



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Today's Daily

■ EFOODS: Product initiatives to be crucial for growth

Posting an earnings decline of 25%YoY (18% below our expectations), CY16 turned out to be a challenging year for EFOODS. Worrisome of all was the continuous decline in company's revenues (down 11%YoY) with competition eating into its market share, that came down to 48% in Nov'16 vs. 56% in Nov'15. Additionally, GoP's budgetary measures (removal of zero-rating status for the sector and duty imposition on milk powder) took a toll on gross margin that declined by 50bps YoY despite price increments. Streamlining estimates, our EPS expectations for CY17F/CY18F now stand at PkR3.98/PkR4.40 (revised down by 8%/6%) dragging our TP down to PkR162.2/sh (from PkR170.1/sh earlier). Going forward, while expecting the new management to prioritize product enhancement, the period in transition is likely to witness slower earnings growth (5yr fwd earnings CAGR of 20% vs. 78% CAGR in the last 5 yrs) especially with pressure on volumes intact. Dividend declaration of PkR10/sh was a one-off (PkR9/sh paid in agreement of the SPA with RFC) with CY17F payout likely to be curtailed to 26%, in our view.

KSE100 - Index

Current 49,452.71
Previous 49,434.89
Chg. 0.04%

Mkt Cap. (PkRbn/US\$bn)

Current 9,762 / 93.12
Previous 9,780 / 93.29
Chg. -0.18%

Daily Turnover (mn)

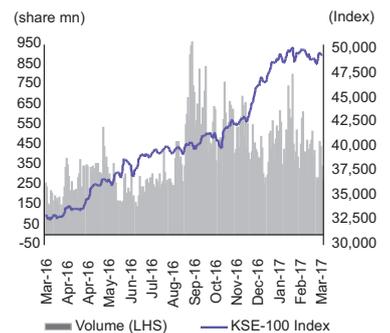
Current 237.06
Previous 302.80
Chg. -21.7%

Value Traded (PkRmn/US\$m)

Current 11,436 / 109.08
Previous 9,653 / 92.07
Chg. 18.5%

News and Views

- Circular debt at the end of Jan'17 stood at PkR370bn, up PkR50bn during 7MFY17. According to the official sources, receivables of PSO reached PkR280bn where power producers were the major defaulters owing PkR228bn. Recoveries of power Discos improved from 88-89% in 2014 to 93% (historic high) in 2016. Similarly T&D losses declined from 19% in 2014 to 17.8% in Dec'16.
- The contract for the main civil works of the Dasu Hydel power project between the government of Pakistan and China Gezhouba Group Company (CGGC) will be signed today. The first phase of the project is scheduled for completion by 2021. The total cost of the 4,320MW Dasu Hydel power project is about US\$4.5bn.
- The government is actively pursuing to start practical work on the much-awaited Iran-Pakistan (IP) gas pipeline project, official sources in the Ministry of Petroleum and Natural Resources said.
- All railway level crossings on Main Line (ML1) would be eliminated by providing underpasses and flyovers as the feasibility report of the up-gradation of ML1 railway line from Karachi to Peshawar had been completed.



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EFOODS: Product initiatives to be crucial for growth

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Revenue continues to pose problems: EFOODS has posted NPAT of PkR2.4bn (EPS: PkR3.11) in CY16 versus NPAT of PkR3.2bn (EPS: PkR4.13) in CY15 - down 25%YoY. In 4QCY16 alone, the company posted a loss of PkR207mn (LPS: PkR0.27) against earnings of PkR561mn (EPS: PkR0.73) in 4QCY15. In this regard, revenues continued to shrink, going down by 11%YoY/9%QoQ as competition intensified while GM declined by 50bps YoY to stand at 22.6% in CY16. Incorporating lower revenues and margin, our EPS expectations for CY17F/CY18F now stand at PkR3.98/PkR4.40 (revised down by 8%/6%) dragging our TP down to PkR162.2/sh.

CY17F- The period in transition: From the company's standpoint, CY17 is going to be crucial especially with the new management at the helm of affairs now. While earnings are likely to recover in CY17F, growing by 28%YoY on volumetric uplift, cost pressures from steady rise in international milk prices amid limited pricing power is expected to keep earnings growth restricted. Possible diversification into high margin milk derivatives like milk powder (commercial launch has been stalled for long) could be a savior in this regard providing tremendous growth potential (NESTLE is the only dominant player in the market) and revenue upside (average revenue jump of 4.1% p.a corresponding to different market share level assumptions)

Investment Perspective: Losing 10.2% since the result announcement, EFOODS' price rally has lost steam with investors now on the lookout for strategic/fundamental developments under the new management. We advocate a wait and see approach until clarity on new initiatives emerges.

EFOODS: EPS & TP revision

(PkR/sh)	CY17F	CY18F	TP
New	3.98	4.40	162.2
Old	4.33	4.68	170.1
Change	-8.0%	-5.9%	-4.6%

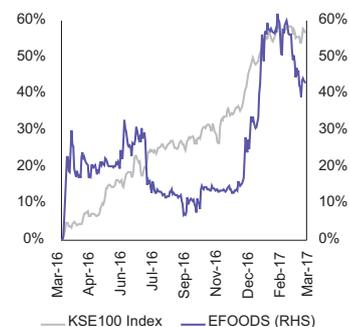
Source: KSE & AKD Research

Powder Milk: Sensitivity to revenues

Assumed Market share	5%	10%	15%
Revenues (PkRmn)	1,078	2,157	3,235
% of base case rev.	2.1%	4.1%	6.2%

Source: AKD Research

EFOODS: Price Performance



Source: KSE & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
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