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Looking for a Little Extra? You Could Buy into MNC Stocks

These are worth a bet due to strong balance sheets & delisting potential, says Prashant Mahesh

Many investors are betting big on MNC stocks. They believe that apart from regular returns, these stocks may also give them something extra when their parent companies decide to increase their stake or go for a merger or delisting of Indian arms in future.

"India has a huge middle class population and a large underpenetrated rural market. Many MNCs are taking this seriously and would be keen to increase their stakes in their Indian arms," explains Arun Gopalan, VP (research and investments), Systematix Shares.

Open offers from MNCs like Hindustan Unilver (HUL) and GlaxoSmithKline Consumer in the last one year make Gopalan optimistic. In July this year, Hindustan Unilver (HUL) hiked its stake by 14.8% to 67.28% spending . 19,188 crore. In November 2012, GlaxoSmithKline Consumer announced an open offer to increase its stake from 43.2% to 72.46%, at . 3,900 per share, investing a total of . 4,805 crore.

"Multi-national companies have a consistent track record of performance, little or no debt on their books and access to global markets through their parents. Delisting, if and when it happens, could give you additional returns. Investors should accumulate these stocks with a 3-5-year perspective," says Vikas Gupta, fund manager, Arthaveda Fund Management.

In fact, many MNC companies have already hiked their stakes significantly. For example, many investors turned their attention to MNCs after the boards of Pfizer and Wyeth announced a merger of their Indian arms in November. While shares of Pfizer and Wyeth have moved up by 58% and 63%, respectively, in one month, many MNC stocks, too, joined the rally on hopes that the parents might show higher interest in the Indian subsidiaries by increasing their stakes, a merger or possible delisting in future. For example, BASF has moved up to . 643 from . 562, Siemens has jumped to . 615 from . 540 and Bata has touched . 1,050 from . 912.

Right time to make money

"Rupee depreciation, easy availability and lower cost of capital in their home countries make it a good time for them to increase their India stake," says Gopal Agarwal, chief investment officer, Mirae Asset Management. Take the case of BASF. "The parent aims to double Asia revenues to €25 billion by 2020 from €12 billion in 2012," says Daljeet Singh Kohli, head of research, India Nivesh Securities. Investors are betting on the parent increasing its stake in Bata India.

"Apart from Bata India, Bata has three listed subsidiaries — Bata Pakistan, Bata Bangladesh and PT Sepatu Bata (Indonesia). In all three subsidiaries Bata owns a 70% plus stake, compared to 52.96% in Bata India. Bata Global increased stake in Bata Pakistan to 67.4% in 2011 from 60% in 2010 and to 75.21% in 2012. Similarly, it increased its stake in PT Sepatu Bata (Indonesia) to 82% in 2011 from 65% in 2005," says Jignesh Kamani, CFA, research analyst, Nirmal Bang Institutional Equities. In India too, Bata increased its stake in Bata India to 52.01% in 2010 from 51.02% and to 52.96% recently in October.

Consistent performance, debt-free

At a time, when Indian companies are struggling with high interest costs and rising debt on their books, most MNCs have little or no debt on their books and have not been hit by the economic slowdown. For example, Colgate is debt-free and seen its profits rise to . 497 crore in 2013 from . 290 crore in 2009. EPS moved up to . 36.53 from . 21.34 during the same period. Cummins India has seen its profit move up to . 764 crore in 2013 from . 433 crore in 2009. Many MNCs in sectors such as engineering, capital goods or industrial chemicals are trading at reasonable valuations. BASF trades at a P/E of 20, while Cummins India trades at a P/E of 16.31 and SKF India trades at a P/E of 22.

"Even though some MNC stocks may look expensive due to their higher P/E ratios, they qualify as long-term bets for your portfolio due to clean balance sheets and high business growth," says Vikas Gupta. He advises investors to accumulate MNC stocks with a three to five year perspective.