

Engro Foods (EFOODS)

4Q2017 LPS Rs0.01 vs. LPS Rs0.27 in 4Q2016; 2017 EPS Rs0.5 down 84% YoY

Dividend Rs0.4/share

Result below expectations

Nabeel Khursheed^{AC}

nabeel@topline.com.pk

Tel: +9221-35303330, Ext: 112

Topline Securities, Pakistan



www.jamapunji.pk

ASIAMONEY

Best Local Brokerage House
Brokers Poll 2011-14, 2016-17



Best Local Brokerage House 2015-16

Earnings marred by lower volumetric sales

EFOODS: Financial Highlights							
Rs mn	4Q2017	4Q2016	YoY	QoQ	2017	2016	YoY
Net Sales	7,518	9,931	-24%	-18%	34,653	43,878	-21%
Cost of Sales	6,512	8,532	-24%	-15%	29,017	33,863	-14%
Gross Profit	1,006	1,399	-28%	-33%	5,636	10,015	-44%
Distribution Expenses	748	1,462	-49%	-20%	3,933	5,045	-22%
Admin expenses	238	272	-12%	16%	852	921	-7%
Other operating Expenses	49	35	37%	15%	122	332	-63%
Other Income	133	61	117%	72%	359	149	141%
Operating profit	105	(310)	NM	-74%	1,087	3,866	-72%
Finance Cost	133	55	142%	-22%	524	348	51%
Profit before Tax	(28)	(365)	NM	-112%	563	3,518	-84%
Taxation	(22)	(157)	NM	-174%	184	1,131	-84%
Profit after Tax	(6)	(208)	NM	-103%	379	2,387	-84%
EPS (Rs)	(0.0)	(0.3)			0.5	3.1	

Source: PSX, Topline Research

- EFOODS' sales continue to disappoint as volume suffer owing to stiff competition in the industry, we believe. Consequently, earnings in 4Q2017 fared below expectations, posting loss of Rs0.01/share though, better than loss of Rs0.27 in same period last year. Despite this, the company announced dividend of Rs0.4/share.
- Net revenues shrank 24% YoY during the outgoing quarter, 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.

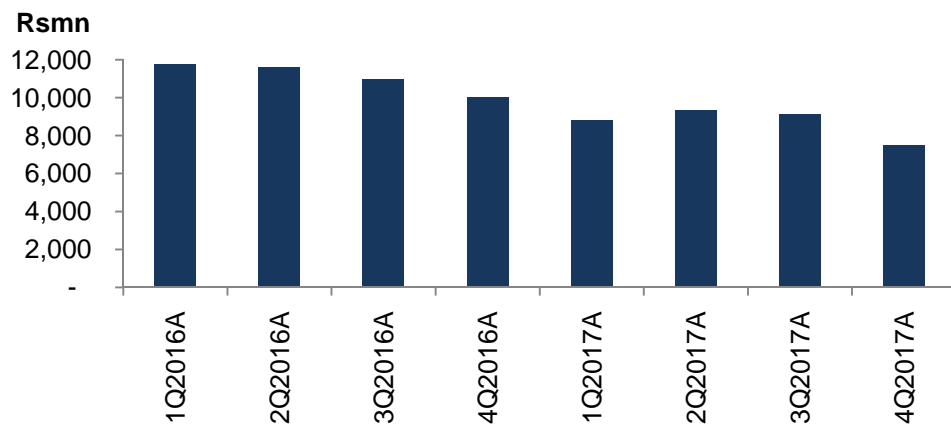
Earnings marred by lower volumetric sales

- The company reported gross margins of 13.4%, down 703bps in 4Q2017. We attribute this to 1) lower volumetric sales thereby making it difficult for the company to pass on fixed charges, 2) tax legislative changes announced by the Govt., which substantially increased the cost of doing business for the UHT industry, and 3) payment of technical fees of 0.5% and 2% of net revenues to Engro Corp (ENGRO) and Royal FrieslandCampina (RFC), respectively.
- Distribution expenses of the company were down 49% YoY in the outgoing quarter. We believe that this was due to lower advertisement expense (constitutes around 50% of total distribution charges).
- We flag, 1) rising competition in tea-whitener category 2) decline in processed milk consumption owing to negative publicity, 3) any unanticipated regulatory change and 4) volatility in international raw milk prices as key risks for EFOODS.

