

Foundation Alert

ASC: Analyst Briefing Takeaways

Event

- Al Shaheer Corporation Limited (ASC PA) held its Analyst briefing today to discuss financial performance of the company and its future prospects.
- Following are the key takeaways.

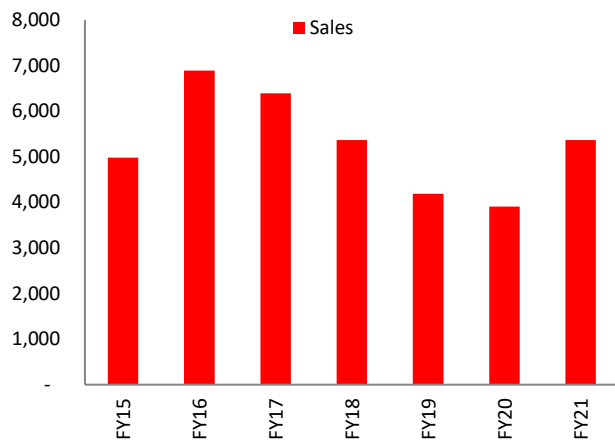
Impact

- Company reported profitability of Rs127mn (EPS 0.42) in 1QFY22, compared to same period last year profit of Rs79mn (EPS 0.26), up by 60% YoY.
- Company's turnover for FY21 clocked in at Rs5.4bn (↑37% YoY). Net sales consist of 20/80% domestic/exports. Product-wise sales have skewed towards beef in recent year, from 75/25% to 98/2% for beef and mutton respectively.
- Export market is very competitive and plays on volume due to low margins. Rupee depreciation is beneficial for the company due to its high exports, however, as per management, other players in the industry increases their trade discounts that erodes the benefit.
- The current export market of KSE and UAE is expected to grow by 5-10%, however unlocking Egypt market could provide significant growth potential, as Pakistan has been granted approvals from Egypt's Veterinary Quarantine Department. Moreover management expects talks with China to be successful as well that would provide gateway to the Chinese population.
- Management further quantified exports that accounts for 550-600 tons per month of meat whereas domestic retail takes up 50-60 tons per month.
- Management also discussed that due to COVID, freight was changed from air to sea, which proved to be fruitful as it was efficient and cost effective. Air freight used to cost around Rs150/kg, whereas sea freight is around Rs40/kg. The main concern was due to the shorter shelf life which was optimized for the process.
- Company plans to enter into the frozen meat and ready-to-cook segment which to come online by Jan-22, with all the ground work ready. The delay in plans was due to increasing dollar parity which caused replacement and operational cost to increase.
- The brand name for their ready-to-cook items is 'Chef-one' which includes poultry, beef, fish, and flour products. Company plans to launch 23 stock-keeping unit (SKU), in 13 cities given their high population. They have already set-up 1700 freezers before the launch. Management estimates consumer market of 5mn.
- Management targets 300/165tn for chicken and value added products line, and expects skewness to converge to 60/40% for existing bonus/chef-one business line and contribution margins for new business segment of 45% by growing at CAGR of 5% and overall margins improving to 30%.
- Management further disclosed the competition is high in this new business segment with about 50% of market share acquired by K&N's and other 10-11 players already in the market. Management plans to acquire 3.6% (2,000 tons) in the launch year.
- Management also discussed Strategic Trade Policy Framework (2021-25) to extend Duty Drawback On Local. Taxes And Levies (DLTL) to extend for 3 years.

Outlook

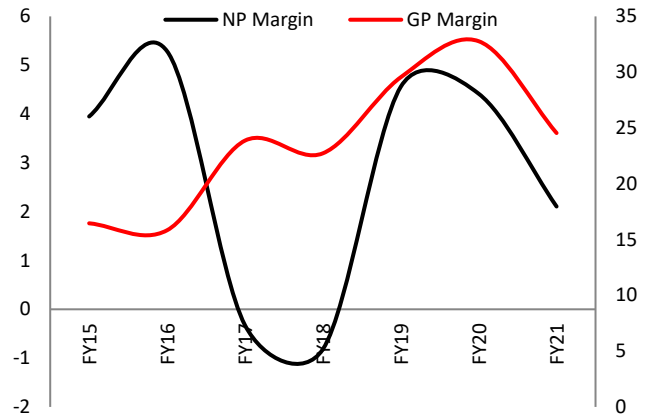
- The company is not in our formal coverage.

Fig 1: Sales recovers post covid...



