

FMCG: Higher sales and firm margins aided bottom-line expansion

- The food sector has outperformed the benchmark index by ~15% in the last 12 months (8% performance) and currently trades at a trailing P/S and P/E of 1.54x and 19.84x, respectively.
- The sector's profits have jumped by 29% YoY (last 4 quarters) owing to (1) 21% YoY higher sales and (2) improved operational efficiencies.
- With gross margins expanding to 24%, UPFL, NATF, NESTLE and PREMA reported higher gross level performance as compared to peers.

Food sector sales swell by 21% YoY

We review Food sector's financial performance with a sample size of eleven companies (refer table below) as a proxy to the listed food sector. Spike in commodity prices, increase in consumption pattern, economic activity and higher inflation have most likely aided the sector's trailing annual top-line to expand by 21% YoY (last four quarters). On the other hand, passing on of higher manufacturing costs and controlled fixed costs led the bottom line to rise by 29% YoY.

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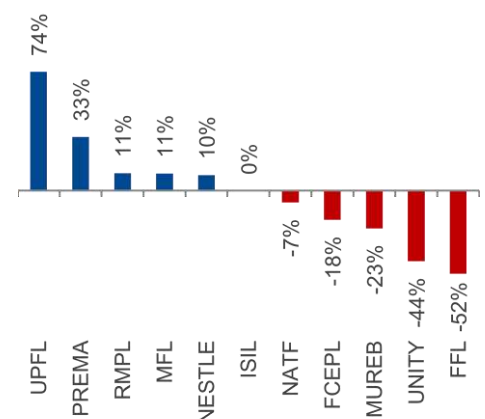
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Food sector: Key financial snapshot

(Rs mn)	*Trailing P/S (x)	*Trailing P/E (x)	Trailing 4 Qs			
			Sales	YoY growth	PAT	YoY growth
NESTLE	1.86	18.45	138,743	14%	14,010	38%
UNITY	0.34	10.58	74,892	30%	2,432	-14%
FCEPL	0.93	26.51	54,488	19%	1,921	125%
RMPL	2.20	16.37	45,228	24%	6,067	-11%
ISIL	0.54	12.25	49,624	35%	2,173	25%
NATF	1.32	18.53	25,721	7%	1,829	10%
UPFL	7.46	28.73	21,333	28%	5,543	24%
MUREB	0.77	6.75	14,009	39%	1,591	106%
MFL	0.31	50.27	11,210	-11%	70	0%
FFL	1.18	-7.27	8,612	7%	(1,404)	-43%
PREMA	0.67	6.28	5,778	39%	617	201%
Sector	1.52	19.58	449,638	21%	34,849	29%

Source: Company accounts, JS Research *Last four quarters

12-month stock performance



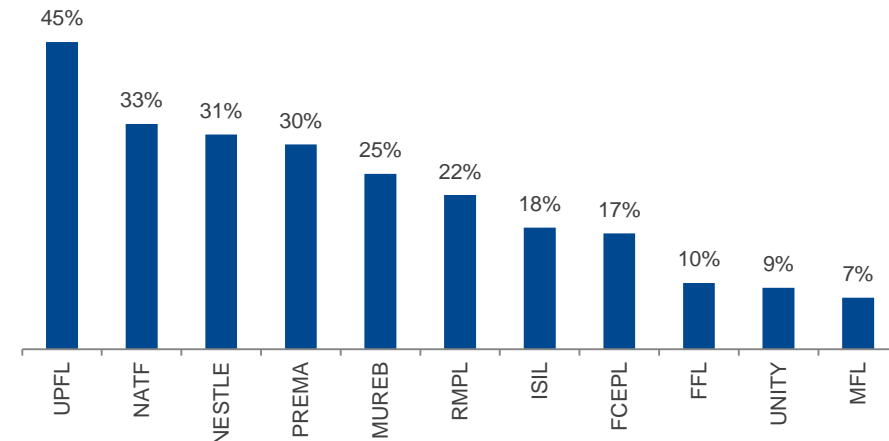
Source: JS Research

Operational efficiencies boost profitability

Despite rising input costs, the sector managed to maintain its gross margin at 24% for March-2022 quarter, higher on a QoQ basis but flattish versus SPLY. The sector's margins faced some pressures in the previous few quarters as food manufacturers were struggling to completely pass on the impact of unprecedented increment in commodity prices along with a surge in fixed costs to the end-consumer.

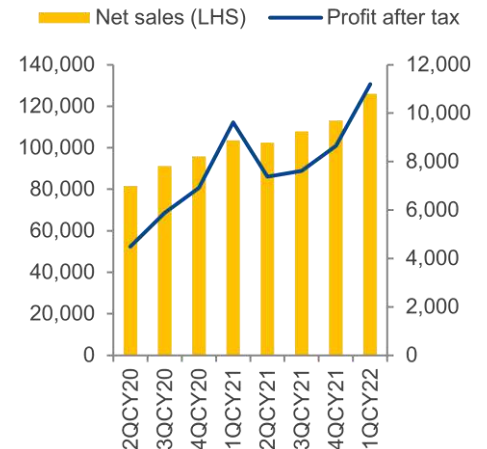
Control on the selling and administrative expenses, however, has helped in sustaining the sector's operating margins over the quarters and in fact led to improvement in 1st quarter where it clocked in at 14%. Moreover, with improved interest coverage and relatively lower effective tax rate, the sector's profitability during the March quarter improved by 16% YoY.

Gross Margins: Trailing 4 Qs



Source: JS Research

Consistent growth in Sales and Profit (Rs mn)



Source: JS Research

Food sector outperforms on expanding profits

During the last 12 months, the food sector outperformed the benchmark index by ~15.3% (8.4% performance), taking the sector's trailing P/S and P/E to 1.54x and 19.87x, respectively. Current multiples depict more potential for upside implied by the forward P/E of ~16.56x assuming FMCG sector's bottom line growth rate at 20%.

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