



## Consumer Profitability up 24% YoY in Dec 2017

**Staples/ Discretionary profits +36/9% YoY**

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# Staples sector drive consumer profits by 24% YoY in Dec 2017

## Pakistan Consumer Staples/Discretionary: Dec 2017 Financial Result Highlights

Company	Sales (Rsmn)						Gross Profit (Rsmn)						Profit (Rsmn)						
	Dec-17	Dec-16	YoY	QoQ	2017	YoY	Dec-17	Dec-16	YoY	QoQ	2017	YoY	Dec-17	Dec-16	YoY	QoQ	2017	YoY	
<b>Consumer Staples</b>																			
NESTLE	29,819	28,036	6%	-2%	122,215	9%	10,625	8,732	22%	2%	44,756	12%	3,310	2,030	63%	-3%	14,642	24%	
EFOODS*	7,518	9,931	-24%	-18%	34,789	-21%	1,006	1,399	-28%	-33%	5,689	-43%	-6	-208	-97%	-103%	670	-72%	
PAKT	13,495	9,273	46%	7%	44,318	-1%	5,921	4,776	24%	-15%	21,861	-4%	2,819	2,092	35%	-25%	9,574	-8%	
COLG	7,819	7,258	8%	-1%	30,967	13%	2,796	2,752	2%	-2%	11,354	11%	851	870	-2%	4%	3,319	7%	
RMPL	6,517	6,349	3%	6%	25,765	3%	1,851	1,747	6%	7%	7,173	7%	1,148	1,009	14%	3%	4,392	13%	
BATA	4,437	3,926	13%	-7%	17,031	13%	1,958	1,695	16%	-1%	7,237	17%	620	461	35%	135%	1,592	20%	
PKGS*	10,596	6,084	74%	31%	31,891	30%	1,449	1,160	25%	-14%	6,039	11%	4,378	938	367%	39%	10,728	106%	
NATF*	4,538	3,312	37%	-19%	19,903	42%	1,343	1,058	27%	-26%	6,154	33%	-9	166	NM	-103%	845	12%	
UPFL	2,622	2,329	13%	3%	10,745	14%	1,067	976	9%	-15%	4,834	15%	289	353	-18%	-7%	1,356	6%	
PMPK	5,547	3,305	68%	31%	13,967	-2%	1,829	1,125	NM	-4%	5,078	-16%	112	-84	NM	NM	191	-67%	
<b>Staples total</b>	<b>92,907</b>	<b>79,802</b>	<b>16%</b>	<b>2%</b>	<b>351,591</b>	<b>6%</b>	<b>29,845</b>	<b>25,421</b>	<b>17%</b>	<b>-7%</b>	<b>120,175</b>	<b>4%</b>	<b>13,511</b>	<b>7,628</b>	<b>77%</b>	<b>-3%</b>	<b>47,307</b>	<b>16%</b>	
<b>Excluding outliers</b>	<b>82,311</b>	<b>73,718</b>	<b>12%</b>	<b>-1%</b>	<b>319,700</b>	<b>4%</b>	<b>28,396</b>	<b>24,261</b>	<b>17%</b>	<b>-7%</b>	<b>114,136</b>	<b>3%</b>	<b>9,149</b>	<b>6,731</b>	<b>36%</b>	<b>-11%</b>	<b>35,064</b>	<b>-1%</b>	
<b>Consumer Discretionary</b>																			
INDU	32,099	25,648	25%	3%	124,190	14%	5,690	4,697	21%	5%	22,080	22%	3,735	3,027	23%	3%	14,291	23%	
HCAR	21,798	15,714	39%	-5%	86,820	61%	2,279	2,186	4%	-16%	10,801	32%	1,417	1,492	-5%	-12%	7,240	41%	
PSMC	29,009	19,756	47%	12%	101,812	33%	2,262	2,115	7%	-12%	9,653	31%	729	899	-19%	-34%	3,826	38%	
THALL*	4,612	4,303	7%	6%	18,994	12%	908	978	-7%	10%	3,870	1%	758	2,566	-70%	3%	3,546	-33%	
<b>Discretionary total</b>	<b>87,518</b>	<b>65,421</b>	<b>34%</b>	<b>4%</b>	<b>331,816</b>	<b>30%</b>	<b>11,140</b>	<b>9,976</b>	<b>12%</b>	<b>-4%</b>	<b>46,403</b>	<b>24%</b>	<b>6,639</b>	<b>7,984</b>	<b>-17%</b>	<b>-6%</b>	<b>28,903</b>	<b>16%</b>	
<b>Excluding outliers</b>													<b>5,881</b>	<b>5,418</b>	<b>9%</b>	<b>-7%</b>	<b>25,357</b>	<b>30%</b>	
<b>Total (Staples &amp; Discretionary)</b>	<b>180,425</b>	<b>145,223</b>	<b>24%</b>	<b>3%</b>	<b>683,407</b>	<b>16%</b>	<b>40,985</b>	<b>35,398</b>	<b>16%</b>	<b>-6%</b>	<b>166,578</b>	<b>8%</b>	<b>20,151</b>	<b>15,612</b>	<b>29%</b>	<b>-4%</b>	<b>76,211</b>	<b>16%</b>	
<b>Excluding outliers</b>	<b>169,829</b>	<b>139,139</b>	<b>22%</b>	<b>1%</b>	<b>651,516</b>	<b>16%</b>	<b>39,536</b>	<b>34,237</b>	<b>15%</b>	<b>-6%</b>	<b>160,539</b>	<b>8%</b>	<b>15,030</b>	<b>12,149</b>	<b>24%</b>	<b>-9%</b>	<b>60,422</b>	<b>10%</b>	

