

PAKISTAN FOODS

MARKET VISTA

REP-019

Pakistan Listed Food Manufacturers' Conference

- AKD Securities Ltd. organized Pakistan listed Food Manufacturers' Conference where some of leading local food manufacturers, namely PREMA, BNL, TOMCL, UNITY and NATF participated and shed light on industry's and their company's outlook over medium and long term.
- The managements of all the companies showed concern over rising prices of global commodities and its likely impact on local market. In past, the local food manufacturers have raised their prices in line with food inflation and expect to increase their prices by 8-10% in FY22 to pass on the rising costs to consumers.
- The companies showed optimism regarding their expansion plans in the local market (PREMA, BNL, UNITY) as well in international markets (TOMCL, NATF).
- Competition from unregistered manufacturers and counterfeit products remains a key challenge for all the registered companies. Nevertheless, the companies seem confident about their outlook and future potential as exhibited by double digit growth in topline by PREMA (+41%YoY), BNL (+22%YoY), TOMCL (+21%YoY), NATF (+20%YoY) whereas UNITY has depicted a whopping growth of 134%YoY in 9MFY21.

Strengthening prospects: AKD Securities Ltd. organized Pakistan listed Food Manufacturers' Conference where some of leading local food manufacturers, namely PREMA, BNL, TOMCL, UNITY and NATF participated and shed light on industry's and their company's outlook over medium and long term. On the demand side, optimism was noted across the board with different companies placing their estimate for FY22 growth to follow the same trajectory as in FY21. The managements of all the companies showed concern over rising prices of global commodities and its likely impact on local market. In order to hedge their exposure to foreign exchange, the companies have built up additional inventories, providing a cushion to their earnings, however, they need to pass-on the costs to consumers in order to sustain the margins in long term. In past, the local food manufacturers have raised their prices in line with food inflation and expect to increase their prices by 8-10% in FY22 to pass on the rising costs to consumers. Furthermore, the companies showed optimism regarding their expansion plans in the local market (PREMA, BNL, UNITY) as well in international markets (TOMCL, NATF).

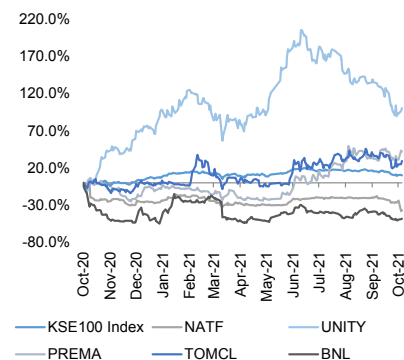
Food sailing through the competition: Competition from local unregistered manufacturers remains a key challenge for all the registered companies. With rising prices, the tendency of consumers to shift to local and unregulated products is on rise whereas imported products from Iran are denting the sales in rural areas. In addition to this, the relaxed legal system in the country has resulted in several counterfeited products which remain a constant challenge. Nevertheless, the companies seem confident about their outlook and future potential as exhibited by double digit growth in topline by PREMA (+41%YoY), BNL (+22%YoY), TOMCL (+21%YoY), NATF (+20%YoY) whereas UNITY has depicted a whopping growth of 134%YoY in 9MFY21.

PREMA: The management is eyeing sustainable indigenous growth of herd size by 7%YoY in FY22 (~350 milking animals) and further addition of ~650 imported animals in FY23 where it expects to double the production output in next 3 years. The company currently has around ~5,000 animals whereas it has targeted the growth to reach 100,000 animals in long run. Hence, the company is still nowhere close to its maturing phase. Besides, the product mix contains 30% value added products which the company expects to increase to 50% by adding new products in both dairy and allied category. The company believes there is a lot of space to grow whereas the legislation to sell only pasturized milk is expected to open more avenues for the company.

BNL: Bunny's is known for its premium quality products and has a large footprint in Punjab and northern region (Islamabad, Peshawar etc.) The company is currently operating at full capacity in bakery segment (85% revenue contribution) whereas the utilization ratio in snacks category (15% revenue contribution) stands above 90%. The company has taken up several expansions where currently a fully integrated buns line is in trial stage and will be operational by

Saroash Saleem
saroash.saleem@akdsecurities.net
111-253-111 Ext: 602

Food Sector vs. KSE100 Index 100



Source: PSX & AKD Research



AKD Securities Limited

this month. In addition to this, the company is in process to establish an automated frying machines to enhance the capacity of nimco snacks, a new cake line and automated bread line with a capex of Pkr600mn. The current market share of BNL in the bread category is 35% in Punjab, higher by the leading manufacturer in country (Dawn ~ 25%). In order to expand its footprint, BNL is eyeing to grow beyond the Punjab region to penetrate the growing market in Karachi and other parts of Sindh.

TOMCL: The company is currently exporting to 15 countries currently and plans to enter Chinese, Russian, and other CIS countries. TOMCL is the sole player involved in the exports of Offal category which is a premium product in international markets, proving higher margins to the company. The management has also decided to introduce pet food category in USA, the samples of which have already been approved by FDA. The current product mix of the company is 45% chilled meat, 40% frozen and remaining 15% from Offal exports. In order to capitalize the growing market for Offals, the company has taken up expansion plans to enhance its existing product capacity and new capacities of; i) Red offal (10 tons/day), ii) White offal (10 tons/day), iii) Freezer storages (300 tons), iv) Heat treated meat processing unit (300tons/ month), and v) dehydrated pet food processing units (300 tons/month). In addition to this, TOMCL plans to acquire an existing facility at Karachi Export Processing Zone (EPZ) and capitalize on duty free imports of raw materials.

UNITY: The company has depicted a phenomenal growth of 134%YoY in 9MFY21 owing to a growth in volumes. During FY21, the company confronted major global supply disruptions resulting in higher freights coupled with PKR depreciation, however, the management has been able to pass on the costs whereas the sales of Sunridge has increased the gross margin from 7.3% in FY20 to 8.2% in 9MFY21. The management expects the international production of Palm Oil to improve by the end of FY22 therefore helping the prices to ease. In addition to this, the company expects higher production of Soybean, Canola and Sunflower oil, expected to subside the inflating prices. Going forward, the company is considering to make entry in rice business through acquisition or by setting up a new rice mill. In addition to this, it plans to enhance its capacity in refinery and fractional plants whereas it intends to become a complete consumer staple company by adding FMCG products its portfolio.

NATF: The topline of NATF has grown by 20%YoY after being listed in global e-commerce platforms such as Amazon and Walmart resulting in a boost in international sales (30% contribution from exports in FY21 vs 6% in FY20). Within domestic sales, 60-70% of the revenue comes from central and northern regions whereas the volumetric growth in rural areas now exceeds the growth in urban areas owing to increasing women labor force. Hence, the company is setting up a new factory in Faisalabad to cater the growing demand in these regions as well as in north. The company takes pride in its research and development life cycle where it identifies the changing preferences of its consumers in order to introduce new products and discard the ones which are no more in demand. Going forward, NATF plans to make further expansions and automate its existing processes to increase the efficiencies.

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10yr PIB) plus risk premium.

Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

New Rating Definitions

Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.



AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net