

Foundation Alert

UPFL: 9MCY22 Analyst Briefing Takeaways

Event

- Unilever Pakistan Foods Limited (UPFL PA) held its Analyst Briefing to discuss 9MCY22 financial performance and future outlook of the company. Following are the key takeaways of the briefing.

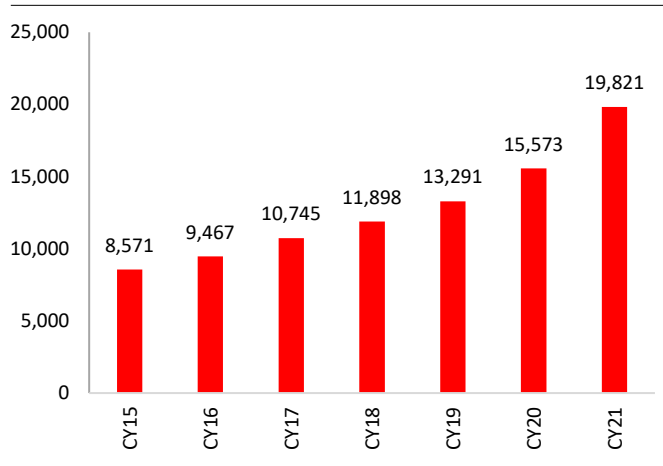
Impact

- To recall company reported a profitability of Rs4.8bn (EPS 755.8) in 9MCY22, up by 33% YoY, compared to Rs3.6bn (EPS 567.2) in 9MCY21.
- Management accredited the increase in profitability to increase in sales of 36% YoY in 9MCY22, this was mainly due to increasing penetration in household because of better accessibility, superior quality and product placement on shelf forefront. Price contribution to increase in sales was 50% in 9MCY22, rest half of the increase was due to volumetric increase of the products despite challenging environment. UPFL has been able to grow its sales by 3Y-CAGR of 27% and is expected to continue this momentum.
- Company's growth strategy is built around five fundamentals to capture (1) purposeful brands, (2) improved penetration, (3) impactful innovations, (4) design 4 channel and (5) fuel for growth.
- More than half of company's sales are of savory items, bulk of which is occupied by Knorr noodles. Other items include dressing segment which includes Knorr sauces and Rafhan. UPFL has been able to gain more than 10ppts of the noodles market share since Jul'19, which is currently standing at more than 90%.
- Input cost has also faced prevailing inflationary pressure, however due to 75% of raw material locally procured company was able to taper off increase in cost. Company usually imports palm oil, soya bean oil and tomatoes to meet production needs. Company has started local procurement of tomatoes this year and is likely to increase its quantum going forward.
- Management focus is to strengthen the core (Noodles) while building the broad based growth. Company is bringing back focus on rest of Knorr products such as Chicken Cubes and Ketchup, and rejuvenating the local jewel custard range.
- Management feels that exports provide hedge to increase in imports cost therefore management targets to increase exports composition to 5% and then 10%. To highlight, export composition is less than 5% of sales at this point.
- UPFL has 1 owned and 2 tolling manufacturing sites with 8 distribution centers and reach of 200k outlets.
- The company is also improving its ESG responsibility by investing in renewables energy, plastic reduction and different CSR projects. Company is generating more than 90% electricity through solar and Bio mass. Company aims to convert 100% of their packaging material to reusable, recyclable or compostable packaging by 2025.
- Management raises concerns regarding the macroeconomic environment, uncertainty in political/economic landscape and supply disruptions along with purchasing power of customers. However management is preparing themselves to deliver market competitive growth by building resilience through localization, unlocking capacity, hedging FX exposure by increasing exports and portfolio interventions by creating value for money propositions.

Outlook

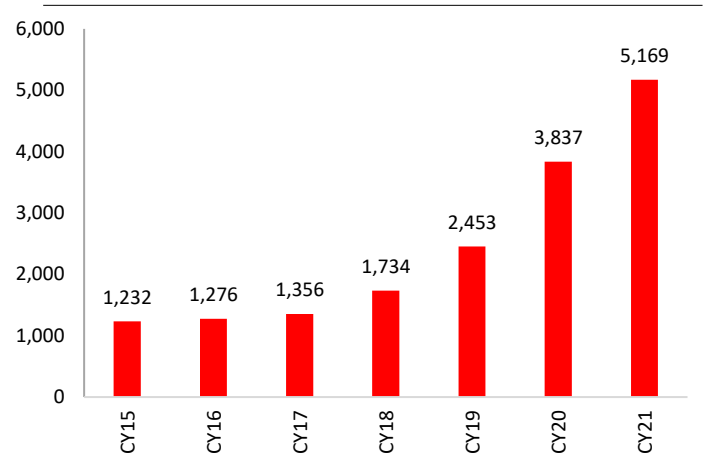
- The company is not under formal coverage.

