



## Engro Foods continued to maintain prospering earning saga.... CY13 PE 14.5x – 15.0x

### Synopsis

Engro Foods dispatched within expectations results with a bottom line growth of 191% thus reporting PAT of Rs.2.59bn (EPS:Rs.3.45/sh) in CY12 as opposed to PAT of Rs.890mn(EPS:Rs.1.19/sh). This earning growth is a representation of sales of a fine product mix and hefty marketing campaign in the country.

During 1HCY12, EFOODS launched Omung Lassi targeting budget conscious segment of our society into 2 flavours; sweet and sour, the company has incurred huge marketing cost realizing 45% increase in 1HCY12 over the corresponding period last year and the initial response from consumers has been very encouraging, as per company's surveys. The dairy and justice segment which consisted 91% of FY11 revenue, grew by 51% in value terms over the same period last year with dairy volume grew by 39%. These all strategies along with existing product mix contributed to yield a net revenue of Rs.40bn in CY12 as opposed to Rs.29.8bn in CY11 realizing 35% y-o-y growth in revenue and CAGR growth of 49%.

EFOODS maintained consistent margins in line with other peers in the market like NESTLE. Admin Exp also rose by 47% which is in line with sales growth whereas other income also grew 79%. Gain from changes in Fair Value of biological assets consisted of 43% in relation to total income which compelled us to believe that this trend continued in CY12

P&L(Rs'000)	CY07	CY08	CY09	CY10	CY11	CY12	Chg.
Net sales	3,631,134	8,173,497	14,665,341	20,944,943	29,859,226	40,168,919	35%
Cost of sales	3,370,423	7,127,613	12,163,291	16,552,117	23,230,445	29,848,301	28%
Gross profit	260,711	1,045,884	2,502,050	4,392,826	6,628,781	10,320,618	56%
Distr. & Mkt. Exp	949,941	1,304,537	2,419,019	2,913,448	3,716,489	4,709,275	27%
Admin Exp.	128,679	303,954	346,696	473,196	504,722	740,690	47%
Other Opr. Exp	32,144	20,483	53,038	131,460	208,902	429,763	106%
Other Opr. Inc	1,761	79,974	175,976	54,942	213,133	382,402	79%
PBIT	(848,292)	(503,116)	(140,727)	929,664	2,411,801	4,823,292	100%
Finance Cost	105,450	353,986	515,305	659,562	1,049,141	902,503	-14%
PBT	(953,742)	(857,102)	(656,032)	270,102	1,362,660	3,920,789	188%
Tax	(333,809)	(302,965)	(222,739)	94,478	471,687	1,325,616	181%
PAT	(619,933)	(554,137)	(433,293)	175,624	890,973	2,595,173	191%
EPS-Diluted	-0.82	-0.74	-0.58	0.23	1.19	3.45	191%

### Capex plan likely to make EFOODS market leader of tea whitener...

The company continued its aggressive business strategy of growth and diversification and achieve volumetric growth of 25% in CY12 driven by tea creamers where Tarang maintained its leadership whereas Omung also contributed to the growth. The Dairy and Beverages segment recorded revenue of Rs37.3bn and PAT of Rs447.7mn.

In addition to this, the company incurred capex of PKR 1.8bn as at 9MCY12 which we estimate to rise further. Additional Capex would be made in CY13. The main capex item planned for the year was expansion of powder plant. It is also worth noted that EFOODS has already achieved 51% market share across Ambient UHT segment. The new powder plant which was anticipated to start commercial operation in 1HCY13 would now be delayed by a few months. Moreover, the company's revised capex plans would be apparent once its full-year results are available.

The ice-cream market reported a downward spiral due to the continued energy shortages resulted in volumetric decline of 3%. The ice-cream segment recorded revenue of Rs.2.8bn and Net Loss of Rs409mn.

### Future Outlook: Still Positive

Food products have a propensity of higher pay off in terms of revenue and yet EFOODS is not an exception. We remain still positive regarding upcoming results in the wake of the fact that EFOODS has reportedly paid Rs200mn in the first week of January and acquired 500acres of land in Sahiwal for breeding cattle. At present EFOODS is operating with 3200 odd animals yielding milk of 6.18 liters per year and the company may add livestock in the best land of Sahiwal and then would purify milk and hence production and sales numbers would increase manifold. But this increase would be steady in couple of years when the herd size would be increased in the wake of breeding.1q

Secondly, EFOODS has started exporting Tarang milk (tea whitener). The destination is neighbouring India where EFOODS has reportedly hire people to market the product into another big consumption market.

We also believe that EFOODS would be a part of new diversification plans in order to grow its market share and to remain competitive. Such diversification plans could include indulging in operations of producing ketchup and frozen meat products.

### Valuation: PE of 14.5x – 15.0x

We see EFOODS attaining growth trajectory wherein we target EPS of Rs 7/sh in CY13; wherein we consider EFOODS a value investment. This entails CY13 PE of 14.5x – 15.0x wherein other peer still provide above 35x PE and hence provide value. We maintain BUY recommendation in EFOODS. We signal uptick in our target price of Rs 131/sh (from our last report).

Analyst:  
**Mubeen Diwan**  
+92-21-111 111 721