EFOODS: Key Numbers					
	2013A	2014A	2015A	2016A	2017E
EPS	1.1	1.1	4.1	3.1	0.5
Earnings Growth	-66%	0%	86%	86%	-84%
PE at Rs88.1	77.6	77.9	178.3	178.3	178.3
Dividend Yield	0%	0%	0%	11%	0%
ROE	8%	7%	21%	25%	4%
PBV	6.2	5.7	4.5	7.0	6.8

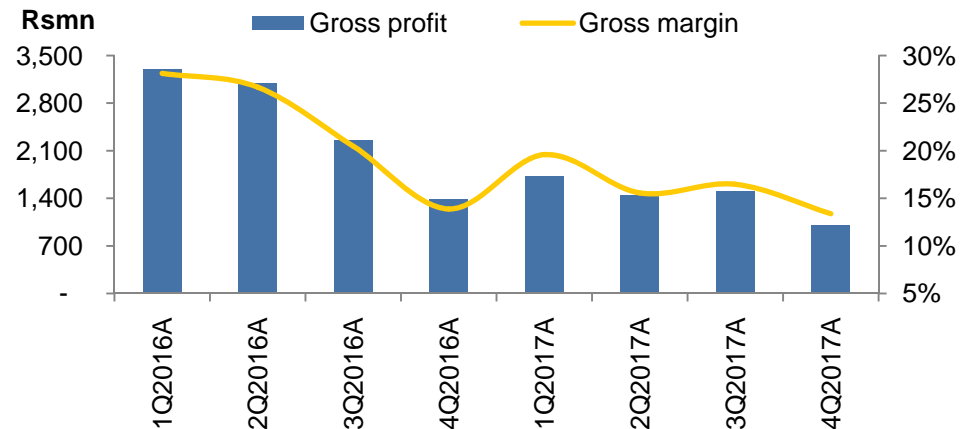
Source: Company Accounts, Topline Research

EFOODS: Quarterly Sales



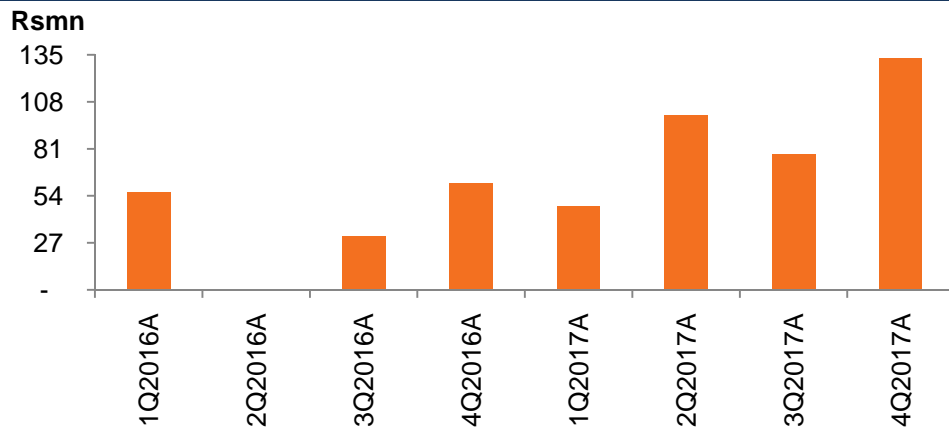
Source: Company Accounts, Topline Research

EFOODS: Quarterly Gross Profit & Gross Margins



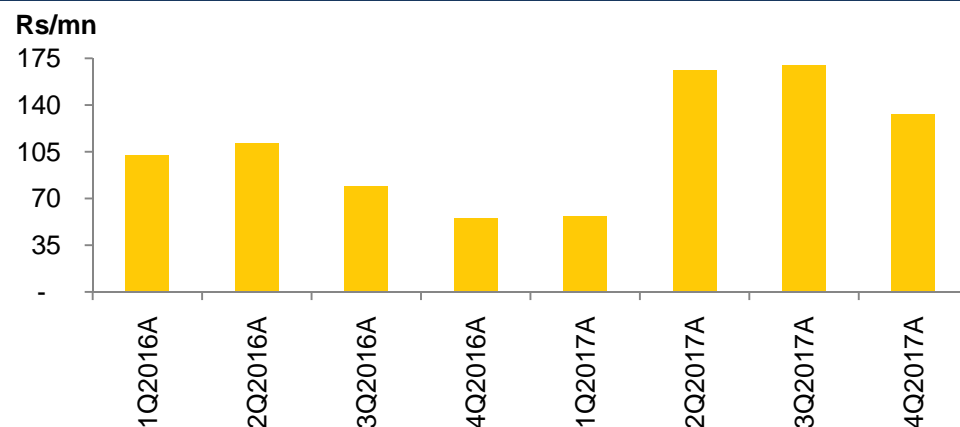
Source: Company Accounts, Topline Research

EFOODS: Quarterly Other Income



Source: Company Accounts, Topline Research

EFOODS: Finance Charges



Source: Company Accounts, Topline Research

Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.