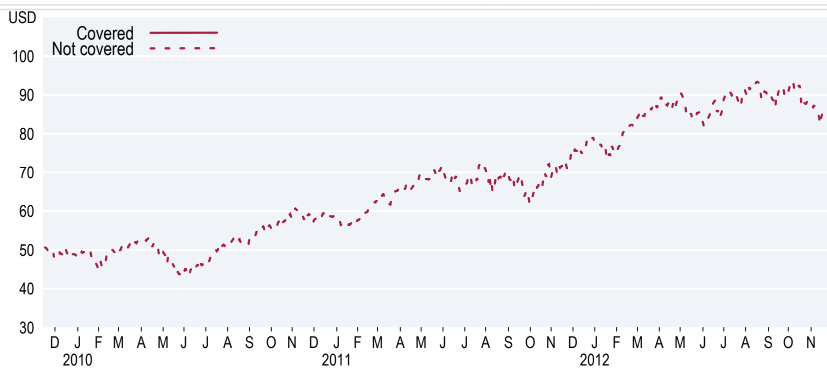
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Philip Morris International (PM)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Vivien Azer
Covered since March 1 2011



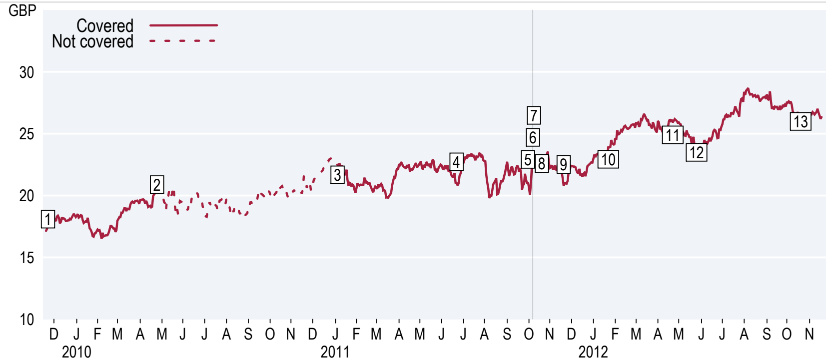
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SABMiller (SAB.L)

Ratings and Target Price History
Fundamental Research

Analyst: Adam Spielman
Covered since January 5 2011



#	Date	Rating	Target Price	Closing Price
1	23-Nov-09	2M	*17.30	17.68
2	26-Apr-10	Coverage terminated		
3	5-Jan-11	*1M	*27.00	22.47
4	22-Jun-11	*2M	*23.50	21.00
5	30-Sep-11	2M	*22.40	21.08
6	7-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	22.40	22.23
8	20-Oct-11	2	*23.40	22.63
9	20-Nov-11	2	*23.60	21.40
10	22-Jan-12	*1	*27.00	23.30
11	22-Apr-12	1	*30.00	26.13
12	25-May-12	1	*27.50	23.94
13	19-Oct-12	1	*30.00	26.34

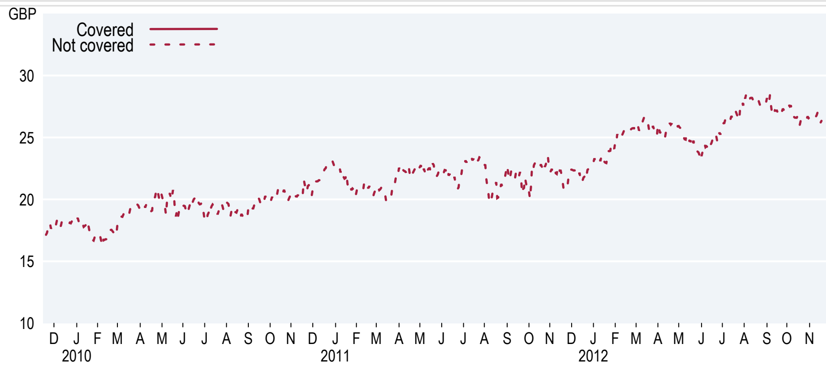
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SABMiller (SAB.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Adam Spielman
Covered since January 5 2011



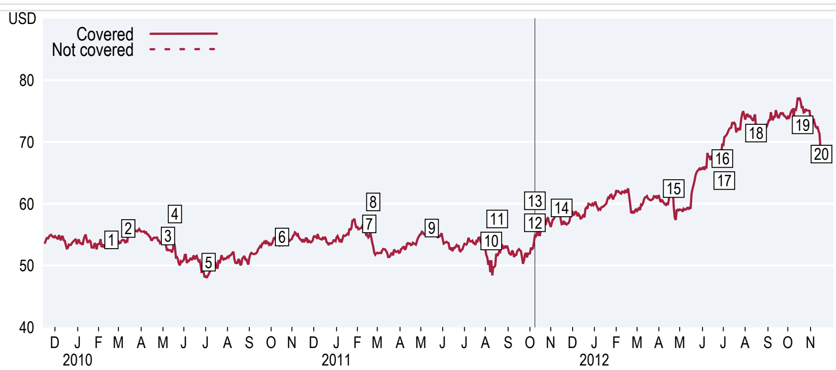
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Wal-Mart Stores Inc (WMT)

Ratings and Target Price History
Fundamental Research

Analyst: Deborah L Weinswig

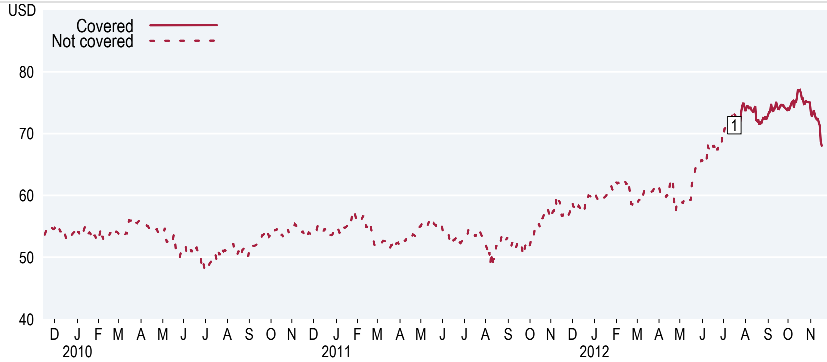


#	Date	Rating	Target Price	Closing Price
1	18-Feb-10	2M	*54.00	53.47
2	14-Mar-10	*1M	*65.00	53.90
3	9-May-10	1M	*63.00	52.40
4	19-May-10	1M	*65.00	53.04
5	6-Jul-10	1M	*64.00	48.57
6	17-Oct-10	1M	*63.00	53.35
7	17-Feb-11	1M	*62.00	54.75
8	23-Feb-11	1M	*63.00	53.03
9	17-May-11	1M	*70.00	55.54
10	9-Aug-11	1M	*66.00	50.82
11	17-Aug-11	1M	*63.00	51.55
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*1	63.00	53.70
14	16-Nov-11	1	*69.00	56.68
15	23-Apr-12	1	*71.00	59.54
16	29-Jun-12	1	*78.00	69.72
17	3-Jul-12	1	*79.00	70.75
18	16-Aug-12	1	*82.00	72.15
19	22-Oct-12	1	*87.00	75.65
20	16-Nov-12	1	*82.00	68.03

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Wal-Mart Stores Inc (WMT)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Deborah L Weinswig



	Date	Rating	Target Price	Closing Price
1	17-Jul-12	*ADD MP	-	73.10

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Anheuser Busch Inbev SA

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Colgate-Palmolive Co

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Estee Lauder Companies Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Mondelez International Inc

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