

Earnings Review

FCEPL: 3QCY22 EPS clocked in at Rs1.08, up 52% YoY

Event

- Frieslandcampina Engro Pakistan Limited (FCEPL PA) profit for 3QCY22 clocked in at Rs827mn (EPS Rs1.08) as compared to profit of Rs545mn (EPS Rs0.71) in 3QCY21. This takes 9MCY22 profitability to Rs1,765mn (EPS Rs2.30), down 10% YoY as compared to profit of Rs1,959mn (EPS Rs2.56).
- The result is above our expectations due to higher sales and better margins.

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) higher profitability of ice-cream segment given decline in vegetable oil prices, in our view.
- FCEPL sales increased by 57/31% YoY in 3QCY22. 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 increased by 1.5/1.8ppt YoY/QoQ to 17.3% in 3QCY22.
- FCEPL finance cost increased by 56% YoY in 3QCY22 due to higher interest rates.
- Among other major heads, admin/S&D expenses increased by 66/66% YoY in 3QCY22 given higher HSD price, in our view.
- To highlight, FCEPL other income increased by 27% YoY due to fair value gain on biological assets.
- Moreover, company's effective tax rate clocked in at 32.2% in 3QCY22 (up 4.8ppt YoY).

Outlook

- We believe company's profitability would remain under pressure in the near due to higher raw milk prices and increase in other overhead cost due to inflationary pressures.
- 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 3QCY22 Financial Highlights (Rs mn)

	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Net sales	22,057	14,081	57%	31%	52,827	38,671	37%
COGS	18,236	11,848	54%	28%	43,809	31,350	40%
Gross profit	3,820	2,233	71%	47%	9,018	7,322	23%
Admin expense	532	320	66%	53%	1,240	912	36%
S&D expense	1,823	1,095	66%	31%	4,362	3,241	35%
Other op expenses	209	92	128%	137%	369	283	30%
Other op Income	329	259	27%	-1%	827	489	69%
EBIT	1,585	985	61%	43%	3,874	3,374	15%
Financial charges	365	234	56%	-3%	991	643	54%
PBT	1,220	750	63%	67%	2,884	2,731	6%
Tax	393	206	91%	-14%	1,118	772	45%
PAT	827	545	52%	201%	1,765	1,959	-10%
EPS @ 766.6 mn sh	1.08	0.71			2.30	2.56	-10%
GP Margin	17.3%	15.9%			17.1%	18.9%	
EBIT Margin	7.2%	7.0%			7.3%	8.7%	
NP Margin	3.7%	3.9%			3.3%	5.1%	

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

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