



Consumer Profitability up 2% YoY in Jun 2018

Staples/ Discretionary profits +3%/+1% YoY

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Nabeel Khursheed^{AC}
nabeel@topline.com.pk
Tel: +9221-35303330
Topline Securities, Pakistan

Rising input costs and weak pricing power contract margins



Pakistan Consumer Staples/Discretionary: Jun 2018 Financial Result Highlights

Company	Sales (Rsmn)						Gross Profit (Rsmn)						Profit (Rsmn)						
	Jun-18	Jun-17	YoY	QoQ	1H2018	YoY	Jun-18	Jun-17	YoY	QoQ	1H2018	YoY	Jun-18	Jun-17	YoY	QoQ	1H2018	YoY	
Consumer Staples																			
NESTLE	31,711	31,524	1%	-3%	64,568	4%	11,196	12,297	-9%	0%	22,392	-6%	2,871	3,833	-25%	-15%	6,260	-21%	
EFOODS	8,202	9,328	-12%	15%	15,346	-15%	1,617	1,452	11%	7%	3,135	0%	210	-145	NM	-30%	511	175%	
PAKT	12,904	10,274	26%	-3%	26,269	50%	6,185	4,553	36%	-12%	13,216	59%	2,694	1,461	84%	-26%	6,345	113%	
COLG	8,410	7,642	10%	3%	16,592	9%	2,917	2,808	4%	0%	5,834	2%	773	775	0%	-5%	1,589	-4%	
RMPL	7,188	6,486	11%	1%	14,271	8%	1,852	1,855	0%	1%	3,688	-1%	1,046	1,026	2%	-4%	2,133	0%	
PKGS	13,247	6,749	96%	-2%	26,715	102%	1,809	1,506	20%	-11%	3,831	32%	814	1,655	-51%	372%	987	-69%	
UPFL	3,007	2,804	7%	-7%	6,234	12%	1,352	1,243	9%	-12%	2,887	15%	283	296	-4%	-51%	864	14%	
PMPK	3,869	2,450	58%	2%	7,654	83%	1,599	929	NM	-15%	3,491	160%	319	-163	NM	-21%	724	NM	
Staples	88,537	77,256	15%	-1%	177,649	19%	28,527	26,641	7%	-5%	58,473	14%	9,011	8,737	3%	-13%	19,413	6%	
Staples (Ex outliers)	75,291	70,508	7%	0%	150,934	11%	26,718	25,135	6%	-4%	54,642	13%	9,011	8,737	3%	-10%	19,413	3%	
Consumer Discretionary																			
INDU	40,020	27,928	43%	9%	76,889	26%	6,798	4,614	47%	5%	13,244	21%	4,136	2,757	50%	-3%	8,408	21%	
HCAR	23,854	21,058	13%	-7%	49,631	18%	2,144	2,990	-28%	-13%	4,606	-21%	1,050	2,086	-50%	-24%	2,424	-42%	
PSMC	30,881	22,938	35%	-2%	62,392	33%	1,749	1,921	-9%	-33%	4,365	-10%	394	685	-43%	-56%	1,298	-35%	
Discretionary	94,755	71,925	32%	1%	188,912	26%	10,691	9,525	12%	-7%	22,215	3%	5,580	5,529	1%	-15%	12,129	-8%	
Total Staples & Discretionary	183,292	149,181	23%	0%	366,560	23%	39,218	36,167	8%	-5%	80,688	11%	14,591	14,266	2%	-14%	31,542	0%	
Total (Ex outliers)	170,046	142,432	19%	0%	339,846	19%	37,409	34,660	8%	-5%	76,857	10%	14,591	14,266	2%	-12%	31,542	-1%	

Source: Company Accounts, Topline Research

NM = Not Meaningful

*Outlier

- Pakistan consumer companies (Staples & Discretionary) posted profitability growth of 2% YoY in Jun 2018 quarter vs. decline of 12% YoY in Jun 2017. However, this growth in Jun 2018 was primarily due to strong performance from Tobacco companies (PAKT & PMPK) which recorded outstanding profitability growth of 132% YoY.
- Our analysis is based on sample of listed firms with market capitalization of US\$200mn and above. We have excluded National Foods (NATF) and Thal Limited (THALL) from our sample as they have not yet announced their Jun 2018 results.