Fig 1: Sales on an upward trajectory...



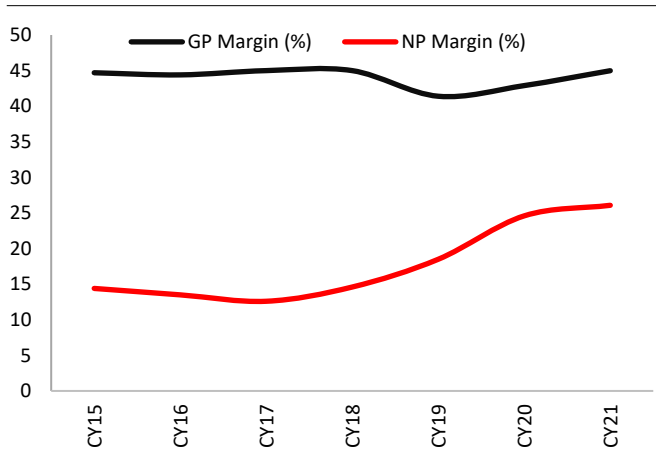
Source: Company acc., Foundation Research, Nov 22

Fig 2: ...Profitability also showed similar trend



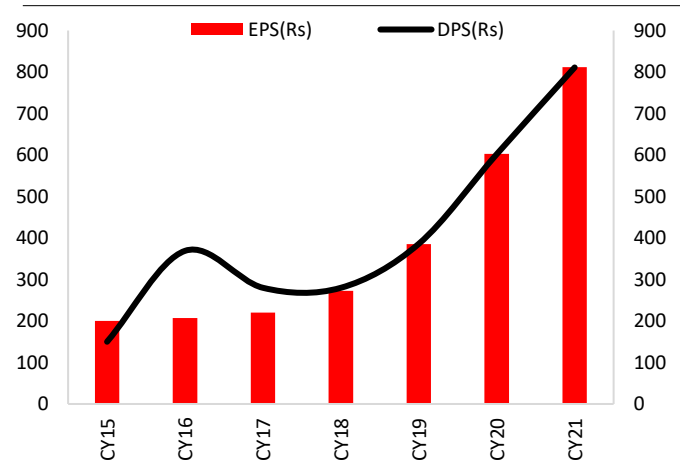
Source: Company acc., Foundation Research, Nov 22

Fig 3: Gross margins recovering...



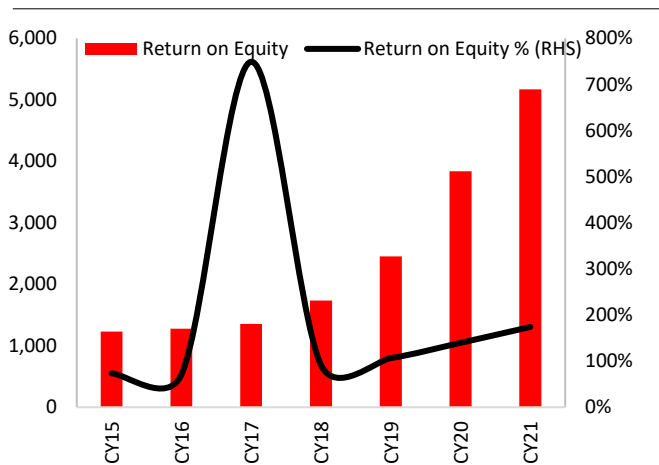
Source: Company acc., Foundation Research, Nov 22

