

# Engro Foods (EFOODS)

2Q2018 EPS Rs0.3 vs. LPS Rs0.2 in 2Q2017; 1H2018 EPS Rs0.7 up 175% YoY

Result above expectations

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## Tax credit and higher other income led to profitability

<b>EFOODS: Financial Highlights</b>						
<b>Rs mn</b>	<b>2Q2018</b>	<b>2Q2017</b>	<b>YoY</b>	<b>QoQ</b>	<b>1H2018</b>	<b>YoY</b>
Net Sales	8,202	9,328	-12%	15%	15,346	-15%
Cost of Sales	6,585	7,876	-16%	17%	12,211	-18%
Gross Profit	1,617	1,452	11%	7%	3,135	0%
Distribution Expenses	1,374	1,267	8%	57%	2,251	0%
Admin expenses	228	177	29%	19%	420	3%
Other operating Expenses	9	-2	-634%	-76%	48	55%
Other Income	184	100	84%	53%	305	106%
Operating profit	190	109	74%	-64%	722	24%
Finance Cost	176	166	6%	33%	309	39%
Profit before Tax	14	-56	-125%	-97%	413	14%
Taxation	-196	89	-320%	-300%	-98	-156%
Profit after Tax	210	-145	-245%	-30%	511	175%
<b>EPS (Rs)</b>	<b>0.3</b>	<b>-0.2</b>			<b>0.7</b>	

**Source: PSX, Topline Research**

- Contrary to our expectation of a loss during the outgoing quarter, EFOODS reported profits of Rs210mn (Rs0.27/share), mainly due to a tax credit of Rs196mn (Rs0.26/share) and higher than expected other income. However, in-line with expectations, the company reported decline in revenues in 2Q2018, down 12% YoY, as competition from new entrants continue to weigh in on the company's sales.
- While we await management clarity on tax credit and other income, we attribute higher other income mainly to revaluation gain on biological assets due to currency devaluation. We believe that both events are a one off.

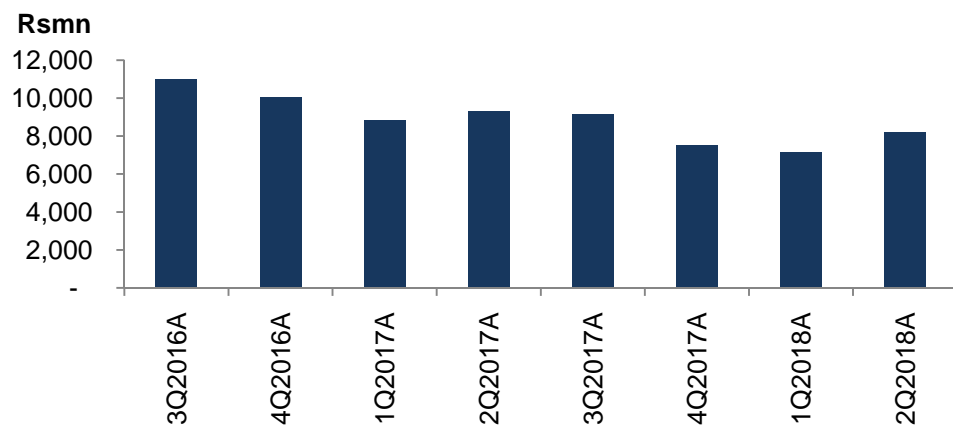
## Tax credit and higher other income led to profitability

- To note, the company is struggling to re-position itself in the dairy segment which constitutes over 90% of the company's revenues. This was due to the growing competition in the tea-whitening segment where EFOODS used to dominate the industry through its flagship 'Tarang'.
- The company reported gross margins of 19.7%, up 415bps in 2Q2018. We attribute this to better sales mix compared to last year.
- Administrative expenses of the company were up 29% YoY during the outgoing quarter. We believe that this was due to higher salary expenses (constitutes around 50% of total admin charges).
- In 1H2018, EFOODS booked profits of Rs511mn (Rs0.7/share), up 175% YoY due to better margins, higher other income and tax credit.
- We flag, 1) rising competition 2) decline in processed milk consumption, 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	2017A
EPS	1.1	1.1	4.1	3.1	0.5
Earnings Growth	-66%	0%	264%	-25%	-84%
PE at Rs90.2	79.4	79.6	21.9	29.0	182.4
Dividend Yield	0%	0%	0%	11%	0%
ROE	8%	7%	21%	25%	4%
PBV	6.3	5.9	4.6	7.1	7.0

