

## Fauji Foods Limited

# 1QCY21: ANALYST BRIEFING TAKEAWAYS

### Revenue growth helps narrow down losses

Fauji Foods Limited (FFL) held its corporate briefing session today to shed light on its recent financial performance and future roadmap. To recall, losses in 1QCY21 narrowed down to PKR 0.34Bn (LPS: PKR 0.43) in 1QCY21, as opposed to PKR 0.95Bn (LPS: PKR 1.2) in SPLY. Key takeaways from the briefing are summarized below: -

- Ranging from UHT milk category to tea whitener, butter, cream, cheese, flavoured milk and juice, FFL has a diverse product portfolio catering to varying consumer dairy preferences.
- The decline in losses in 1QCY21 was mainly attributable to phenomenal revenue growth of 43% YoY to PKR 2.38Bn. Talking in terms of revenue/litre, the company witnessed a growth of 25% YoY to PKR 134/litre compared to PKR 107/litre in 1QCY20.
- The company's flagship brand, Nurpur UHT Milk, recorded a growth of 16% YoY in 1QCY21. Its second largest volumes driving category is Dosti Tea whitener which witnessed a growth of 37% YoY during the same period.
- The company mentioned that it is gradually shifting its focus from volume driven products to value added products. Commenting on their performance in 1QCY21, the management mentioned that the Cheese category recorded the largest growth of 168% YoY followed by Nurpur Salted Butter category at 75%.
- Gross margins have witnessed an impressive turnaround in 1QCY21 at 11% compared to -6% in SPLY. The turnaround was mainly led by operational efficiencies and changes in product mix with greater focus on value added products.
- During the past six months, the company has launched several new product categories, including the introduction of Butter Tub and Dairy Cream in Jan'21, followed by renovations in Cheese category in Jun'21. The company also has other new innovative products in pipeline which it plans to bring on board in coming years.
- The company mentioned that over the last one year, it has streamlined its distribution network and have expanded their market reach all across Pakistan. Their distribution channels are primarily focused on institutional sales and e-commerce route while export plans are on cards too.
- Currently, they have a market share of around ~5.7% in UHT milk category, but the company believes that it will improve going forward due to their customer-oriented food solutions. It plans strengthen its market reach for all products through improvements in supply chain process and customer-focused marketing strategy.
- From CY16-19, the company has spent around PKR 7.3Bn+, in CAPEX to upgrade its plant and machinery and to improve production process. The management believes that due to rising young population and rapid urbanization in the country, the formal dairy sector of Pakistan has strong growth outlook.
- We don't have FFL in our official coverage list but given the impressive improvement in financial performance and robust growth outlook of value-added product portfolio, FFL seems like a good value proposition as the scrip is trading at a P/S multiple of 1.70x which is relatively less compared to sector average of 2.50x.

FFL vs. KSE-100 Index



%	3M	6M	12M
Absolute	19	-2	64
Relative to KSE	11	-8	21

Source: PSX

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

### Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)