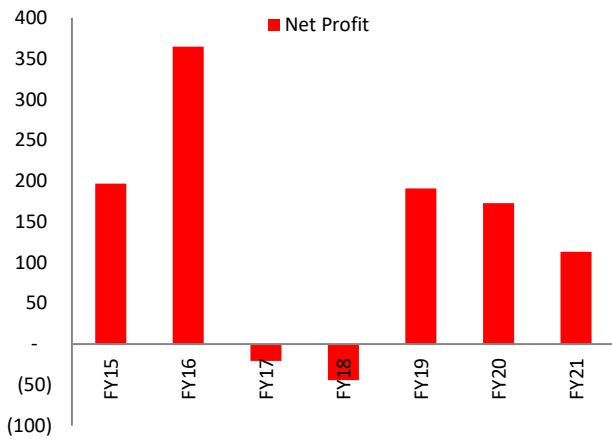
Source: PSX, Foundation Research, Dec'21

Fig 2:... whereas margins decline as competition ↑



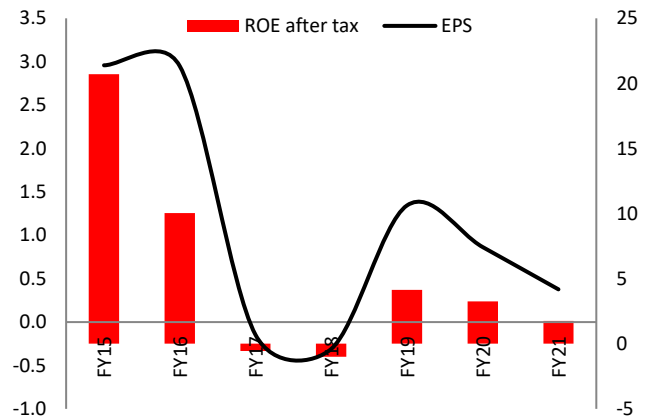
Source: PSX, Foundation Research, Dec'21

Fig 3: Profitability fails to recover as costs ↑ ...



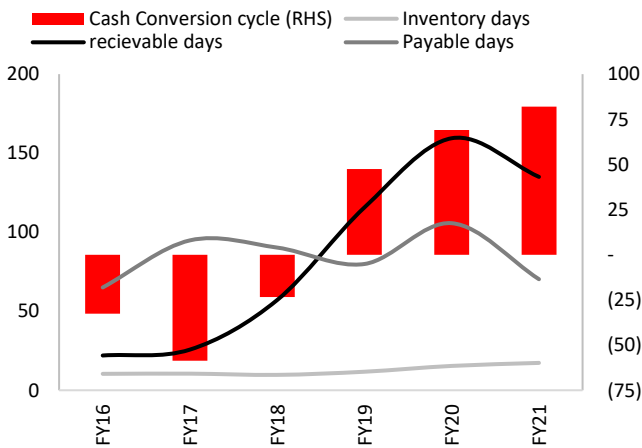
Source: PSX, Foundation Research, Dec'21

Fig 4: ... which drags ROE downwards



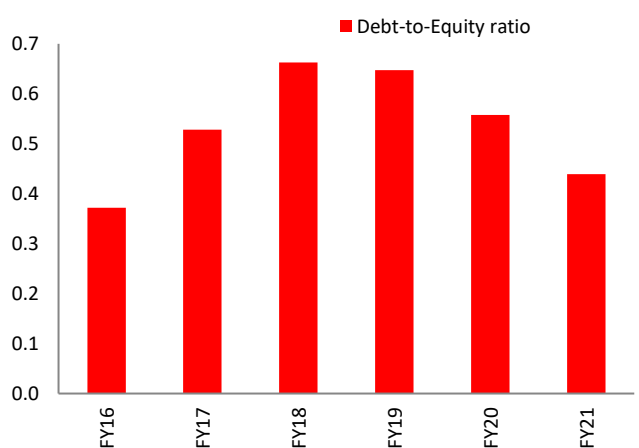
Source: PSX, Foundation Research, Dec'21

Fig 4: Cash conversion cycle (RHS) deteriorates



Source: PSX, Foundation Research, Dec'21

Fig 6: Debt level decreases as equity piles up



Source: PSX, Foundation Research, Dec'21

Table 1: ASC Key financial and operational ratios(Unconsolidated)

