

Foundation Alert

FFL: Analyst Briefing Key Takeaways

Event

- Fauji Foods Limited (FFL PA) held its Analyst briefing to discuss the financial/operational performance and future outlook of the company. Following are the key takeaways of the briefing.
- The company is not under our formal coverage.

Impact

- FFL reported sales of Rs3.3bn (up 50/37% YoY/QoQ) in 3QCY22 as compared to Rs2.2bn in 3QCY21. In 9MCY21, FFL sales arrived at Rs8.1bn (up 21% YoY) as compared to sales of Rs6.7bn in 9MCY21.
- Contribution of value added portfolio increased from 35% to 53% YTD in 2022 compared to the same period last year.
- Company has increased prices of UHT milk/Flavored milk/Butter/LTW/Cheese/Cream by 38%/43%/24%/50%/34%/33% to pass on the impact of increase in cost in 9MCY22.
- Management has shared that company loss has increased by 60/63% YoY to Rs690/1,944mn in 3QCY22/9MCY22 and attributes increase in loss to higher cost of production due to domestic inflation and continuous rupee depreciation.
- FFL management also shared details of their products and disclosed that company is penetrating into UHT milk/Tea whitener/Butter/Cheese/Flavored milk/cream segment.
- Company management has also discussed recent increase in authorized capital up to Rs28bn. Increase in authorized capital limit would be utilized to issue Rs11.7bn worth of shares to sponsors other than right issue. Furthermore, company has also received Rs2.0bn as an interest free loan from its sponsors.
- Company management has disclosed that Nurpur UHT milk has achieved volumetric growth of 54% in 9MCY22.
- Furthermore, management has attributed decline in gross margins to increase in raw milk prices due to shortage created post floods. In order to improve margins, company is taking efficiency measures such as (1) building of bio mass facility, (2) installation of solar energy power generation at its plant site and (3) localization of packaging material in order to reduce the impact of rupee depreciation.
- Company has launched high margin Choco flavored milk and slightly salted butter products to improve margins going forward.
- Company management has also disclosed that company has recently signed complete supply of cheese agreement to MacDonald's Pakistan and is also targeting to secure its global supply contracts as well.

Outlook

- The company is not in our formal coverage. We expect company losses to reduce in future due to (1) change in management strategy towards increased penetration in household retail segment and group synergies, (2) conversion of consumer preferences from loose milk to packaged milk products, (3) higher prices of loose milk given increased regulatory tightening, (4) increased revenue contribution of value added products and (5) decline in finance cost due to conversion of debt into the equity by the sponsors and new equity injection.

Fig 1: FFL 3QCY22 Financial Highlights

Rs(mn)	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Net sales	3,275	2,190	50%	37%	8,071	6,682	21%
COGS	3,171	1,922	65%	33%	7,789	5,869	33%
Gross profit	103	268	-61%	984%	282	813	-65%
Selling and distribution expenses	351	261	35%	3%	1,029	748	38%
Administrative expenses	113	93	22%	15%	323	269	20%
S&A expense	465	354	31%	6%	1,352	1,017	33%
Other income	56	6	844%	42%	138	67	104%
EBIT	(305)	(80)	282%	-22%	(932)	(136)	583%
Interest expense	344	324	6%	3%	909	957	-5%
PBT	(649)	(404)	61%	-10%	(1,841)	(1,093)	68%
Tax	41	28	46%	35%	103	98	5%
PAT	(690)	(432)	60%	-8%	(1,944)	(1,191)	63%
EPS @803.2mn sh	(0.44)	(0.27)			(1.23)	(0.75)	
GP Margin	3.2%	12.2%			3.5%	12.2%	
EBIT Margin	-9.3%	-3.6%			-11.5%	-2.0%	
Net Margin	-21.1%	-19.8%			-24.1%	-17.8%	

Source: Company Accounts, Foundation Research, October 2022

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