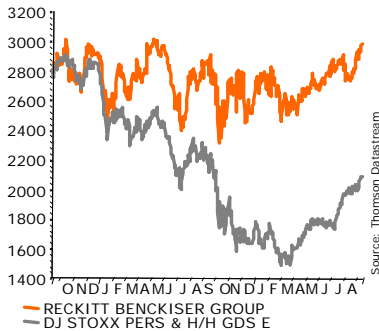


Consumer goods / United Kingdom

Christophe Laborde
15 September 2009

Valoren : 3406783 Market cap : GBP 21.3 bn
Reuters code : RB.L Free float : 84%
www.reckitt.com Closing price : GBp 2978



Reckitt Benckiser was resulted from the merger of Reckitt & Coleman and Benckiser in 1999. A leader in personal consumer goods, the group concentrates its product offerings in household cleaning products, personal hygiene and over the counter drugs. The company has an expansive collection of brands such as Vanish, Crystal, Calgon, Dettol, Airwick, Veet and even Clearasil.

Positioned in dynamic segments with an expanded range of “power brands”, Reckitt chalked up remarkable performances between 2007 and 2009 proving its defensive value in a period of crisis. The loss of patent protection for suboxone in the US, few growth engines, and an outlook for lower results in 2010 which will contrast with better performances by its peers, lead us to assign the shares a Minus.

	Reckitt Benckiser (GBP)	DJ Stoxx Pers HH (EUR)
Performance		
-1M	8.7%	4.7%
-3M	9.1%	17.8%
-12M	4.1%	-6.7%
Change in EPS		
2008	21.0%	-10.8%
2009e	21.9%	11.7%
2010e	-5.9%	13.1%
P / E (x)		
2008	19.3	19.0
2009e	15.8	17.2
2010e	16.8	14.8
P / BV (x)		
2008	6.5	3.5
2009e	5.4	3.1
2010e	4.6	2.7
Dividend yield		
2008	2.7%	2.8%
2009e	3.2%	3.0%
2010e	2.9%	3.3%

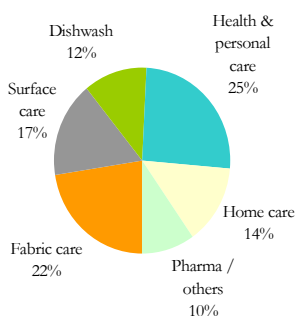
Sources : B&Cie, Datastream IBES

The recession seems not to have caught Reckitt out as the company turned in a new quality performance for second quarter 2009, once again exceeding expectations. Organic growth reached 8% and has not slowed from first quarter. Gross margins improved by 70bp (less punishing material costs, gains in productivity) and operating margins climbed 130bp boosted by a drop in advertising media costs.

Nevertheless, if share performance since its recommendation (24/11/2005) has been satisfactory (65% in absolute terms and 69% relative to others in the sector), performance relative to others in the sector has shrunk since July. Without doubt there has been arbitrage within the sector in favour of luxury stocks since June, but we also believe that a certain number of uncertainties are starting to weigh on the shares and could be a handicap over the coming months. Despite strong financial performance in the first half, the group has only raised its 2009 goals cautiously: organic growth of 5%/6% and EPS adjusted for currency fluctuations of 10%/11%. Even if the market had been warned a year ago that Reckitt would see patent protection of Suboxone in the US expire in 4Q 2009, that could hardly be responsible for the 60% drop in sales for the Pharma division (6.5% of total sales) which is a major contributor to the group's profitability (60% of margins in the second quarter vs. 22.1%). Another disappointment: despite having almost no debt, Reckitt has not made acquisitions to compensate for the forecast loss in business and margins.

Moreover, Reckitt has a valuation that is little differentiated relative to its peers in the market although in 2010 it will record a drop in growth, margins and profit which will contrast sharply with the outlook for recovery or markedly superior performance by other companies in the sector. Under these conditions, we rate the shares a Minus.

Sales Breakdown (including BHI) - 2008



In GBP thousands Figures at end December	2007	2008	2009e	2010e	2011e
Sales	5'269	6'563	7'640	7'625	7'985
Sales growth	7.0%	24.6%	16.4%	-0.2%	4.7%
Operating profit (EBIT)	1'190	1'535	1'819	1'694	1'792
Operating margin	22.6%	23.4%	23.8%	22.2%	22.4%
Net profit	938	1'120	1'359	1'279	1'362
ROE	39.4%	34.0%	34.3%	27.7%	25.6%
EV/Sales (x)	4.1	3.4	2.8	2.8	2.6
Gearing (x)	5.2%	35.0%	8.4%	-5.6%	-18.0%
Free cash flow	988	1'166	1'509	1'211	1'360
Dividend per share (GBP)	50.0	80.0	96.5	86.5	92.5
Earnings per share (CHF)	127.9	154.7	188.6	177.5	189.0