

Earnings Review

FCEPL: 1QCY22 EPS clocked in at Rs0.87

Event

- Frieslandcampina Engro Pakistan Limited (FCEPL PA) profit for 1QCY22 clocked in at Rs664mn (EPS Rs0.87) as compared to profit of Rs547mn (EPS Rs0.71) in the same period last year.
- The result is in line with our expectations.

Impact

- We attribute increase in company's profitability to (1) increase in price for UHT milk amid higher market share of Olpers, (2) increase in other income due to fair value gain on biological assets and (3) fiscal incentives offered in supplementary budget, in our view.
- FCEPL sales increased by 21% YoY in 1QCY22. We attribute increase in sales primarily to higher prices charged by the company and increased market share in UHT milk category along with higher sales contribution of tea whitener category.
- To highlight, company margins decreased/increased by 1.3/7.3ppt YoY/QoQ to 18.5% in 1QCY22.
- FCEPL finance cost increased by 41/14% YoY/QoQ in 1QCY22 due to higher interest rates.
- Among other major heads, admin/S&D expenses increased by 25/11% YoY in 1QCY22 given higher HSD price.
- To highlight, FCEPL other income increased by 127% YoY due to fair value gain on biological assets, in our view.
- Moreover, company's effective tax rate clocked in at 28.9% in 1QCY22 (down 1.5ppt YoY).

Outlook

- We have "Outperform" stance on the scrip with Dec-22 TP of Rs97.0/sh. We believe company's profitability would remain under pressure in the near term given higher palm oil prices and inflationary pressures amid declining industry sales of dairy products to Afghanistan.
- However, increasing share of high margin ice cream segment and competitive edge of producing skimmed powdered milk in-house continues to provide support to the margins. Moreover, success of newly introduced high margin products by the company may provide upside to our valuation.

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Fig 01: FCEPL 1QCY22 Financial Highlights (Rs mn)

	1QCY22	1QCY21	YoY	QoQ
Net sales	13,971	11,577	21%	4%
COGS	11,380	9,279	23%	-4%
Gross profit	2,591	2,298	13%	71%
Admin expense	360	288	25%	-12%
S&D expense	1,142	1,027	11%	-13%
Other op expenses	72	93	-22%	129%
Other op Income	167	73	127%	-46%
EBIT	1,184	964	23%	1648%
Financial charges	250	178	41%	14%
PBT	934	786	19%	-719%
Tax	270	239	13%	6695%
PAT	664	547	21%	-528%
EPS @766.6 mn sh	0.87	0.71		
GP Margin	18.5%	19.9%		
EBIT Margin	8.5%	8.3%		
NP Margin	4.8%	4.7%		

Source: Company Accounts, PSX, Foundation Securities, April 2022

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Recommendations definitions

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