

Foundation Alert

PMPK: 9MCY21 Analyst Briefing Takeaways

Event

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

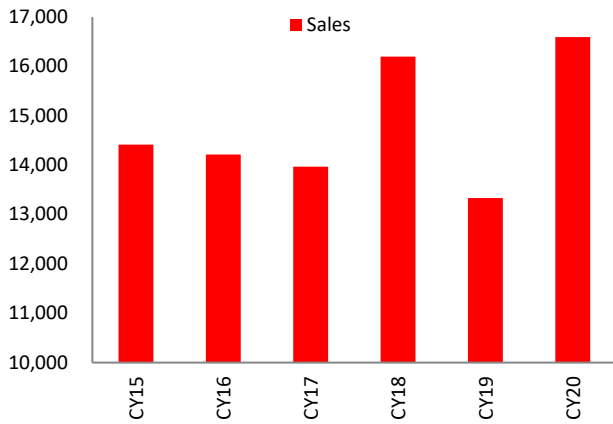
Impact

- Company reported profitability of Rs2.1bn for 9MCY21, up by 13% YoY, compared to same period last year profitability of Rs1.8bn.
- Net sales for the company clocked in at Rs12.8bn in 9MCY21, up by 7% YoY due to increase in consumer consumption as economy started gaining momentum. Stable Federal excise duty rate have led to price stability of the products.
- Gross margins for 9MCY21 clocked in at 47.6%, increasing by 383bps YoY.
- Company has contributed Rs20.5bn (↑22.1% YoY) to national exchequer in 9MCY21. This has translated to 60.9% of gross turnover for the period. To highlight, the company contributes at an average of 58% of gross turnover to the national exchequer.
- Management also discussed the market dynamics and disclosed that ~40% of the market share is occupied by the grey market. Average selling price of illicit market is Rs38 per pack, whereas gov't has imposed the minimum price of Rs80 per pack, which includes Rs42 as excise and sales tax.
- There are currently 50+ manufacturers and 200+ brands operating in illicit market share. These players distorts the level playing field for the listed tobacco players.
- Management also shared the smuggled (duty-free) and illicit players not adhering to the guidelines laid by committee for tobacco advertisement.
- On ESG front, company has doubled installation of solar panels of green electricity in last two years, and 41% reduction in energy consumption through optimization of manufacturing footprint and improving efficiency of utility systems. Moreover company has made efforts to increase living income of farmers through cultivation of non-traditional crops by initiatives like kitchen gardening and mushroom production.
- Management also discussed that e-cig concept is still in progress, and company is not perusing anything on that front.
- Going forward, management expects that rising commodity and fuel prices and devaluation of rupee would spiral up the inflation, which would divert consumer to cheap illicit brands.

Outlook

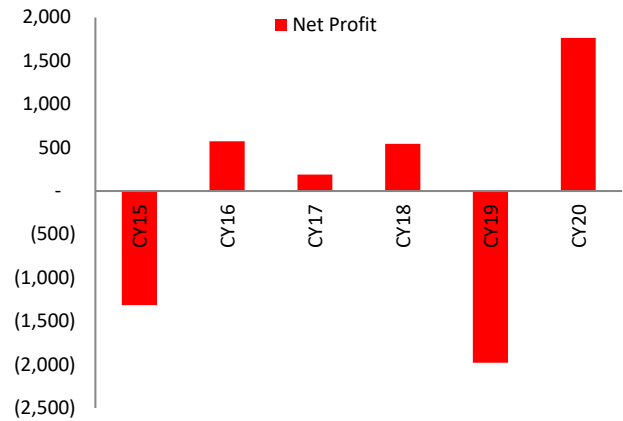
- The company is not under formal coverage.

Fig 1: Uplift in sales...



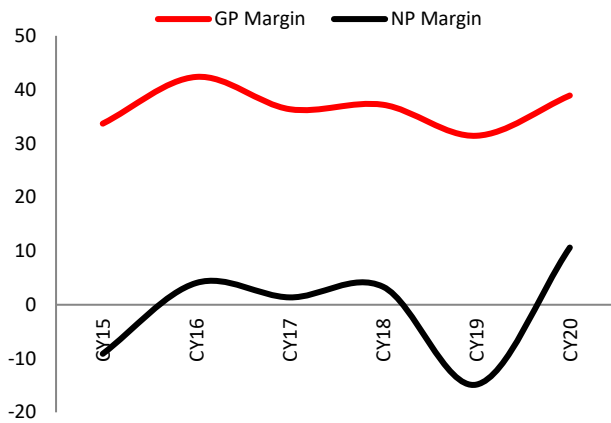
Source: PSX, Foundation Research, Dec'21

Fig 2: ...rebound in profitability



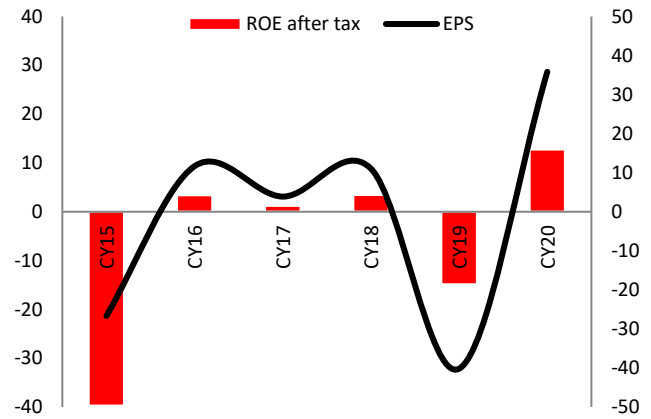
Source: PSX, Foundation Research, Dec'21

Fig 3: Recovery in margins...