Rs mn		FY15	FY16	FY17	FY18	FY19	FY20	FY21
Sales		4,985	6,896	6,397	5,373	4,189	3,912	5,368
GP		820	1,092	1,527	1,221	1,238	1,282	1,318
PBT		167	342	(8)	(22)	233	152	112
Net Profit		197	365	(21)	(44)	191	173	113
Share capital		665	1,236	1,421	1,421	1,421	2,000	2,999
Share holders equity		951	3,627	3,795	4,416	4,598	5,319	6,398
Fixed assets - net		1,142	2,581	3,368	4,731	4,988	5,050	5,553
Total assets		4,375	4,976	5,800	7,342	7,573	8,283	9,207
Dividend	%							
RATIOS:								
PROFITABILITY								
GP Margin	%	16.5	15.8	23.9	22.7	29.5	32.8	24.5
PBT Margin	%	3.4	5.0	-0.1	-0.4	5.6	3.9	2.1
NP Margin	%	3.9	5.3	-0.3	-0.8	4.6	4.4	2.1
RETURN TO SHAREHOLDERS								
ROE before tax	%	17.6	9.4	-0.2	-0.5	5.1	2.9	1.7
ROE after tax	%	20.7	10.1	-0.5	-1.0	4.2	3.2	1.8
EPS	Rs	3.0	3.0	-0.1	-0.3	1.3	0.9	0.4
Sales to fixed assets		4.4	2.7	1.9	1.1	0.8	0.8	1.0
Sales to total assets		1.1	1.4	1.1	0.7	0.6	0.5	0.6
LIQUIDITY/LEVERAGE/VALUATION								
Debt-to-Equity ratio		3.60	0.37	0.53	0.66	0.65	0.56	0.44
Book Value per Share		14.29	29.35	26.70	31.07	32.35	26.60	21.33

Source: Company accounts, Foundation Research, December 2021

Table 2: ASC 1QFY22 earnings preview

Income Statement (Rs mn)	1QFY22	1QFY21	YoY	4QFY21	QoQ
Net Sales	1,387	1,501	-8%	1,349	3%
COGS	1,101	1,105	0%	1,117	-1%
Gross Profit	286	396	-28%	232	23%
Administrative And General Expenses	243	205	19%	229	6%
Other Income	151	0.468	na	(1)	na
other expense	7	28	-76%	(54)	-112%
EBIT	187	164	14%	56	235%
Finance Cost	46	64	-28%	55	-16%
PBT	141	100	41%	1	na
Tax	14	21	-33%	35	-61%
Net Profit	127	79	60%	36	255%
EPS	0.42	0.26		0.73	
Gross Margins	20.60%	26.39%		17.18%	
Net Margins	9.16%	5.28%		2.65%	
ETR	9.8%	20.7%		4188.0%	

Source: Company Accounts, Foundation Research, December 2021

About the company

Al Shaheer Foods is the market leader in Pakistan's large meat industry. It was established as a partnership in 2008, setting up a world class abattoir in Gadap Town, Karachi.

Initially, the company only exported red meat to Dubai, followed by Saudi Arabia to become a trusted supplier of high quality and Halal meat to importers across GCC countries. In 2010, Al Shaheer Foods entered the domestic fresh meat market laying the foundation for the first ever red meat brand in Pakistan – Meat One. All kinds of fresh meat are sold under the umbrella of this brand through company owned outlets.

A second brand, Khaas, positioned as an economy brand targeting the neighborhood butcheries, was launched in 2014. Later, a shop-in-shop model was also developed to increase reach by opening meat sections in high traffic superstores. In addition to serving export and retail markets, an Institutional Sales unit was formally launched with an objective of catering exclusively to the needs of bulk consumers, mainly HORECA and offices/institutions, providing high quality meat tailored to the requirements of the consumers.

From a small partnership, the company has grown into a national corporation in just 8 years. The company went public in 2015 and is now listed on the Stock Exchange.

Auditor: M/s. Grant Thornton Anjum Rahman Chartered Accountants

Table 3: Pattern shareholders

Pattern of Shareholders	Holding	Shares (mn)
Directors, Chief Executive Officers	24%	73
CDC - TRUSTEE AKD OPPORTUNITY FUND	4%	12
Others	72%	215
Free Float	75%	225

Source; Company Accounts, Foundation research, Dec 2021

Table 4: ASC key personnel

Key Personnel	Name	Designation
Board of Directors	Mr Qaysar Alam	Chairman
	Mr. Kamran Ahmed Khalili	Chief Executive Officer
	Zubair Haider	Directors
	Mr. Jamil Akbar	Directors
	Mr. Zillay A Nawab	Directors
	Ms. Sabeen Fazli Alavi	Directors
	Mr. Umair Ahmed Khalili	Directors
	Ms. Sabeen Fazli Alavi	Directors
	Management	Mr. Kamran Ahmed Khalili
Maryam Ali		Chief Financial Officer
Mr. Osama Javed Usmani		Company Secretary

Source; Company Accounts, Foundation research, Dec 2021

Analyst

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