Food sector: Revenue and margins remained under pressure in 4Q

- Based on the cumulative figures of sample consisting 9 listed food companies, we review the Food sector's profitability for Dec-2024 quarter. Despite 1% YoY decline in revenues and 200bp decline in gross margins, softening of interest rates helped the industry to report 24% YoY growth in earnings during 4QCY24.
- Within the food sector, dairy companies' revenues suffered more than the others. We saw cumulative revenues of NESTLE, FCEPL and FFL reporting 8% YoY decline. This mainly reflects drop in sales volume led by the continued disparity between branded and unbranded dairy product prices subsequent to imposition of GST on branded dairy products.
- Our proxy of the food sector continued to underperform the benchmark KSE100 Index CY25-TD, as the sector market capitalization remained flat since the start of the year. NATF and UPFL outperformed the peers on the back of strong earnings and payouts. Resultantly, the sector P/S and P/E multiples now stand at 1.3x and 20x, respectively based on last 4-quarter trailing sales and net profit figures.

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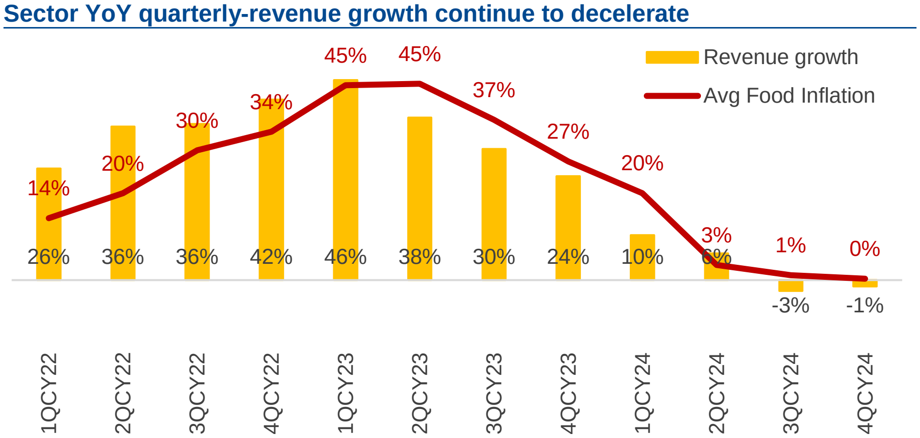
4QCY24: Price hikes not enough to deliver top-line growth

Our selective 9 food companies cumulatively reported 1% YoY decline in revenues during 4QCY24. We highlight, hike in prices for branded products wasn't sufficient to offset the impact of expected drop in sales volume in most cases which coupled with increasing cost pressures led to a 200bp YoY decline in gross margins. Financial charges dropped by 32% YoY mainly led by 1,200bps YoY decline in effective cost of debt from its peak of 19% in 4QCY23 to 7% in 4QCY24. Support from savings on financial charges and rise in other income helped the companies to deliver 24% YoY growth in earnings.

Sector YoY quarterly-revenue growth continue to decelerate



Source: Company accounts, JS Research

Company-wise YoY sales trend

	4QCY24	CY24
Nestlé Pakistan	-11%	-4%
FrieslandCampina Engro*	-7%	7%
Rafhan Maize	22%	7%
Ismail Industries	-14%	-7%
National Foods (cons.)	19%	20%
Unilever Foods	9%	-3%
Matco Foods	-11%	0%
Fauji Foods	10%	18%
Muree Brewery	25%	25%

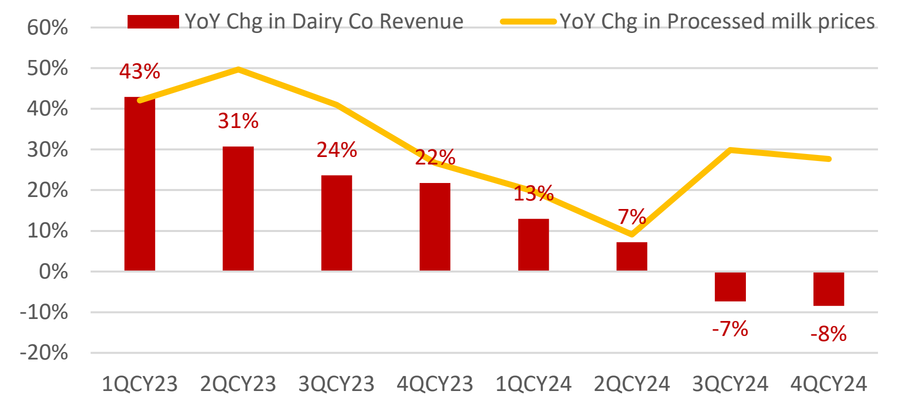
Source: Company accounts, JS Research

Dairy businesses continue to suffer since GST imposition

Within our sample companies, revenues of the dairy businesses were impacted more than others with 8% YoY drop during 2HCY24 due to price escalation to account for GST imposition on dairy products in Jun-2024. Widening of price gap between fresh/ unbranded milk and UHT/branded milk from ~Rs80/liter pre-budget to ~Rs160/liter now, has made it more economical to switch back to the unbranded segment.