Source: Company Accounts, Topline Research

NM = Not Meaningful, \*Outlier

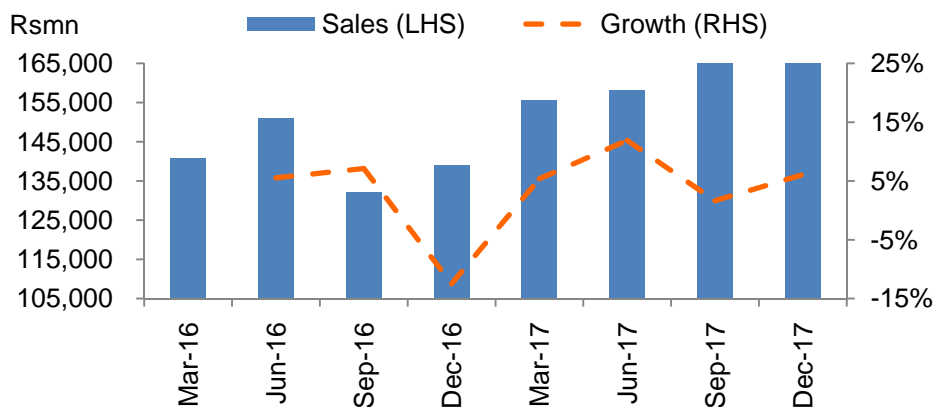
- Pakistan consumer companies (Staples & Discretionary) recorded profitability growth of 24% YoY (excluding outliers) in Dec 2017 thanks to strong performance from Staples. Our analysis is based on sample of listed firms with market capitalization of US\$200mn and above. For our Dec 2017 profitability analysis, we have excluded Engro Foods (EFOODS), National Foods (NATF), Packages (PKGS) and Thal Limited (THALL). EFOODS and NATF posted loss in 4Q2017 while PKGS had substantial increase in its earnings due to a one-off gain recognized on revaluation of its subsidiary, Bulleh Shah Packaging. THALL on the other hand had higher base effect owing to one-time gain on disposal of investment in Metro Habib Cash & Carry Pakistan (MHCCP) in 4Q2016.

