Consumption Sector Stocks for long term wealth creation

Consumption sector stocks offer some characteristic intrinsic values in real terms because they have the biggest exposure in rural, urban and semi-urban India. Consumption sector stocks become the best investment options for long term wealth creation.

The Covid induced lockdown disrupted supply for the entire consumption sector in India. Though the disturbance for staples was restricted for a month, discretionary and 'out of home' consumption products supply remained severely affected for at least a three months.

Apart from this, the situations for the demand of discretionary and out of home consumption was also not okay for H1FY21. With the lockdown completely ending, we believe there will be huge pent up demand for discretionary categories (skincare, cosmetics) within FMCG in H2FY21.

Also Read: Tata steel share price takes an exciting take-off attracting investors

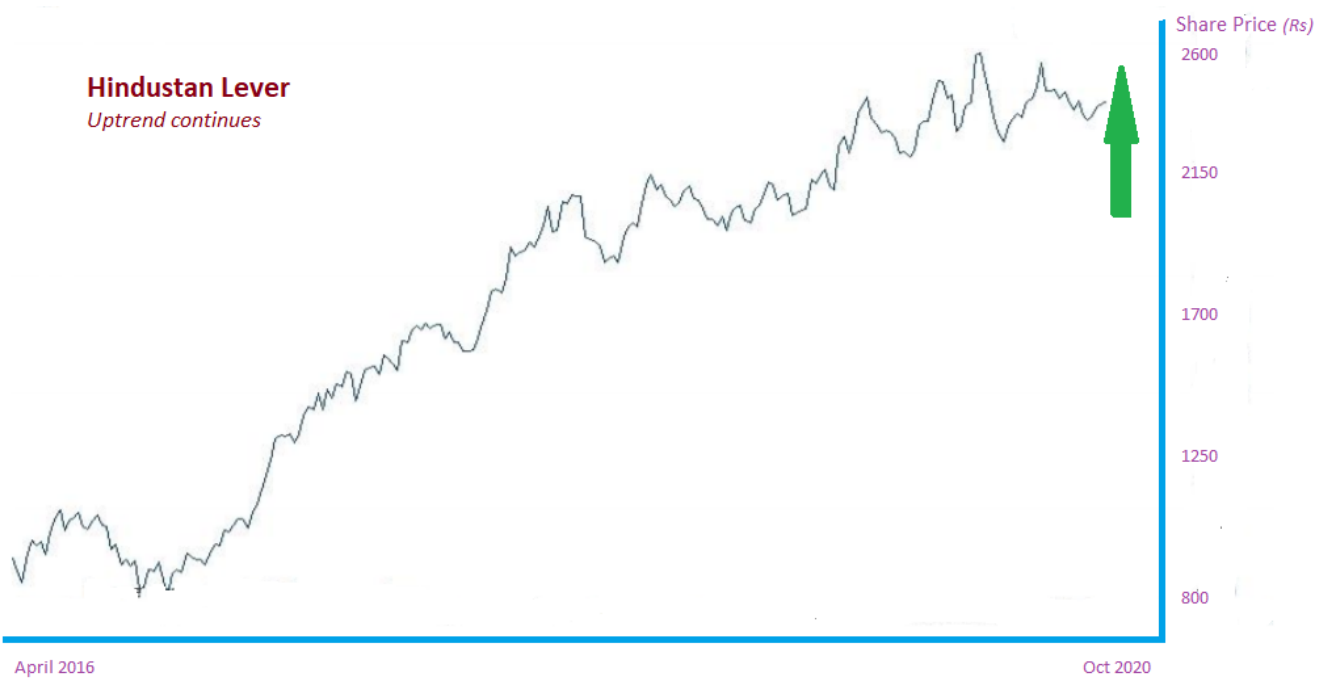
The consumer durable sector is expected to witness a surge in volumes with pent up demand for washing machines, dishwashing categories. Moreover, almost half a year delay in repainting activities would result in boosting sales for paint companies. In addition, government encouragement and less interest rate are also responsible for an improvement in demand conditions for many products. Trade analysts believe lower interest rates would lead to an improvement in demand for residential houses, subsequently leading to an increase in related consumables.

One of the reasons for a robust demand situations in October is the festive season discounts and offers. Further, trade analysts also believe demand for wedding related products would also surge given halt on wedding-related functions in H1 would lead to pent up demand for such products.

Technically, analysts recommended one of the leading consumption sector stocks – Hindustan Unilever.

Hindustan Unilever (HINLEV):

Base formation at rising demand line, 52 weeks of its share price movement indicates fresh entry opportunity along with a favourable risk-reward.



o Consumption sector stocks, after the sharp up move in March-April, have witnessed a healthy base formation in the last six months at the long term support area and are expected to resume their fresh up move.

o The share price of Hindustan Unilever has formed a higher base at the long term demand line joining major lows since October 2018 and the rising 52-week EMA (currently at Rs 2094), thus offering a fresh entry opportunity with a favourable risk-reward set-up

o During the current week’s trade, the stock has generated a breakout above the falling supply line joining highs of April (Rs 2614) and July (Rs 2350) signalling the current consolidation is approaching maturity and resumption of the fresh up move

o The stock has taken nearly 28 weeks to resume 80% of the previous four week’s up move (Rs 1758-2614). A slower retracement highlights a robust price structure and higher base formation

o Trade analysts expect the stock to resume its primary uptrend and head towards Rs 2490 as it is the 80% retracement of the entire previous decline of AprilMay (2614-1902) around Rs 2490

HUL reported a healthy set of numbers with 16.1% sales growth aided by consolidation of acquired brands (Horlicks, Boost, VWASH). On a like to like basis, growth has been 3% supported by 1% volume growth. The recovery in the business was led by complete normalisation of supply chain & strong demand in health, hygiene & nutrition space. The health, hygiene & nutrition products that constitute 80% of sales witnessed growth of 10% whereas discretionary & out of home consumption products, which constitute 20% of sales saw a decline of 25%

• With the merger of nutrition brands (Horlicks, Boost), trade analysts see the possibility of margin improvement by the way of controlling common cost & bringing synergistic benefits. Moreover, the company would be able to grow these brands at a faster pace given large distribution network & robust cash flows for the brand-building exercise

• The effect of lockdown induced due to corona was a disruption of supply for more than a month. However, some of the ‘at home’ consumption categories got the boost with additional demand for tea, coffee, ketchup & soups business. Moreover, with a sharp increase in tea prices, the company is looking to gain market share from unorganised/regional tea producers. It may be noted that the unorganised tea market makes up almost 50% of sales.

• Trade analysts believe the company would be able to able to witness a sustainable revenue & earnings growth backed consolidation of the acquired business. trade analysts remain positive on the stock from a long term perspective

Also Read: Jet Airways Revival News Brings Cheers to Jet's Investors