Fig 4: ...EPS and DPS also increased



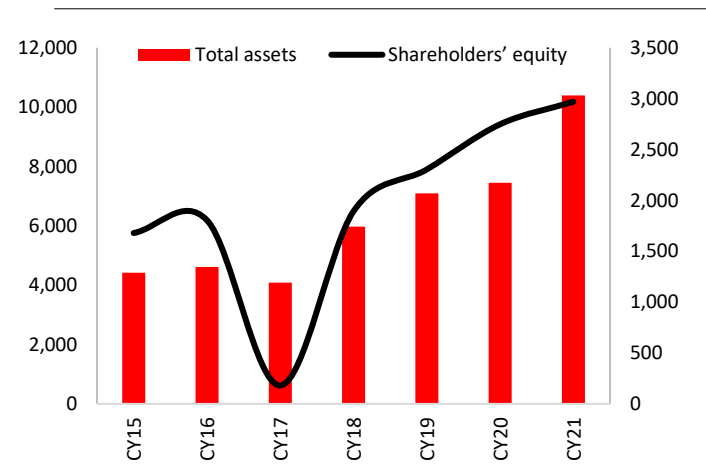
Source: Company acc., Foundation Research, Nov 22

Fig 5: ROE continues to improve YoY...



Source: Company acc., Foundation Research, Nov 22

Fig 6... Assets base is increasing as well



Source: Company acc., Foundation Research, Nov 22

Table 1: Unilever Key financial and operational ratios

Rs mn		CY15	CY16	CY17	CY18	CY19	CY20	CY21
Sales		8,571	9,467	10,745	11,898	13,291	15,573	19,821
GP		3,832	4,202	4,834	5,349	5,502	6,679	8,917
PBT		1,666	1,768	1,921	2,496	2,808	4,055	5,423
Net Profit		1,232	1,276	1,356	1,734	2,453	3,837	5,169
Share capital		62	62	62	64	64	64	64
Shareholders' equity		1,679	1,805	181	1,893	2,304	2,748	2,970
Fixed assets - net		2,160	2,181	2,088	2,914	3,763	3,833	4,186
Total assets		4,417	4,618	4,081	5,971	7,089	7,447	10,389
Dividend per sh.		150	369	280	280	386	602	811
RATIOS:								
PROFITABILITY								
GP Margin %	%	44.7	44.4	45	45	41.4	42.9	44.99
PBT Margin	%	19.4	18.7	17.9	21	21.1	26	27.36
NP Margin % (LHS)	%	14.4	13.5	12.6	14.6	18.5	24.6	26.08
RETURN TO SHAREHOLDERS								
ROE before tax	%	99%	98%	1061%	132%	122%	148%	183%
ROE after tax	%	73%	71%	749%	92%	106%	140%	174%
EPS	Rs	200.1	207.2	220.2	272.3	385.1	602.4	811.53
Sales to fixed assets		4	4.3	5.1	4.1	3.5	4.1	4.73
Sales to total assets		1.9	2	2.6	2	1.9	2.1	1.91
LIQUIDITY/LEVERAGE								
Current ratio		0.9	0.9	0.5	0.8	0.7	0.8	0.9
Breakup value per share		272.6	293.1	29.5	297.1	361.7	431.4	466.18

Source: Company accounts, Foundation Research, November 2022

Table 2: 9MCY22 Financial Highlights

Rs (mn)	3QCY22	3QCY21	YoY	2QCY22	QoQ	9MCY22	9MCY21	YoY
Sales	6,807	4,923	38%	6,406	6%	19,766	14,505	36%
Cost of Sales	4,275	2,778	54%	3,650	17%	11,587	8,210	41%
Gross Profit	2,533	2,145	18%	2,756	-8%	8,180	6,295	30%
Distribution, Admin & Other	1,206	964	25%	1,299	-7%	3,557	2,667	33%
Other Income	247	49	400%	192	29%	525	143	268%
Profit before Operations	1,575	1,230	28%	1,649	-5%	5,148	3,771	37%
Finance Cost	26	9	193%	1	1710%	54	33	63%
Profit before Taxation	1,549	1,221	27%	1,647	-6%	5,094	3,738	36%
Taxation	78	30	164%	141	-45%	280	125	124%
Profit after Tax	1,471	1,192	23%	1,507	-2%	4,814	3,613	33%
EPS-basic and diluted	230.95	187.09		236.55		755.81	567.20	
Gross Margin	37%	44%		43%		41%	43%	
Net Margin	22%	24%		24%		24%	25%	
Tax Effect	5%	2%		9%		5%	3%	

Source: PSX, company account, Foundation Research, November 2022

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