## Staples sector drive consumer profits by 24% YoY in Dec 2017

- In 4Q2017, Pakistan consumers posted revenue growth of 22% YoY (Staple sales up 12% YoY, Discretionary sales up 34% YoY). To note, we have excluded PKGS from our sales analysis (PKGS sales were up 74% YoY) as the company reclassified Bulleh Shah Packaging as its subsidiary during 2H2017, after buying back 35% stake in the company.
- Staple sector witnessed sales growth of 12% YoY in 4Q2017, mainly led by higher sales from Tobacco companies (PAKT & PMPK). In our staple space (excluding PKGS), PMPK and PAKT recorded highest sales growth of 68% and 46% YoY during the outgoing quarter thanks to cut in Federal Excise Duty (FED) on cigarettes falling in lower slab in Budget FY18, which led to higher volumetric sales. EFOODS was the only company from our sample, that reported decline in sales (down 24% YoY).
- NATF also recorded excellent revenue growth of 37% YoY in 4Q2017 thanks to its investment in A-1 Bags and Supplies Inc, Canada, through its wholly owned subsidiary National Foods DMCC. A-1 Bags contributed 26% (Rs1.2bn) to NATF's net sales in 4Q2017.
- Sales of discretionary sector were up by an excellent 34% YoY with PSMC recording highest sales growth of 47% in Dec 2017, followed by 39% growth recorded by HCAR. Stellar growth in revenues of PSMC and HCAR was on the back of strong volumetric sales where PSMC's volumes were up 34% YoY while HCAR recorded volumetric growth of 43% in 4Q2017 quarter.
- Consumer sector margins during the outgoing quarter contracted by 133bps to 23% in Dec 2017 mainly due to decline in margins of discretionary firms (down 252bps YoY to 13%). In staples, only three companies (NESTLE, BATA and RMPL) managed to improve their margins where NESTLE's margins were up by a significant 448bps to 36%.
- Staples sector posted profitability growth of 36% YoY in 4Q2017 thanks to strong performance from NESTLE (earnings up 63% YoY), PAKT (earnings up 35% YoY), BATA (earnings up 35% YoY), and PMPK (profit of Rs112mn vs. loss of Rs84mn last year). In discretionary, only INDU reported growth in earnings (up 23% YoY).

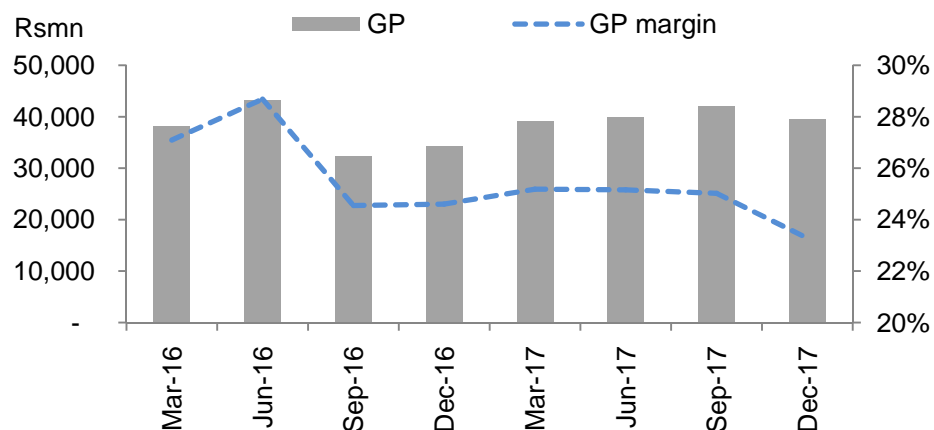
# Quarterly performance at a glance

## Consumers: Quarterly Sector Sales & Growth



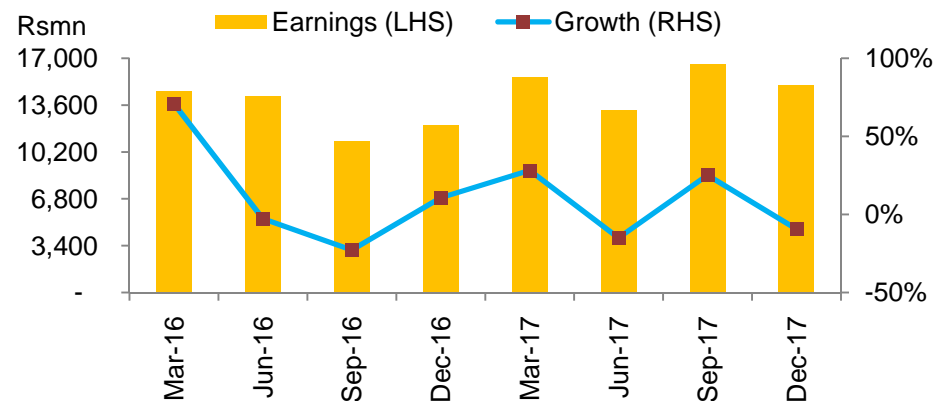
Source: Company Accounts, PSX, Topline Research

