



Today's Daily

■ EFOODS: Concentration risk running high

Tough operational dynamics continue to mar EFOODS financial performance where we expect the company to round off CY17F on a weak note. In this regard, revenues are likely to come down by 18%YoY where gradual fragmentation of the industry in the backdrop of increasing competition has inhibited conversion to packaged milk, impacting volumetric growth. Additionally, GM is expected to come down to 17.2% in CY17F (vs. 22.6% in CY16) on account of adverse regulatory developments (enhanced duty on powdered milk, moved to tax-exempt from zero rating regime) coupled with recovery in international milk prices (FAO Dairy index up 31%YoY). All these factors are likely to manifest in CY17F earnings where we expect the company to post NPAT of PkR562mn (EPS: PkR0.73), down 76%YoY. While the stock has rallied 22% MTD, we remain unconvinced on further price performance as the company continues to struggle on multiple fronts - PFA's campaign against tea whiteners (labeling requirements) being the most prominent for now. In this backdrop, we continue to remain apprehensive until possible product initiations come through. At current price level, the stock trades at high multiples (forward PE/PS at 79.8x/1.71x) vindicating our Reduce stance.

KSE100 - Index

Current	44,233.11
Previous	44,457.30
Chg.	-0.50%

Mkt Cap. (PkRbn/US\$bn)

Current	9,163 / 82.89
Previous	9,182 / 83.06
Chg.	-0.21%

Daily Turnover (mn)

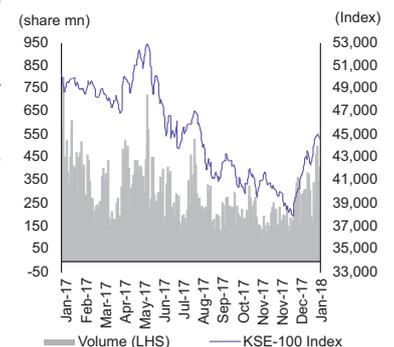
Current	282.48
Previous	192.33
Chg.	46.9%

Value Traded (PkRmn/US\$m)

Current	9,501 / 85.94
Previous	8,050 / 72.82
Chg.	18.0%

News and Views

- IMF has asked Pakistan to consider drastic changes to the next National Finance Commission (NFC) award due to the serious pressure it is placing on the federal government finances, as well as the macroeconomic imbalances that are arising from its implementation.
- The incumbent government is reportedly preparing another plan to clear energy sector's circular debt which is hovering around PkR525bn. Secretary to Prime Minister, Fawad Hasan Fawad, is holding inter-ministerial consultation with the Secretaries of Finance, Petroleum Division and Power Division and Managing Director PSO for preparing a possible solution.
- The Senate's Standing Committee on Privatisation has opposed the plan to privatise PIA before the government's term expires in May. Privatisation Minister Daniyal Aziz said under the law the government is required to carve out the non air transport business of the airline by April this year, then carry out a valuation of the air transport business component. After these two steps are complete, the government can move towards sale of 49pc shares.

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CY17E earnings to remain depressed: EFOODS is expected to post NPAT of PkR562mn (EPS: PkR0.73) in CY17E versus NPAT of PkR2.3bn (EPS: PkR3.11) in CY16 - down 76%YoY. In 4QCY17 alone, the company is expected to post earnings of PkR175mn (EPS: PkR0.23) against loss of PkR214mn (LPS: PkR0.28) in 4QCY16. In this regard, revenues are estimated to shrink, going down by 18%YoY/2%QoQ on adverse regulatory developments along with increasing competition while GM is estimated to come down to 17.2% in CY17E vs. 22.6% in CY16.

Tea whitener under PFA's brunt: Already suffering from a ban on Omung in Punjab, the recent speculation and rumors regarding the quality of UHT milk along with issues pertaining to the labeling of tea whiteners added on to pressures during the year. While EFOODS has steered clear in case of Olpers, repackaging of tea whiteners can potentially slowdown growth in the respective segment. To note, Tarang contributes ~50-55% to the company's topline, where potential volumetric regression in the same can impact profits going forward.

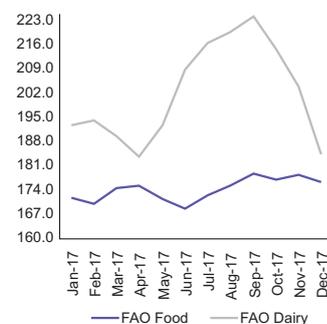
Investment Perspective: Until noticeable fundamental improvements particularly w.r.t product innovations and visible efforts on market recapturing come through, we continue to remain skeptical on the company's growth potential. Concentration risk runs high with product initiations turning out to be the only bright spot for now. After gaining 22%MTD, the stock is currently trading above our TP of PkR84.20/sh with valuation multiples at a forward PE/PS of 79.8x/1.71x.

EFOODS: Income Statement

(PkRmn)	CY17E	CY16	YoY	4QCY17F	QoQ
Net Sales	36,219	44,346	-18.3%	8,948	-2.0%
Cost of sales	29,985	34,307	-12.6%	7,397	-3.0%
Gross Profit	6,234	10,039	-37.9%	1,476	-1.9%
GM	17.2%	22.6%	-5.4%	16.7%	0.2%
D&M	4,178	5,088	-17.9%	940	0.6%
Admin.	793	921	-13.9%	179	-13.1%
Oper. profit	1,457	3,846	-62.1%	403	0.7%
PBT	886	3,498	-74.7%	224	-2.6%
PAT	562	2,383	-76.4%	175	-12.7%
EPS (PkR)	0.73	3.11	-	0.23	-

Source: Co. Report & AKD Research

FAO Index



Source: FAO & AKD Research



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