



KSE100 Closing 11807.46(+39.94points)

November 4, 2011

Pakistan Research

Foods | Review

## EFOODS SHOWING QUICK PROGRESS | LONG TERM PROPOSITION

Engro Foods (EFOODS), a company that compares itself with Nestle in the food industry, reported a substantial increase in earnings for the 9MCY11 period. The company reported an EPS of Re0.56/sh which is 571% higher as than the Re0.08/sh in the same period last year.

The main reason for the hike in EPS is the increase in revenue of 42 % to Rs21.36bn in 9MCY11 from Rs15.02bn in 9MCY10.

P&L a/c Rs '000	9MCY10	9MCY11	% Chg.
Net Sales	15,020,002	21,365,831	42%
COS	(11,752,172)	(16,841,370)	43%
GP	3,267,830	4,524,461	38%
Distribution and marketing exp.	(2,414,124)	(2,689,125)	11%
Administrative exp.	(361,175)	(391,933)	9%
Other operating exp.	(58,351)	(92,036)	58%
Other operating income	109,794	74,008	-33%
PBIT	543,974	1,425,375	162%
Finance costs	(487,365)	(799,163)	64%
PBT	56,609	626,212	1006%
Taxation	(19,317)	(218,652)	1032%
PAT	37,292	407,560	993%
EPS	0.08	0.56	571%

Source:KSE announcement

Engro Foods revenue comprises of four segments including Dairy and Juices segment, ice-cream and frozen desserts segment, dairy farm segment and rice segment.

**Dairy And Juices Segment:** The overall Dairy and Juices Segment witnessed a growth of 38% in revenue and 20% in terms of volume, recording a revenue of Rs14.106bn in 9MCY11 as against Rs19.447bn in 9MCY10. However, the gross profit as a percentage of sales was maintained at 21% in both the periods, owing to increase in cost in line with sales.

### Dairy

The Dairy segment witnessed a growth in volume of 20% as compared to same period last year thereby registering a 40% growth in revenue.

Furthermore, *Olper's* extended its variants line to include *Badam Zafran* and *Rose* flavours as well as launched 200mn SKU in September.

The company maintains its leadership position in the **Ambient UHT milk\*** segment with an increase in market share to 44% from 39% in December 2010, where as the Ambient UHT market grew by 11% in 9MCY11 as per company estimates.

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EFOODS closing Rs25.78/sh

High Rs26/sh

Low Rs25.50/sh

Chg 0.49%

52 week hi Rs26.70/sh

52 week low Rs20.60/sh

Beta 0.98

Total # of sh. 748mn

Free float 16.15mn

EPS CY10 Re0.31/sh

EPS CYE11 Re0.97/sh

**\*Ambient milk: Milk which can be stored at room temperature.**

**\*UHT (Ultra High Temperature) plant is used to heat-treat milk i.e. sterilise it.**

**\*ACCA Affiliate**

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The company also launched Dairy *Omung* and *Tarang Tea Whitening Liquid* (in 1000ml SKU), in June and July respectively.

### Juices and Nectars

The juices segment also progressed during the period with *Olfrute* showing a steady growth. The company also displayed innovation by adding new flavours such as Apricot and Green Cocktail in its portfolio.

### Ice-cream and Frozen Desserts Segment

The *Omore* ice-cream which was introduced in the 1Q in Karachi also did quite well with a volumetric growth of 45% compared to same period last year, thereby registering a revenue increase of 64% to Rs2.2bn. The industry grew by 5% but the market share of *Omore* increased from 17% to 23% as estimated by the company.

However, as the company had determined, it incurred a loss after tax of Rs285mn in the ice-cream segment as compared to Rs293mn in the corresponding period last year, on account of ongoing investment in its brands and the cold chain infrastructure.

### Dairy Farm Segment

The dairy farm incurred a loss after tax of Rs87mn as compared to Rs69mn in the same period prior year mainly owing to the lower yield than international benchmark and less utilisation of farming house capacity.

However, the company did increase its herd count to 2615 animals from 2512 animals in December 2010, producing 13.7litres of milk per day per milking cow.