Rising input costs and weak pricing power contract margins

- If we exclude Tobacco companies from our sample, profitability of consumer firms declined by 11% YoY during the outgoing quarter vs. 14% YoY growth in Jun 2017 reported by the same sample firms.
- While revenues of consumer companies grew by 19% YoY in Jun 2018, contraction in gross margins, down 234bps YoY to 22% and higher distribution and financial charges, up 8% and 29%, respectively contained bottom-line growth to 2%.
- Delving into the numbers of sub-sectors of consumer companies, staple firms witnessed sales growth of 7% YoY (excluding PKGS as its sales were up 96% YoY due to consolidation effect) in 2Q2018, mainly led by higher sales from Tobacco companies (PAKT and PMPK). In our staple space (excluding PKGS), PMPK and PAKT recorded highest sales growth of 58% and 26% YoY, respectively during the outgoing quarter. This was owing to cut in Federal Excise Duty (FED) on cigarettes falling in lower slab in Budget FY18, which led to higher volumetric sales. Excluding PKGS, PMPK and PAKT, staples sales were only marginally up YoY.
- Sales of dairy producers (NESTLE and EFOODS) remained weak in 2Q2018 as EFOODS sales declined by 12% YoY while NESTLE sales were marginally up. Dull sales were on the back of stiff competition in packaged milk industry, especially Tea-whitening segment.
- Sales of discretionary sector were up by an excellent 32% YoY with INDU recording highest sales growth of 43% in 2Q2018, followed by 35% growth recorded by PSMC. Stellar growth in revenues of INDU and PSMC was on the back of higher volumes and increase in prices.
- Consumer sector margins during the outgoing quarter contracted by 234bps to 22% in 2Q2018 mainly due to decline in margins of discretionary firms (down 196bps YoY to 11%). In discretionary, only INDU managed to sustain its margins at previous levels of 17% while HCAR and PSMC margins contracted by 521bps and 271bps YoY to 9% and 5.7%, respectively.
- Staples margins were down 16bps to 35% in 2Q2018. However, excluding PAKT (margins up 3.6ppts to 48%) and PMPK (margins up 3.4ppts to 41%), sector margins contracted by 166bps to 32% mainly due to decline in NESTLE and PKGS margins. PKGS had lower margins as a result of higher cost of production of its subsidiary Bulleh Shah Packaging.

Rising input costs and weak pricing power contract margins



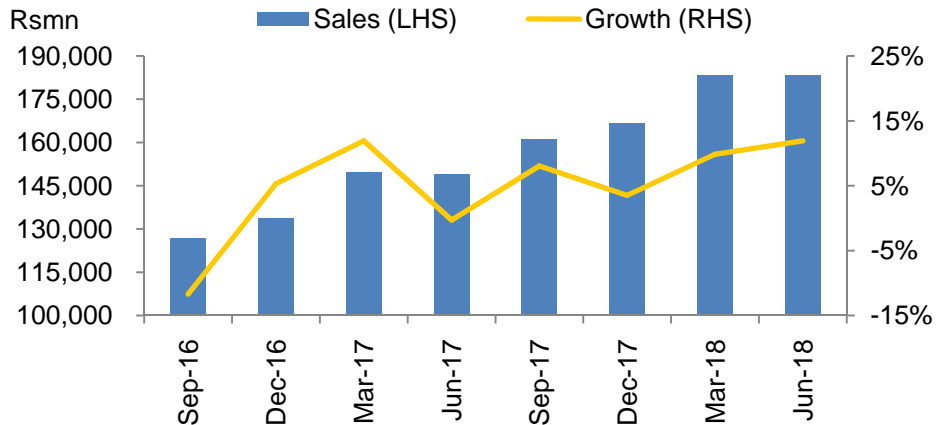
- While discretionary sector profitability remained almost flat YoY in 2Q2018, INDU posted phenomenal earnings growth of 50% thanks to stable margins. On the other hand, staples sector posted profitability growth of 3% YoY in 2Q2018 mainly due to strong performance from Tobacco companies. Excluding tobacco, staples profitability declined by 19% YoY owing to lower profits posted by NESTLE and PKGS. NESTLE earnings declined (-25% YoY) due to pressure on margins which contracted by 370bps YoY to 35% as a result of rising input costs while PKGS profits were down (-51% YoY) largely due to consolidation effect of its subsidiary Bulleh Shah Packaging.