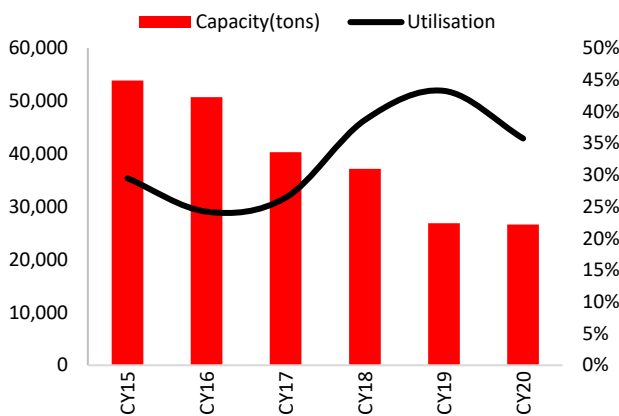
Source: PSX, Foundation Research, Dec'21

Fig 4: EPS to keep ROE +ve



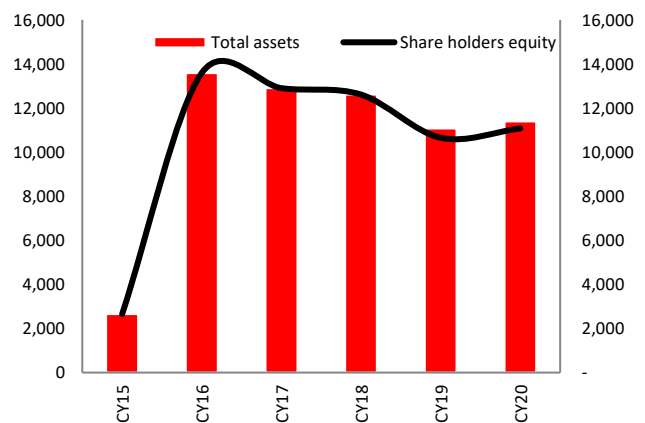
Source: PSX, Foundation Research, Dec'21

Fig 5: Production as a function of demand



Source: PSX, Foundation Research, Dec'21

Fig 6: No capex in recent past



Source: PSX, Foundation Research, Dec'21

Table 01: PMPK Key financial and operational ratios

Rs mn		CY15	CY16	CY17	CY18	CY19	CY20
Sales		14,417	14,213	13,967	16,200	13,334	16,596
GP		4,855	6,021	5,078	6,024	4,190	6,457
PBT		(1,677)	770	476	617	(2,493)	2,554
Net Profit		(1,315)	575	191	543	(1,980)	1,765
Share capital		616	616	616	616	616	616
Shareholders' equity		2,649	13,590	12,901	12,611	10,651	11,073
Fixed assets - net		8,048	8,517	7,819	7,348	6,110	6,031
Total assets		2,649	13,590	12,901	12,611	11,068	11,399
Dividend per share		-	-	15	-	-	10
RATIOS:							
PROFITABILITY							
GP Margin	%	33.7	42.4	36.4	37.2	31.4	38.9
PBT Margin	%	-11.6	5.4	3.4	3.8	-18.7	15.4
NP Margin	%	-9.1	4.0	1.4	3.4	-14.8	10.6
RETURN TO SHAREHOLDERS							
ROE before tax	%	-63.3	5.7	3.7	4.9	-23.4	23.1
ROE after tax	%	-49.6	4.2	1.5	4.3	-18.6	15.9
EPS	Rs	-21.4	9.3	3.1	8.8	-32.2	28.7
Sales to fixed assets		1.8	1.7	1.8	2.2	2.2	2.8
Sales to total assets		5.4	1.0	1.1	1.3	1.2	1.5
LIQUIDITY/LEVERAGE							
Breakup value per share		43.0	220.7	209.5	204.8	173.0	179.8

Source: Company accounts, Foundation Research, December'21

Table 02: PMPK 3QCY21 earnings preview

Income Statement (Rs mn)	3QCY21	3QCY20	YoY	2QCY21	QoQ	9MCY21	9MCY20	YoY
Net Sales	3,565	3,092	15%	4,784	-25%	12,789	11,899	7%
COGS	1,936	1,510	28%	2,472	-22%	6,699	6,688	0%
Gross Profit	1,629	1,582	3%	2,312	-30%	6,090	5,211	17%
SG&A	980	881	11%	976	0%	3,146	2,607	21%
Other Income	170	86	99%	165	3%	562	283	99%
other expense	142	113	26%	131	9%	380	362	5%
EBIT	678	674	1%	1,371	-51%	3,126	2,524	24%
Finance Cost	15	18	-17%	15	-3%	49.42	67.42	-27%
PBT	663	656	1%	1,355	-51%	3,077	2,457	25%
Tax	312	80	288%	354	-12%	1,006	629	60%
Net Profit	351	576	-39%	1,001	-65%	2,071	1,828	13%
Diluted EPS	4.77	8.51		13.89		28.12	27.03	
Gross Margins	45.70%	51.16%		48.33%		47.62%	43.79%	
Operating margins	19.02%	21.79%		28.65%		24.44%	21.22%	
Net Margins	9.85%	18.61%		20.93%		16.19%	15.36%	
ETR	47.06%	12.26%		26.11%		32.69%	25.60%	

Source: Company Accounts, Foundation Research, Dec 2021

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