### Rice Segment

Engro Foods Ltd's 70% owned subsidiary Engro Foods Supply chain (Pvt) Ltd that has set up a rice processing facility at Muridke, processed 10,345tons of finished rice for EXIMP and a revenue of Rs509mn. The company's board has approved the sale of 70% equity shares (133mn shares) in Engro Foods Supply Chain (Pvt) Ltd to EXIMP at a fair value of Rs10.64/sh which would be subject to approval by the shareholders on November 28, 2011. This sale would result in a one time gain for EFOODS of Rs51mn.

### Al-Safa

EFOODS is also going to acquire Al-Safa, (a halal meat brand in North America acquired by Engro Corporation in a joint venture at a total cost of US\$6.3mn), at actual cost. The performance of Al-Safa in the first 5months registered sales of US\$3mn and loss after tax of US\$0.33mn which was directly included in the consolidated financial statements of Engro Corporation.

*Ice-cream segment registered a revenue increase of 64% to Rs2.2bn.*

*EFOODS increased its herd count to 2615 animals from 2512 animals in December 2010, producing 13.7litres of milk per day per milking cow.*

*The company maintains its leadership position in the Ambient UHT milk segment with an increase in market share to 44% from 39% in December 2010.*

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Margins and Ratios	9MCY10	9MCY11	% Chg.
PBIT	3.6%	6.7%	84%
PBT	0.4%	2.9%	678%
PAT	0.2%	1.9%	668%
Cost/sales	78.2%	78.8%	1%
Admin/sales	2.4%	1.8%	-24%
Distribution/sales	16.1%	12.6%	-22%
Effective tax rate	34.1%	34.9%	2%

Source: KSE announcement and Standard Capital Research

The **cost of sales** of the company as a percentage of sales was quite in line with the prior period, with yielding a **gross profit** of Rs4.52bn thereby demonstrating an increase of 38% from the corresponding period last year.

The **administration and distribution expenses** increased in absolute terms by 9% and 11% respectively; however as a **percentage of sales**, admin to sales and distribution to sales decreased by 24% and 22% respectively.

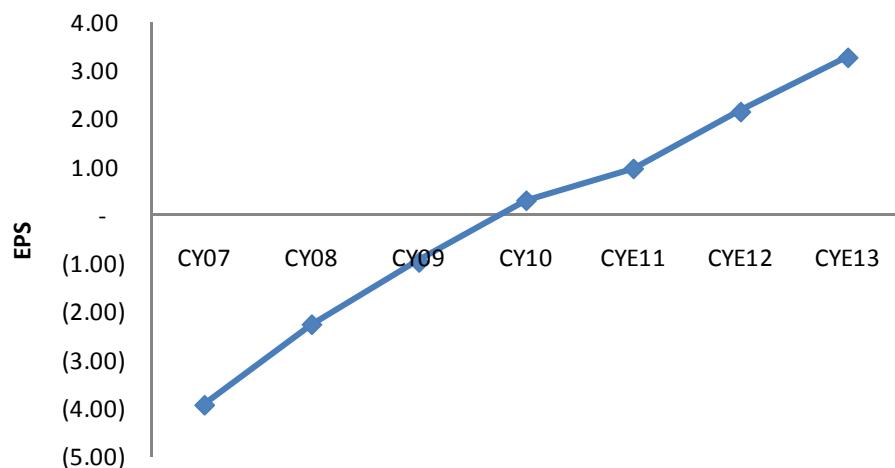
The **PBIT** of the company increased by 162% to Rs1.42bn from Rs0.54bn as compared to same period last year.

**PBT** increased by 1006% from Rs0.056mn in 9MCY10 to Rs0.626bn in 9MCY11

**Taxation** amount was huge one with effective tax rate of 34.9% as against 34.1% in the same period prior year resulting in **PAT** of Rs0.407bn as against Rs0.037bn in 9MCY10.

*The company's board has approved the sale of 70% equity shares (133mn shares) in Engro Foods Supply Chain (Pvt) Ltd to EXIMP at a fair value of Rs10.64/sh which would be subject to approval by the shareholders on November 28, 2011.*

## EPS TREND



EPS CYE11 Re0.97/sh  
DCF FV Re141/sh

*It appears that the company is going in line with its agenda of expansion, which would incur losses in the initial years of expansion, but would be truly fruitful in the long run.*

**We expect the company to yield EPS CYE11 of Re0.97/sh with a DCF fair value of Rs141/sh.**

**In our opinion EFOODS is an attractive investment for long term purposes.**

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