## Consumers: Quarterly Sector GP & GP Margin



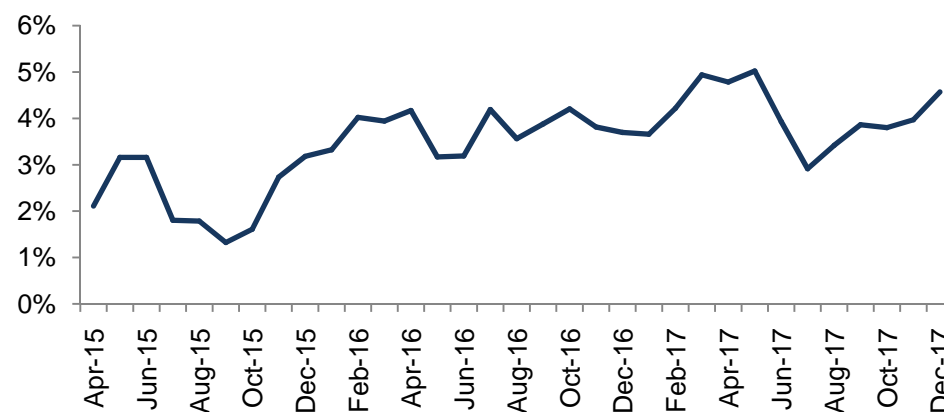
Source: Company Accounts, PSX, Topline Research

## Consumers: Quarterly Sector Earnings & Growth



Source: Company Accounts, PSX, Topline Research

## Pakistan: Monthly Consumer Price Index



Source: Company Accounts, PSX, Topline Research

# Sector Outlook

- Going forward, uncertain political climate and pressure on Pakistan's external accounts (rising current account deficit and depleting foreign exchange reserves) remain key risks as they may dampen consumer confidence (anticipated rise in inflation, leading to higher interest rates will contract aggregate demand).
- This is also evident from the recent survey conducted by State Bank of Pakistan (SBP) in collaboration with Institute of Business Administration (IBA). According to the survey, Consumer Confidence Index (CCI) and Expected Economic Conditions Index (EEC) have declined by 10% and 8.4%, respectively during Sep 2017-Mar 2018.
- While competition in the dairy segment will continue to increase owing to new entrants, we believe that packaged producers might be able to gain on volumetric sales in the backdrop of shortage of loose milk and reduced price gap between loose and packaged milk (reportedly, farmers were proposing to raise loose milk prices by ~10%).
- Another thing worth highlighting here is yesterday's tax amnesty scheme announced by the Prime Minister, which if materialized, could act as a potential trigger for consumer demand. According to the scheme, tax rates on individuals have been substantially lowered where income of Rs100,000/month is tax exempt while maximum rate of tax on annual income exceeding Rs4.8mn will be 15% vs. current maximum tax rate of up to 30%.
- We believe that lower income tax rates should increase consumers' spending power, thereby leading to higher sales for consumer firms.
- Our preferred picks in Pakistan Consumer space are PKGS and PSMC while 'Hold' stance on INDU, & HCAR. We maintain 'Sell' on EFOODS.

# Pakistan Consumer Snapshot



## Pakistan Consumer Staples & Discretionary Stocks: Key Numbers

Symbol	Year End	Market Cap (US\$ mn)	2017 Avg. YTD Daily Vol. US\$ (000)	5-Year (2013-17) CAGR		2016A			2017A		
				Sales	Profit	PE	PS	Payout	PE	PS	Payout
<b>Consumer staples</b>											
NESTLE	Dec	5,276	51	9%	20%	49.2	5.2	163%	39.8	4.8	99%
PAKT	Dec	4,392	23	11%	41%	46.9	10.8	62%	50.7	11.0	80%
PMPK	Dec	1,588	7	1%	NM	305.2	12.3	-	NM	12.6	484%
COLG	Jun	1,345	8	9%	15%	52.7	5.8	51%	45.7	5.1	51%
EFOODS	Dec	702	1,104	-3%	-32%	32.5	1.7	316%**	204.7	2.2	82%
RMPL	Dec	698	17	6%	17%	19.9	3.1	112%	17.6	3.0	79%
UPFL	Dec	552	4	13%	13%	47.8	6.4	178%	45.0	5.7	93%
PKGS	Dec	471	494	19%	38%	11.8	2.1	48%	7.0**	1.8	27%
NATF	Jun	288	14	19%	10%	40.0	2.3	36%	33.4	1.9	46%
BATA	Dec	205	9	6%	8%	15.7	1.5	66%	14.9	1.5	69%
<b>Total Staples</b>		<b>15,681</b>	<b>1,750</b>	<b>14%</b>	<b>21%</b>	<b>43.1</b>	<b>5.2</b>		<b>39.3</b>	<b>5.0</b>	
<b>Consumer Discretionary</b>											
INDU	Jun	1,230	564	8%	25%	12.4	1.3	69%	10.9	1.3	69%
THALL	Jun	372	276	6%	25%	19.6	2.8	31%	8.3	2.4	31%
PSMC	Dec	351	493	11%	33%	14.6	0.5	16%	9.8	0.4	40%
HCAR	Mar	595	713	30%	79%*	19.2	1.7	28%	11.2	1.1	30%
<b>Total Discretionary</b>		<b>1,953</b>	<b>1,333</b>	<b>13%</b>	<b>38%</b>	<b>14.7</b>	<b>1.2</b>		<b>10.3</b>	<b>1.0</b>	