Sector Outlook

- External account situation of the country continue to post challenge to the new Government as Current Account Deficit (CAD) in Jul 2018 clocked-in at a whopping US\$2.2bn, higher than street consensus.
- Pakistan's Consumer Confidence Index (CCI) declined by 2% during 1H2018 while Current Economic Conditions (CEC) index declined by 8%, according to joint survey conducted by Institute of Business Administration (IBA) and State Bank of Pakistan (SBP). However, Expected Economic Condition (EEC) index improved by around 4%, which we believe due to expectation of new Govt. to manage the fiscal and external imbalances.
- We believe that the required measures to curtail the external account i.e further currency devaluation and monetary tightening among others are expected to curtail overall aggregate demand (we expect GDP growth to be 4.7% in FY19 compared to 5.8% in FY18), which will affect consumer purchasing power going forward.
- Dairy producers continue to face challenging environment as new entrants have entered the industry which is affecting producers ability to pass on rising input costs. EFOODS which used to enjoy leadership position in Tea-whitening category through its flagship 'Tarang' has suffered a major blow owing to increased competition.
- We advise our investors to remain cautious in consumer space as we believe that weak macroeconomic variables will limit consumers ability to spend in the coming quarters while increasing competition is likely to push producers to spend more on their advertisement and promotional campaigns, thereby putting pressure on the bottom-line.

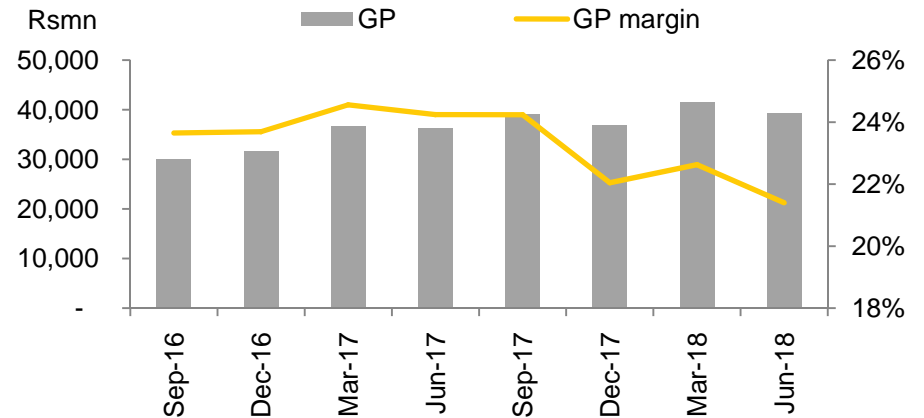
Quarterly performance at a glance

Consumers: Quarterly Sector Sales & Growth



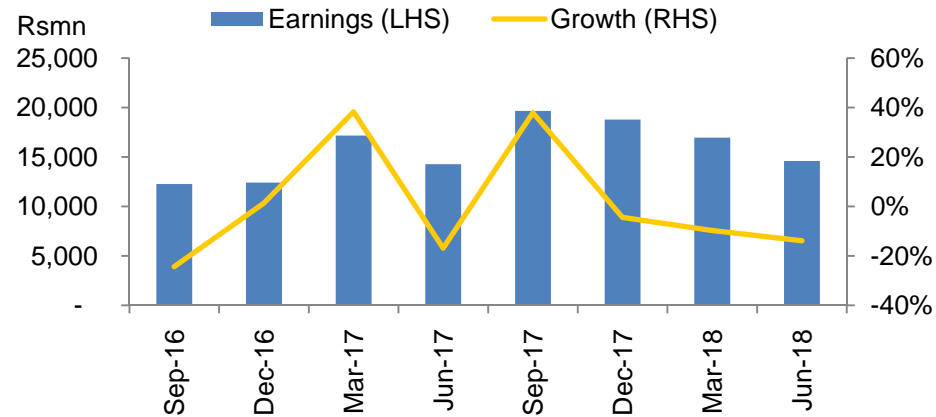
Source: Company Accounts, PSX, Topline Research

