

EFOODS

Cumulative Profit & Loss Statement

(In Rs. '000)

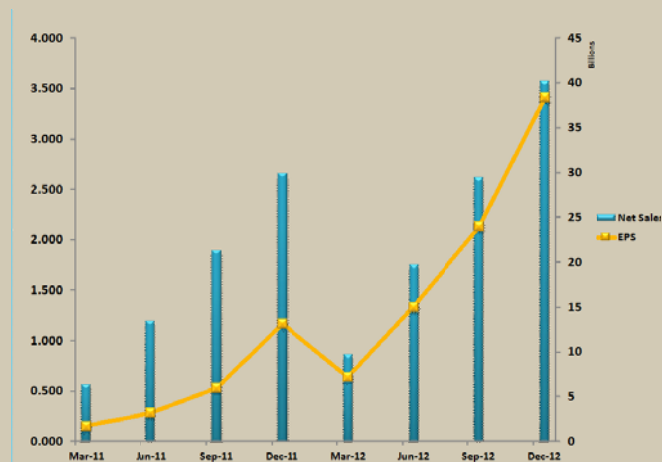
Quarter	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Net Sales	9,666	19,765	29,395	40,169	9,624
Cost of Sales	7,410	14,922	22,098	29,848	6,782
Gross Profit	2,256	4,843	7,297	10,321	2,841
Operating Exp.	883	1,805	2,867	4,441	1,101
Other Income	65	172	243	382	71
Operating Inc.	948	1,977	3,110	4,823	1,172
Finance Cost	209	441	677	903	200
PBT	739	1,536	2,433	3,921	973
Taxation	253	518	814	1,326	320
PAT	486	1,018	1,619	2,595	653
EPS	0.64	1.34	2.13	3.41	0.86

Source: Company Records

EFOODS Statistics

Last Trade	23-May-13
Avg Volume (52 Weeks)	3,415,425.08
Close	143.62
52 Weeks High	149.95
52 Weeks Low	60.5
Market Capitalization	109.32bn
Beta	1.45
Total No of Shares	761.18mn
Free-Float Shares	16.15mn

Source: www.scstrade.com



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EFOODS – our preferred pick given our forecast of great earnings increase in CY13 / Transfer of coverage

EFOODS is our preferred pick in the food sector; we signify target of Rs197/sh and CY13 EPS target of Rs6.90/sh – an earnings jump of over 100% from Rs 3.41/sh. Here we consider EFOODS a value investment.

The company shall reap benefits of any price increase in flag brand Olpers – cheaper than other peer brands of Nestle. We sense any price increase could boost turnover of one of the best selling brands.

Going forward, doubling of cattle would actually increase turnover and overall earnings capacity in CY14 and beyond. In this respect, the NARA vicinity is now a flashpoint for analyst community. At present we see good response of sun-protected 'Olper pouch'. Moreover, EFOODS elite milk brand Umang and tea-whitener Tarang is carving niche.

Olpers' international packing may cater Indian market

If we recall it has been told earlier in one of the analyst briefings that brand "Olpers" is going to catch Indian market with a new feature in the packaging which may increase the cost and also the selling prices. The Indian market welcomes EFOODS with 6%-7% of taxation in contrast with Pakistan where the number is stood at 16% in terms of GST. Apart from India, there are other regions which EFOODS milk segment may target such as Middle East etc.

The elevation of government-elect in the centre would be a good omen since trade relations with India is one of their preferences. In light of this, we see good market for EFOODS brands in India.

Endless Possibilities – as they say

We have been showing our good expectations regarding future potential of EFOODS from time to time. This report is intended to cover the endless possibilities which EFOODS could make up to gain a big market share in overall food sector.

EFOODS's is said to be contemplating meat sales and resultant exports through its known effort Al-Safa which is currently an immature market in Pakistan with few competitors like K&N. It could be done by mergers or acquisition or local brands. Alternatively, it could also establish its own shops – the beneficial impact is not expected before 2015, as per our analysis.

EFOODS on the way to become leader of dairy products

The company has been consistently introducing dairy products. The player has been dealing in tetra pack milk products successfully under the brand names of Omung and Tarang. Particularly it's Omung Lassi which brought a new concept in the market. The company is promoting its product Omung Lassi in different universities to cater to the youth segment for seasonal sales in hot summers. The results would be awesome especially in the coming Ramadhan.

Powder Milk – Possible new product:

Through EFOODS have wide range of dairy products, it lacked with the powder milk product, which is expected to be launch in near future as it was spelled out in an analyst briefing. We believe that to access larger market of powder milk through existing distributors and suppliers, EFOODS may take over any existing small player. We believe this could roll out in this calendar year. We are waiting for more details on the project.

Increase in Prices of Olpers'

Any increase of Rs 2 - 4 per litres of Olpers will slightly increase the gross margin and will lead to an incremental EPS in upcoming financial results. We believe that the Increase in prices is a strategy to upfront its standard to international brand of Nestle.

Segment wise update

Ice cream: Since EFOODS intended to diversify its operations into other products the competition would be severe but since EFOODS's strategy has always been to introduce innovative products that have no competitors like 'Omung Lassi' and 'Thanda Meetha Pan Kulfi' which actually have no peers. The marketing campaign is in full swing (though we have yet to see consumer preference). We forecast the product will make it a niche in 2013 summers.

Juices: Nestle is the big competitors in the juice and beverages market like Nestle Fruita-Vitals which is giving tough time to Olfrute. However, there has always been a criticism on Olfrute over its bitter taste which would probably be improved to penetrate in the market.

Power of Customers: The market for EFOODS is scattered among number of different customers as the company deals in retail market, therefore it doesn't seem to have big impact on sales.

Substitute Products: Since EFOODS is operating in food sector niche, customers have a number of options available to switch from one product to another like in terms of ice-cream.

Self Supplier: Since EFOODS have own Dairy farm at Nara Sindh to be its own supplier to produce milk, as milk is the major raw material for EFOODS. With 28,000 litres per day milk capacity EFOODS do not face bargaining power of suppliers.

Valuation...

We forecast EFOODS to troll aggressively in coming five years.

Based on P/E which is currently 20x – 21x, as against other peers such as Unilever Foods 41x, Nestle 51x & National Foods 27x. We consider EFOODS to be a value investment based on continuous investments in ventures. This is what we understood we back in 2008 during our meeting with the management when the project was still at its infancy.

We maintain our target price of Rs197/sh. *(we will shortly come up with 1HCY13 forecast)*

BUY maintained.