

Foundation Alert

UPFL: 9MCY21 Analyst Briefing Takeaways

Event

- Unilever Pakistan Foods Limited (UPFL PA) held its Analyst Briefing to discuss 9MCY21 financial performance and future outlook of the company. Following are the key takeaways of the briefing.

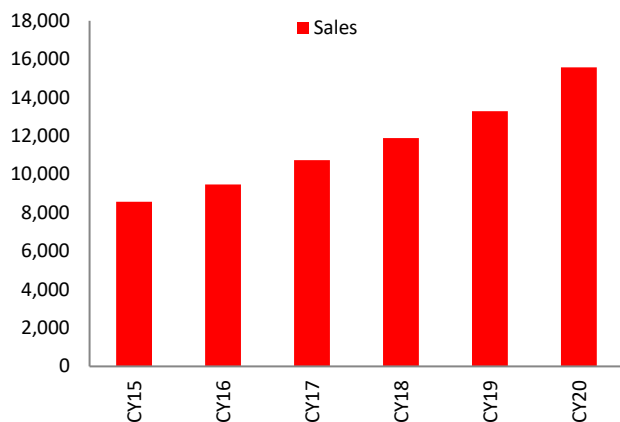
Impact

- To recall company reported a profitability of Rs3.6bn (EPS 567.2) in 9MCY21, up by 45% YoY, compared to Rs2.5bn (EPS 391.5) in 9MCY20.
- Management accredited the increase in profitability to increase in sales of 28% YoY in 9MCY21, this was mainly due to increasing penetration in household because of better accessibility, superior quality and product placement on shelf forefront. Price contribution to increase in sales was only 5% in 9MCY21, rest of the increase was due to volumetric increase of the products. UPFL has been able to grow its sales by 5Y-CAGR of 13% and is expected to continue this momentum.
- Sales include 60% of savory items, bulk of which is occupied by Knorr noodles. Other items include dressing segment which includes Knorr sauces and Rafhan. UPFL has been able to gain more than 600bps of the noodles market share since Jan'20.
- Input cost has also faced prevailing inflationary pressure, however due to 75% of raw material locally procured company was able to taper off increase in cost.
- The company's spending on mass media has increased by 50% YoY and 220% in ecommerce in 9MCY21 for product awareness and increasing household penetration.
- Management feels that food industry still remains untapped by the packaged food products. Currently UPFL operates in more than 100k retail stores out of ~half a million market size.
- Company strategizes to work on a complementary model with the increasing e-commerce distribution business models to increase the market size and keep innovating their products. Company has spent over Rs100mn on e-commerce business to adapt to the changing dynamics. Moreover the company has launched new SKUs that include Hellman (mayonnaise) and Knorr Bar BQ sauce.
- Management appreciated the timely monetary and fiscal intervention by the gov't in time of COVID that provided stability to economic landscape, however increasing global commodities and adverse FX movement is a concerning factor for the business going forward.
- Operating margins clocked in at 25.9% in 9MCY21, this was due to high fixed cost coverage.
- The company is also improving its ESG responsibility by investing in different CSR projects which include Guddi Baji, Poverty drive with Ismail Foundation, and reducing salt content from their products.
- Net margins for the company has improved by 10.5ppt since last 5 years, which accompanied earning to grow at 5Y-CAGR of 25%.
- Management raises concerns regarding the emergence of new variant of COVID and domestic uncertainty in political/economics landscape. However management believes the global commodity prices inflation to come down in near future.

