

Engro Foods — Efoods-Target price of RS: 195/Share

About the company:

Engro Foods Limited was officially launched as a fully owned subsidiary of Engro in 2004. Using dairy as a stepping stone to enter into the food business, the Company has established state-of-the-art processing units in Sukkur and Sahiwal, along with an ice cream production facility in Sahiwal. Top quality brands like Olper's, Tarang and Omoro have been successfully launched. To support these brands and their highest standards of quality, Engro Foods has invested heavily in milk processing and milk collection infrastructure. The company has 767mn shares outstanding and is listed on Karachi and Lahore Stock Exchange. Engro Corporation holds around 85% shares of EFOODS.

BUSINESS REVIEW:

In First Quarter ended March 2015, Company attained a growth in revenue of 25% mainly on the support of robust performance in the dairy and beverages segment. Revenue for the period was Rs.12.6 billion versus Rs. 10 billion in the same period last year. Sustained and impactful investment on brands and effective pricing strategy were the key elements in achieving a double digit growth. Gross margin of the Company also improved from 20.3% to 27.4%. As a result, the overall profitability of the Company increased to Rs. 1,069 million from Rs. 220 million in the same period last year.

PKR	FY13-14	(E)FYE 14-15
Net Sales	43,027,377	55,964,855
Cost of Sales	(34,926,132)	(41,091,416)
Gross Profit	8,101,245	14,873,440
Selling & Distribution	(4,692,502)	(5,224,921)
Admin Exp	(1,282,240)	(1,361,238)
Other Income	304,854	376,860
Other Operating Expense	(103,770)	(522,195)
Finance Cost	(1,236,904)	(1,114,630)
Profit Before Tax	494,355	6,907,993
Taxation	394,476	(2,008,771)
Profit for the Period	888,831	4,899,222
EPS	1.16	6.39

DAIRY AND BEVERAGES SEGMENT:

Continuing momentum from last quarter of 2014, the segment witnessed volumetric growth of around 22% in first quarter versus the same period last year. Dairy market share was 56% as of February 2015 as per A.C. Nielsen. The segment reported a top line of Rs. 12 billion registering a growth of 26% versus the same period last year. Marketing investment doubled as compared to same period last year to further strengthen brand equities. Profit after tax for the three months was Rs. 1,172 million showing an increase of 165% versus the same period last year. The increase in PAT was due to higher volumes as well as lower milk prices, fuel and energy cost.

June 15-2015

ENGRO: BUY

Current Price: 151.65

Target Price: 195

Key Data

Ticker	ENGRO
52Week High(PKR/sh) Adj	155.48
52Week Low(PKR/sh)Adj	89.8
Market Cap.(PKR Bn)	117.74
P/E Ratios 2015(E)	14

	EPS	ROCE
2011	1.2	7.9%
2012	3.4	18%
2013	0.3	1.2%
2014	1.2	5.1%

	P/E (ADJ)	G.P Margin
2011	127.5	22.2%
2012	15	25.7%
2013		21.6%
2014	127.5	18.8%

	PAT(Millions)	EBITDA
2011	891	3375
2012	2595	6071
2013	211	2907
2014	889	3681

	L-Debt/Equity	B.V
2011	43.7%	9.6
2012	37.5%	13.2
2013	39.9%	14.0
2014	32.1%	15.10

Research Desk

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ICE CREAM AND FROZEN DESSERTS SEGMENT:

June 15-2015

During the first quarter ended March 31, 2015, the Ice Cream business witnessed volumetric growth of 16% versus the same period last year. This growth was led by consumer relevant product launches, expansion and driving operational excellence in the distribution network. In previous years, Management distribution strategy did not work very well and company found it difficult in distributing refrigerators fast enough among retailers also created issues. Further, incessant power breakdowns threatened to damage the massive advertising campaign that was carried to promote this product under the name Omore. Company was able to recover from these issues with effective strategy and results are starting to get appear in terms of high volumetric sales revenue.

DAIRYFARM SEGMENT:

Due to impact of animals' valuation and better yield, the segment reported the profit of Rs 33 million in the first quarter versus loss of Rs 20 million in the same period last year.

OLPERS & TARANG STILL ZERO-RATED:

Olpers and Tarang contribute to more than 90 % of the revenue in EFOODS and we believe that they are still zero-rated. If Olpers and Tarang had moved to the sales tax class, EFOODS would need to increase prices by around Rs5/liter and Rs4/liter respectively to keep margins intact.

EARNINGS UP- BUY WITH THE TARGET PRICE OF Rs: 195/Share:

In other events, maximum general tariff has been cut to 20% from 25% previously, translating in lower duty on milk powder import from non SAARC, this will make an additional contribution of Rs: 3/Share towards the final EPS of Rs: 6.39/Share. We maintain **“BUY”** on Efoods with TP of **195/Share**.

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