

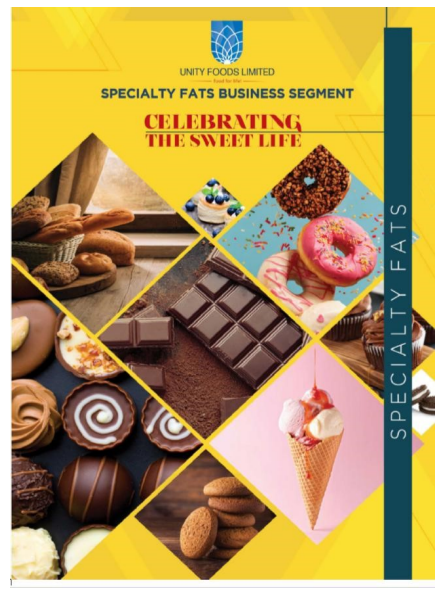
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UNITY FOODS LIMITED

food for life!

Key Takeaways of Our Meeting with Unity Foods Management



WE Research/Pakistan
Tel: 021-32463401
Email: research@we.com.pk

Key Statistics

Current Price	PKR 27.86
Outstanding Shares	169.05 mn
Market Capitalization	PKR 5,243.93mn
CY18TD Avg. Daily Volume	5.87 mn
Free Float	76.07 mn

Source: PSX

Financial Highlights

P&L Items	FY18 (PKR mln)
Sales	2,782.17
COGS	(2,534.10)
Gross Profit	248.07
Operating Profit	149.64
Net Profit	121.52
Balance Sheet Items	
Non Current Assets	1,521.82
Current Assets	3,015.91
Total Assets	4,567.18
Current Liabilities	2,793.26
Equity	1,773.92

Key Takeaways of Our Meeting with Unity Food Management

- From a 95% B2B company, Unity Foods has initiated entry into B2C with 'Dastak' edible oil.
- Willmar (Asia's leading agribusiness group) is the trading partner of Unity Foods facilitating a chunk of the latter's raw material imports.
- UFL imports four types of raw materials on a month to month basis 1) Soybean seeds from USA 2) Canola Seeds from USA 3) Palm oil from Malaysia & Indonesia 4) Specialized Fats from Malaysia & Indonesia
- UFL has not acquired any long-term debt on their balance sheet till now. Going forward, UFL management is comfortable with capex requirements for which they are considering various financing options.
- Dastak brand is launched under the 'Popular Segment' which accounts for over 40% of the total market.
- UFL has opened warehouses and sales offices in Karachi, Lahore, Multan, Islamabad and Hyderabad and aims to establish a wider dealer network across the country.
- A growing number of distributors are signing up and company's sales have commenced.
- The Company is selling animal feed product under the brand name of "Pure" which includes soya-bean meal and canola meal. The group companies are also importing "Palm Kernal Expeller" which is live-stock feed under the same brand name.
- Going forward, management sees opportunities to grow within the business segments of edible oil, animal feed and Industrial fats. To cater to anticipated growing demand, UFL has already announced possible acquisition of 500 metric ton per day capacity edible oil refinery with embedded land. In addition, UFL is planning to setup an industrial fat manufacturing facility to cater to rising HORECA demand with expected completion of the same in 18 to 24 months.

Key Ratios	
Gross Profit Margin	8.92%
Operating Profit Margin	5.38%
Net Profit Margin	4.37%
Return on Capital	6.85%
Current Ratio	1.08
EPS PKR	1.18
Cash Dividend	5.00%

Source: Company Accounts

- Major local confectionary players are UFL's clients for procurement of industrial fats.
- Further, the management hints about lateral expansion to strengthen their footing into confectionary segment;
- In FY18, topline recorded at PKR 2.7 billion which consists 29% of export sales to Malaysia, Indonesia and Sri Lanka.
- Going forward, anticipated topline to cross PKR 8.5 billion during FY19 with normalized NPM of 5% and GPM within the range of 10% to 15%.
- 1QFY19 margins remained depressed on account of expensive inventory held and declining soya meal prices in international market.
- UFL will hold an analyst briefing later this month (Oct, 2018) and is also planning to arrange a visit to its main manufacturing facility located in Kotri, Hyderabad in November 2018.

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WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as December 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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