Outlook

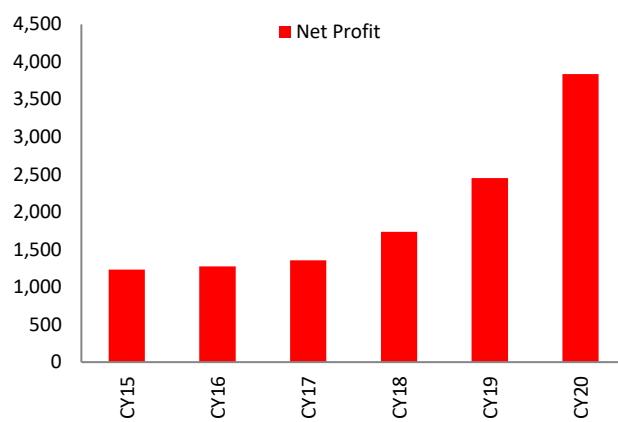
- The company is not under formal coverage.

Fig 1: Sales to continue rising...



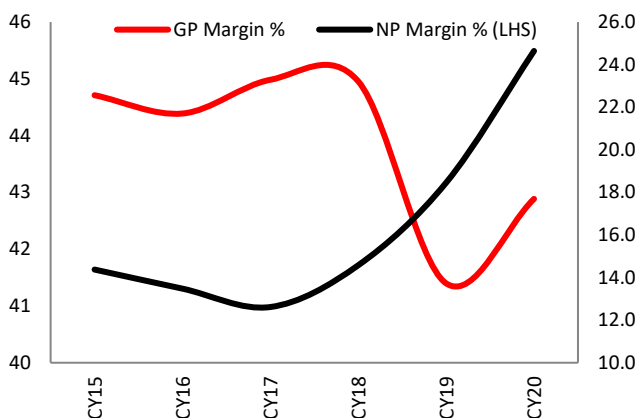
Source: PSX, Foundation Research, Dec'21

Fig 2: ...which has uplifted profitability



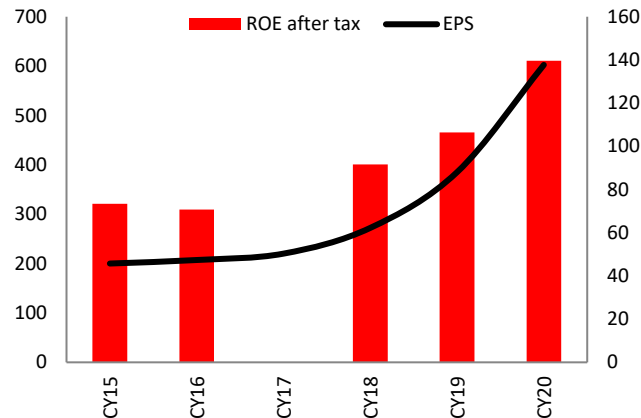
Source: PSX, Foundation Research, Dec'21

Fig 3: Gross margins recovering...



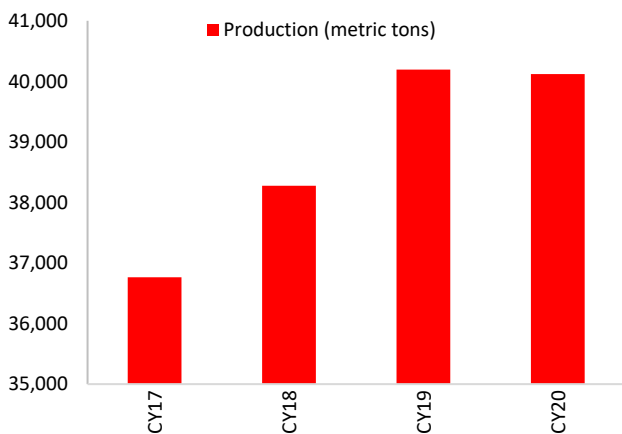
Source: PSX, Foundation Research, Dec'21

