

Equity Research Pakistan

In Focus

Food Producers

EFOODS - BUY

TP Dec-12: PKR 35

Current Price: PKR 26

Farid Aliani

farid@bmacapital.com

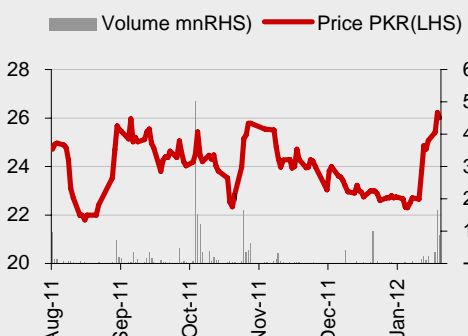
Stock Statistics

Ticker	EFOODS	
Mkt Cap	USD mn	219
5M ADT	mn shares	0.2
Shares Outstanding	mn	748

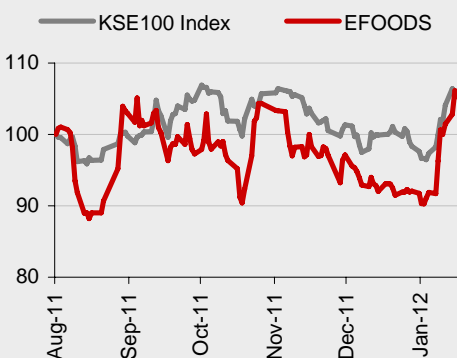
Stock Performance

	1M	3M	Aug11-Todate
Absolute %	14%	9%	5%
Relative to KSE %	9%	6%	0%

Price and Volume Graph



EFOODS vs KSE100 Relative Index Chart



Engro Foods (EFOODS): Analyst Briefing Takeaways

- Engro Foods (EFOODS) held its analyst briefing yesterday to brief on its impressive CY11 results. With prime contribution from dairy segment the company's revenue and profits showed a growth of 43% and 4.1x respectively to stand in tune of PKR29.9bn and PKR891mn
- 4QCY11 results were also impressive driven by higher sales (QoQ sales growth of 7% to PKR8.5bn) and better margins (25% gross margin compared to 21% for 3QCY11)
- The top line for Dairy and Juices segment grew by 40% YoY to PKR27.3bn, on account of higher volumes amid increased market share to 44% compared to 39% last year
- The ice cream business reported 62% top line growth to PKR2.6bn. Key to growth depends upon expansion in distribution network as 'Omore' (brand name for ice cream) has only ~40% penetration compared to "Wall's" (brand of Unilever)
- The management intends to announce their expansion plans in a public meeting soon, these activities will be financed by both debt and current equity while maintaining their debt to equity ratio at 0.5x each
- Continuous growth in the processed milk industry along with optimism over conversion to 'dairy Omang' (low priced dairy product) would bode well for EFOODS. We maintain our 'Buy' stance on EFOODS with Dec12 target price of PKR35/share

Engro Foods (EFOODS) held its analyst briefing yesterday to brief on its CY11 results. With prime contribution from dairy segment the company's revenue and profits showed a growth of 43% and 4.1x respectively to stand in tune of PKR29.9bn and PKR891mn. We present the key takeaways of the briefing and CY11 result review for our valued investors.

4QCY11: Impressive results

The 4QCY11 results were impressive driven by higher sales (QoQ sales growth of 7% to PKR8.5bn) and better margins (25% gross margin compared to 21% for 3QCY11). Thus 4QCY11 net margin clocked in at 6% to PKR484mn (compared to 2% for 3QCY11), partly supported by one time PKR55mn gain on sale of rice business to the associate company Engro Eximp.

Dairy & Juices: Betting on conversion

With major growth in dairy and juices segment (91% revenue contribution) on account of higher volumes amid increased market share, the top line for the segment grew by 40% YoY to PKR27.3bn. Subsequently the net margins for the period improved to 5% compared to 4% for CY10. On volumetric front, EFOODS improved its market share in UHT milk market to ~44% (~378mn tons) compared to ~39% in same period last year, whereas processed milk industry grew by 9% (7% on account of conversion from loose milk) to 859mn liters per annum. Staying optimistic over corporate farm segment, the management disclosed that the company has increased its livestock ownership to over 3000 cows (up 17%),



Equity Research Pakistan

In Focus

Food Producers

moreover yields have also shown improvement. However, corporate farm reported loss of 107mn for CY11.

Ice Cream: Expanding reach is the key

The ice cream business (8.7% of revenues) reported 62% top line growth to PKR2.6bn compared to PKR1.6bn (7.6%) in same period last year. The management disclosed that key to growth depends upon expansion in distribution network as 'Omore' (brand name for ice cream) has only ~40% penetration compared to "Wall's" (brand of Unilever). Nonetheless Omore with major marketing activities and continuous investment in cold-chain infrastructure managed to increase its market share to 24% in CY11 compared to 17% in same period last year.

However on account of continuous expansion activities, ice cream segment posted a loss of 400mn (PKR170mn depreciation expense) in CY11.

EFOODS Canada: EFOODS - the next owner

Though the business is not reflected in EFOODS financials, the management disclosed that EFOODS-managed "Al-Saafa" posted net revenue of PKR475mn (US\$5.3mn) with net loss of PKR108mn (US\$1.2mn). Management reiterated their intention to acquire the ownership of this business from Engro Corp (parent company) once the company meets its regulatory requirement.

Major Capex on the cards

While addressing questions on much highlighted expansion plans, the management did not provide any estimates for capital expenditure. However they disclosed that these expansion activities will be financed by both debt and current equity while maintaining their debt to equity ratio at 0.5x each. Management intends to announce their expansion plans in a public meeting.

Outlook: Long Term Play

Continuous growth in the processed milk industry in widely untapped loose milk market along with optimism over conversion to 'dairy Omang' (low priced dairy product) would bode well for EFOODS. Moreover volumetric growth in ice cream segment would also contribute its due share in profits going forward. Subsequently we maintain our 'Buy' stance on EFOODS with Dec12 target price of PKR35/share.

Glossary

- *TP: Target Price*
- *EPS: Earning per share*
- *PER: Price to earnings ratio*
- *PBV: Price to Book ratio*
- *DY: Dividend Yield*