Company-wise, the two large dairy producers, NESTLE and FCEP reported 11%/ 7% YoY decline in their revenues in 4QCY24. Unlike the previous quarters where price hikes resulted in topline growth (1QCY23-2QCY24), the recent quantum of price hikes has started hurting volumes significantly.

GST led jump in Processed milk prices hurting dairy companies' revenues

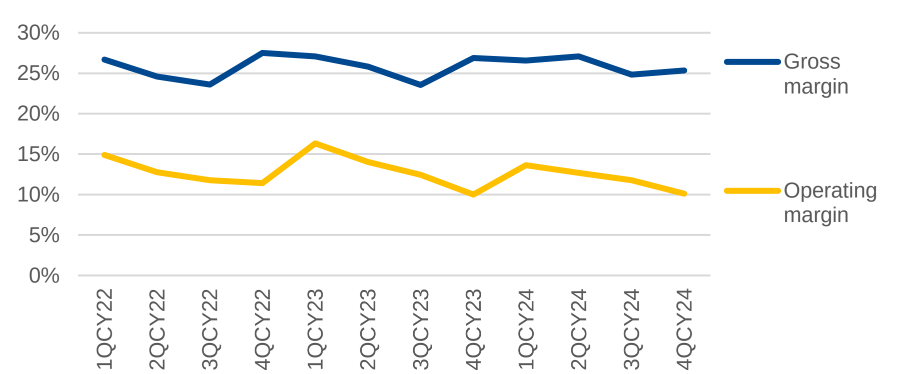


Source: NESTLE, FCEPL, FFL accounts, JS Research

Weaker demand impacting pricing power & margins

As the decline in volumes increasingly impacted sales, fully passing on cost hikes to end-product prices remains a challenge for food companies. As a result, we saw 200bp decline in gross margins to 25% in 4QCY24. A major YoY decline in margins was witnessed in NESTLE (-6ppt), UFPL (-5ppt) and FFL (-14ppt), while others largely reported flat margins.

Cumulative sector gross margins dropped 200bp YoY



Source: Company accounts, JS Research

Food sector continue to underperform KSE100

Our sample companies under-performed the KSE100 index by 2.4% CY25 TD. NATF outperformed the peers with 13% gains CY25 TD (strong PAT growth of 81% YoY 4QCY24), followed by UPFL (stock up 10% due to strong payout). Meanwhile MFL underperformed the peers with -14.7% return, due to weaker rice exports volumes and prices. Resultantly, the sector P/S and P/E multiples now stand at 1.3x and 20x based on last 4-quarter trailing sales and net profit figures. Going forward, we believe the sector awaits broader recovery in consumer product demand, where softening of interest rates will have a second round impact on food products' demand as economic activity and disposable income pick up.

Food sector: Company-wise sales and profit trend

	Trailing 4 Qs YoY growth	
	Sales	**PAT**
NESTLE	-4%	-10%
FCEPL	7%	46%
RMPL	7%	8%
ISIL	-7%	-32%
NATF	20%	-39%
UPLF	-3%	-28%
MFL	0%	NM
FFL	18%	19%
MUREB	25%	75%
Sector cumulative	**3%**	**-12%**

Source: Company accounts, JS Research
**Last four quarters*

Co-wise: Quarterly Operating profit margin

	2QCY24	3QCY24	4QCY24
NESTLE	38%	33%	37%
FCEPL	18%	15%	14%
RMPL	21%	23%	20%
ISIL	24%	23%	21%
NATF	26%	26%	28%
UPLF	39%	40%	37%
MFL	11%	14%	13%
FFL	20%	15%	9%
MUREB	20%	27%	24%
Sector	**27%**	**25%**	**25%**

Source: Company accounts, JS Research

Food sector: Key valuations

(Rs mn)	Mkt Cap (Rsmn)	*Trailing	
		P/S (x)	P/E (x)
Nestle	335,693	1.74	22.50
FCEPL	65,245	0.61	29.60
RMPL	83,580	1.20	11.18
ISIL	123,158	1.22	23.95
NATF	50,458	0.54	25.46
UPFL	149,056	4.42	21.37
MFL	5,386	0.20	NM
FFL	40,697	1.74	56.76
MUREB	20,476	0.75	6.18
Sector	**873,749**	**1.3**	**20.5**

Source: Company accounts, JS Research
** Based on last four quarters trailing Sales and PAT*

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