Fig 4: EPS to keep ROE high



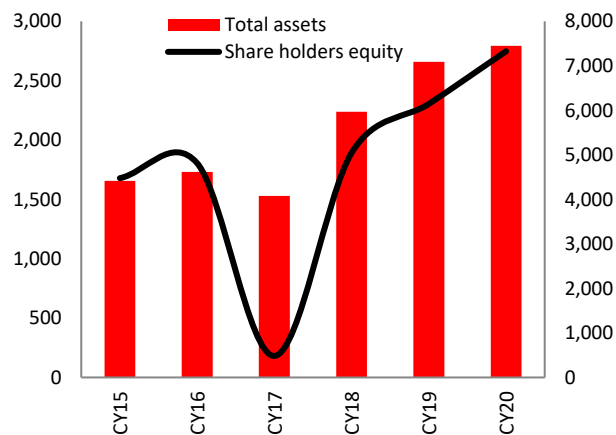
Source: PSX, Foundation Research, Dec'21

Fig 5: Volumetric growth for to uplift sales



Source: PSX, Foundation Research, Dec'21

Fig 6: Increasing Assets base



Source: PSX, Foundation Research, Dec'21

Fig1: UPFL Key financial and operational ratios

Rs mn		CY15	CY16	CY17	CY18	CY19	CY20
Sales		8,571	9,467	10,745	11,898	13,291	15,573
GP		3,832	4,202	4,834	5,349	5,502	6,679
PBT		1,666	1,768	1,921	2,496	2,808	4,055
Net Profit		1,232	1,276	1,356	1,734	2,453	3,837
Share capital		62	62	62	64	64	64
Shareholders' equity		1,679	1,805	181	1,893	2,304	2,748
Fixed assets - net		2,160	2,181	2,088	2,914	3,763	3,833
Total assets		4,417	4,618	4,081	5,971	7,089	7,447
Dividend per sh.		150	369	280	280	386	602
RATIOS:							
PROFITABILITY							
GP Margin %	%	44.7	44.4	45.0	45.0	41.4	42.9
PBT Margin	%	19.4	18.7	17.9	21.0	21.1	26.0
NP Margin % (LHS)	%	14.4	13.5	12.6	14.6	18.5	24.6
RETURN TO SHAREHOLDERS							
ROE before tax	%	99.2	97.9	1058.4	131.9	121.9	147.6
ROE after tax	%	73.4	70.7	747.1	91.6	106.5	139.7
EPS	Rs	200.1	207.2	220.2	272.3	385.1	602.4
Sales to fixed assets		4.0	4.3	5.1	4.1	3.5	4.1
Sales to total assets		1.9	2.0	2.6	2.0	1.9	2.1
LIQUIDITY/LEVERAGE							
Current ratio		0.9	0.9	0.5	0.8	0.7	0.8
Breakup value per share		272.6	293.1	29.5	297.1	361.7	431.4

Source: Company accounts, Foundation Research, December 2021

Fig 01: UPFL 3QCY21 earnings preview

Income Statement (Rs mn)	3QCY21	3QCY20	YoY	2QCY21	QoQ	9MCY21	9MCY20	YoY
Net Sales	4,923	3,671	34%	4,542	34%	14,505	11,341	28%
COGS	2,779	2,109	32%	2,651	32%	8,168	6,525	25%
Gross Profit	2,144	1,562	37%	1,892	37%	6,337	4,816	32%
SG&A	993	825	20%	952	20%	2,766	2,244	23%
Other Income	75	69	9%	60	9%	187	159	18%
EBIT	1,226	807	52%	1,000	52%	3,757	2,731	38%
Finance Cost	5	3	57%	9	57%	19.49	18.69	4%
PBT	1,221	803	52%	990	52%	3,738	2,712	38%
Tax	30	35	-17%	24	-17%	125	218	-43%
Net Profit	1,192	768	55%	967	55%	3,613	2,494	45%
EPS	187.08	120.52		151.75		567.20	391.53	
Gross Margins	43.55%	42.55%		41.65%		43.69%	42.46%	
Operating margins	24.92%	21.97%		22.01%		25.90%	24.08%	
Net Margins	24.21%	20.92%		21.28%		24.91%	21.99%	
ETR	2.4%	4.4%		2.4%		3.3%	8.0%	

Source: Company Accounts, Foundation Research, Dec 2021

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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.