Consumers: Quarterly Sector GP & GP Margin



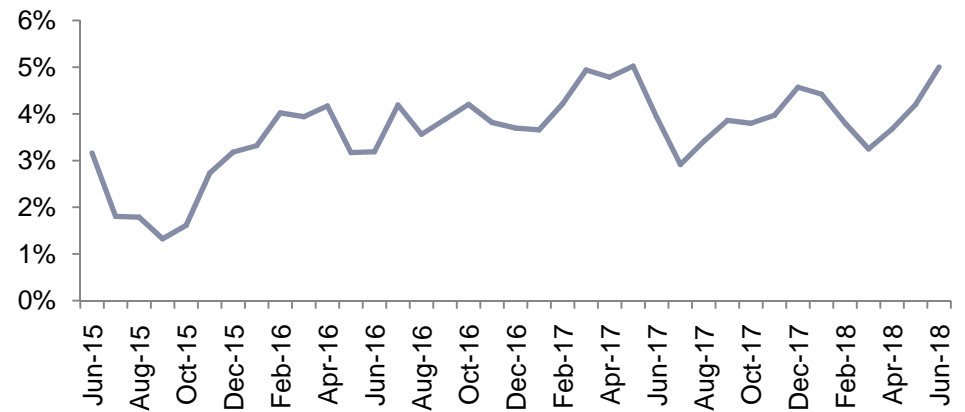
Source: Company Accounts, PSX, Topline Research

Consumers: Quarterly Sector Earnings & Growth



Source: Company Accounts, PSX, Topline Research

Pakistan: Monthly Consumer Price Index



Source: Company Accounts, PSX, Topline Research

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
Consumer staples											
PAKT	Dec	5,663	23	11%	41%	60.4	14.0	62%	65.4	14.1	80%
NESTLE	Dec	4,300	51	9%	20%	40.1	4.2	163%	32.5	3.9	99%
PMPK	Dec	1,980	7	1%	NM	380.6	15.4	-	NM	15.7	484%
COLG	Jun	1,255	8	9%	15%	49.2	5.4	51%	42.6	4.7	51%
RMPL	Dec	652	17	6%	17%	18.6	2.9	112%	16.4	2.8	79%
EFOODS	Dec	609	1,104	-3%	-32%	28.2	1.5	316%**	177.5	1.9	82%
UPFL	Dec	432	4	13%	13%	37.4	5.0	178%	35.2	4.4	93%
PKGS	Dec	386	494	19%	38%	9.7	1.7	48%	7.0**	1.5	27%
NATF	Jun	274	14	19%	10%	37.9	2.2	36%	31.7	1.8	46%
Total Staples		15,844	1,750	14%	22%	44.8	5.5		40.8	5.3	
Consumer Discretionary											
INDU	Jun	1,015	564	8%	25%	10.2	1.1	69%	9.0	1.0	69%
HCAR	Mar	345	713	30%	79%*	11.2	1.0	28%	6.5	0.6	30%
THALL	Jun	314	276	6%	25%	16.6	2.4	31%	7.0	2.0	31%
PSMC	Dec	202	493	11%	33%	8.4	0.3	16%	5.6	0.2	40%
Total Discretionary		1,674	1,553	13%	38%	10.8	0.9		7.6	0.7	
Total Staples & Discretionary		17,518	3,303	13%	27%	33.2	3.5		27.4	3.1	

Source: Company Accounts, Topline Research

Prices as on Sep 3, 2018

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

NM = Not Measurable

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