Source: Company Accounts, Topline Research

Prices as on Apr 5, 2018

\*3-Year CAGR, \*\*Special dividend/one-off

NM = Not Measurable

## Key observations of Dec 2017 results

- **Nestle Pakistan (NESTLE):** The Swiss giant recorded revenue growth of 6% YoY, supported by volumetric growth in the dairy segment in 4Q2017. Higher gross margins, up 448bps to 36% helped the company to register excellent profitability growth of 63%. Gross margins were improved on the back of improvement in the company's product mix.
- **Engro Foods (EFOODS):** Net revenues shrank 24% YoY in 4Q2017, primarily as a result of lower volumes, we believe. This was due to the growing competition in Dairy industry, especially in tea-whitening segment. 'Tarang', EFOODS' only liquid tea-whitener, which used to enjoy a leadership position in its category, a couple of years back and constituted 45-50% of the company's UHT sales, has greatly suffered from new entrants. Gross margins of the company were down 703bps to 13.4% on the back of 1) lower volumetric sales, 2) tax legislative changes and 3) payment of technical fees of 0.5% and 2% of net revenues to Engro Corp (ENGRO) and Royal FrieslandCampina (RFC), respectively.
- **Packages Ltd. (PKGS):** Though not included in our profitability analysis, PKGS posted significantly higher earnings growth of 367% YoY in 4Q2017, owing to 1) business combination gain of Rs2.5bn, 2) higher investment income and 3) lower effective tax rate. Business combination gain was related to the revaluation of its unlisted subsidiary Bulleh Shah Packaging as PKGS completed acquisition of 35% stake in the company from Stora Enso South Asia Holdings AB during 4Q2017.
- **Indus Motors (INDU):** INDU was the only auto assembler that reported growth in its net earnings in 4Q2017 thanks to 25% growth in revenues. Sales were up as higher priced variants contributed more towards the sales mix. The company sold a total of 15,047 units, up by 7% YoY. Gross margins fell by 60bps to 17.7% on the back of PKR depreciation against Japanese Yen and US\$, which was not fully passed on

## Key observations of Dec 2017 results

- **Pak Suzuki Motor Company (PSMC):** While PSMC recorded highest sales growth of 47% YoY in the discretionary sector during the outgoing quarter, net earnings fell by 19%, mainly due to 291bps decline in gross margins to 8%. Growth in Sales was supported by 34% increase in volumes. 'Suzuki Wagon R' remained the most impressive variant with volumes reaching to 8,352 units in 4Q2017, up 100% YoY. Followed by Mehran (+31%) and Cultus (+14%), where sales of the models were boosted by increasing demand from online ride apps and sustained low financing rates. Margins were under pressure due to higher CRC prices (raw material), up 18% YoY and currency devaluation, we believe.
- **Honda Atlas Cars (HCAR):** After PSMC, HCAR posted the highest growth in revenues, up 39% YoY in 4Q2017 on account of strong volumetric growth, up 43% to 12,175 units. Sales of Honda variants (City+Civic) grew by 7% YoY owing to rise in demand of their revamped Honda City. The company also sold 3,088 BRV units in the outgoing quarter. Rising input costs significantly dented the company's gross margins which were down 346bps to 10%. Margins were also hampered by discounts given by the company on its BRV variants to its dealers, we believe.



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