

# Day Break

Friday, 15 April 2016

## Company Update

### Engro Foods Ltd.

Food & Personal Care Products

<b>Recommendation</b>	<b>HOLD</b>
Target Price	166.4
Last Closing	154.9
Upside	7%

### Market Data

Bloomberg Tkr.	EFOODS PA
Shares (mn)	766.6
Market Cap (PKRbn   USDmn)	118.7   1,133.8
Exchange	KSE 100

<b>Price Info.</b>	90D	180D	365D
Abs. Return	0.8	(6.5)	20.3
Low	119.5	119.5	119.5
High	167.1	167.1	175.2

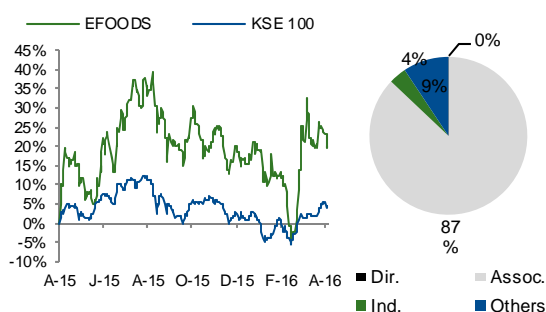
### Key Company Financials

PKRbn	CY14A	CY15E	CY16F	CY17F
Total Revenue	43.0	49.8	53.2	58.7
Net Income	0.9	3.2	3.8	4.2
EPS (PKR)	1.2	4.1	4.9	5.5
DPS (PKR)	-	-	-	-
Total Assets	25.8	26.3	27.9	29.8
Total Equity	11.6	14.9	18.7	22.9

### Key Financial Ratios

	CY14A	CY15E	CY16F	CY17F
ROE (%)	8%	21%	20%	19%
P/E (x)	133.5	37.5	31.5	28.0
P/B (x)	10.2	8.0	6.4	5.2
DY (%)	-	-	-	-

### Relative Price Performance & Shareholding



### About the Company

The Company is a public limited company incorporated in Pakistan. The principal activity of the Company is to manufacture, process and sell of dairy, beverages, and frozen desserts.

Source: Bloomberg, KSE 100 & IGI Research

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## Engro Foods Limited

### 1QCY16 Earnings; PKR 1.26/share

- Engro Foods (EFOODS) is scheduled to announce its 1QCY16 financial result on 19th Apr-16. We expect earnings to drop by 10%YoY to PKR 1.0bn (EPS PKR 1.26) in 1QCY16, as compared to PKR 1.1bn (EPS PKR 1.39) reported in the same period last year.
- We have revised down our earnings estimates and target price for the scrip, as a result of a) slower penetration of packaged milk in loose milk market, b) Nestle's continuous investment in its dairy segment and focus on unit sales, c) stiff competition in UHT segment due to revamping of Noon Pakistan, and d) entry of many players in high margin tea whitener business.
- The scrip is currently trading at CY16E P/E of 32x and with our Dec-16 TP of PKR 166/share, the stock offers upside of mere +7%, hence we maintain 'Hold' call on the scrip.

### Earnings clocking in at PKR 1.26/share in 1QCY16

Engro Foods (EFOODS) is scheduled to announce its 1QCY16 financial result on 19<sup>th</sup> Apr-16. We expect earnings to drop by 10%YoY to PKR1.0bn (EPS PKR 1.26) in 1QCY16, as compared to PKR 1.1bn (EPS PKR 1.39) reported in the same period last year. Gross Margin is expected to hover around 24% in 1QCY16 as compared to 27% in 1QCY15. Profitability, however is anticipated to improve by +72%QoQ. Financial charges are likely to drop by 41%YoY to PKR 156mn in 1QCY16, on the back of timely debt repayments and lower interest rates. Company's long term debt has come down to PKR 5.5bn in CY15 from PKR 7.6bn in CY14.

### Exhibit: Financial Highlights

PKR mn	1QCY16	1QCY15	YoY	4QCY15	QoQ
Revenue	13,033	12,576	4%	12,170	7%
Gross Profit	3,091	3,435	-10%	2,118	46%
Selling and Admin	1,510	1,576	-4%	1,187	27%
Financial Charges	156	267	-41%	272	-43%
Tax	393	491	-20%	225	75%
Net profit	963	1,069	-10%	561	72%
EPS	1.26	1.39		0.73	
<b>Key Ratios</b>					
Gross Margin	24%	27%		17%	
Net Margin	7%	8%		5%	

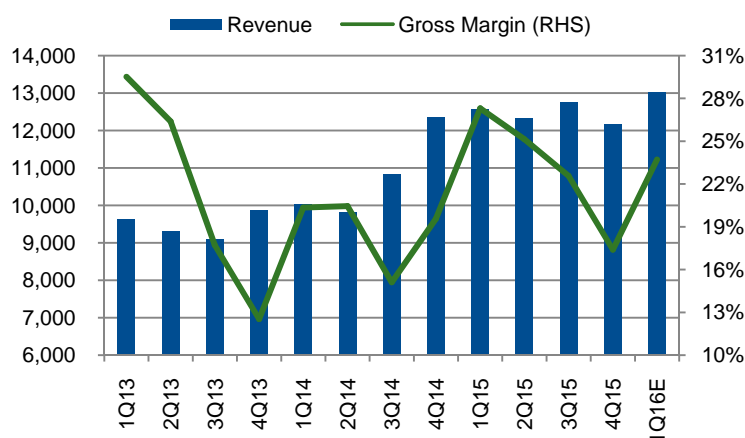
Source: IGI Research, Company Financials

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### Acquisition to Unlock Value

Pakistan's milk industry is around 40bn ltrs annually, of which UHT segment constitutes a very small pie. To capitalize on the potential of packaged milk industry, a Dutch company, Friesland Campina has shown its intention to acquire upto 51% shareholding in Efoods from Engro Corporation, which currently holds 87% ownership in the company. We believe, this would unlock potential value of Engro Foods in the longer term, as Friesland is expected to bring its expertise in dairy business achieved over course of many years. The stock has rallied up +16% since the announcement for acquisition was made on 3<sup>rd</sup> Mar-16.

**Exhibit: Revenue (PKR mn) and Gross Margin**



Source: IGI Research, Company Financials

### Outlook

We have revised down our earnings estimates and target price for the scrip, as a result of a) slower penetration of packaged milk in loose milk market, b) Nestle's continuous investment in its dairy segment and focus on unit sales, c) stiff competition in UHT segment due to revamping of Noon Pakistan, and d) entry of many players in high margin tea whitener business. However, in the longer term, improving purchasing power, changing consumption pattern and urbanization, would likely lead to overall growth in UHT Dairy segment.

### Recommendation

The scrip is currently trading at CY16E P/E of 32x and with our Dec-16 TP of PKR 166/share, the stock offers upside of mere +7%, hence we maintain 'Hold' call on the scrip.

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- FCF (Free Cash Flow)

#### Time Horizon

- Dec-16

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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