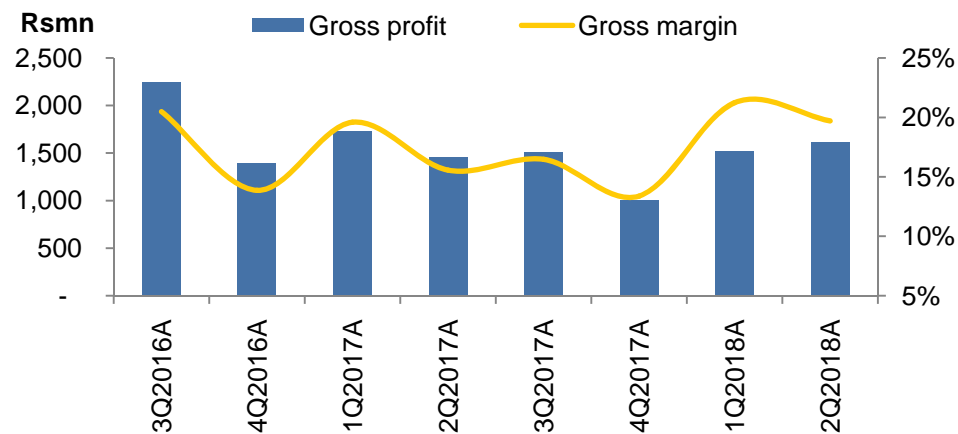
Source: Company Accounts, Topline Research

### EFOODS: Quarterly Sales



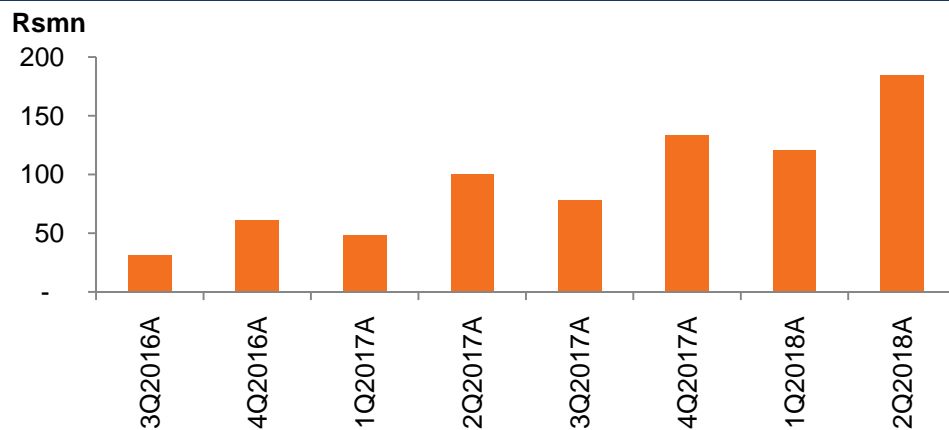
Source: Company Accounts, Topline Research

### EFOODS: Quarterly Gross Profit & Gross Margins



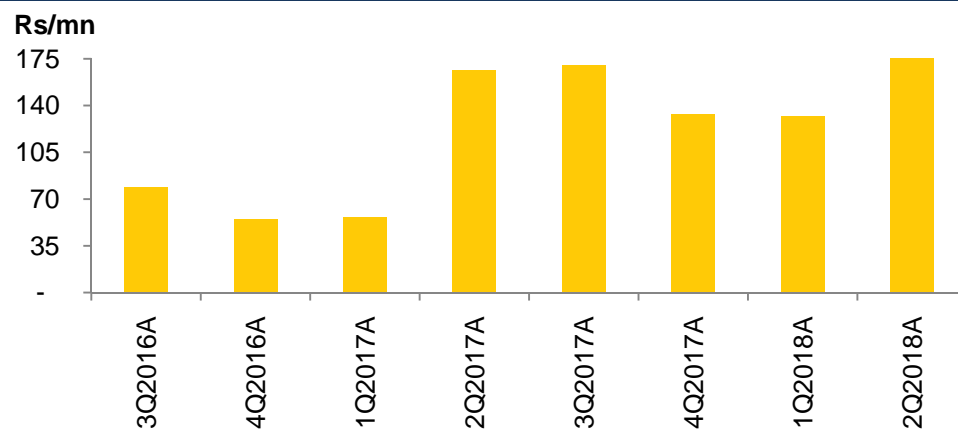
Source: Company Accounts, Topline Research

### EFOODS: Quarterly Other Income



Source: Company Accounts, Topline Research

### EFOODS: Finance Charges



Source: Company Accounts, Topline Research

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