

UNITY

Right issue to increase the profitability, hence enhancing the expected returns

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Unity foods has decided to increase the paid-up share capital of the company by the issue of a further 450mn ordinary shares at par value (i.e.Rs 10 each) by the issue of right shares to be offered in a proportion of approximately 82.71 right shares for every 100 shares held

The share transfer books of the company will be closed from 18th Jul 2020 to 1st Aug 2020 (both days inclusive) to determine the entitlement of right shares.

The proceeds from the right issue will primarily be used for meeting the increased working capital requirements of the company

We reiterate our BUY stance on the scrip with a DCF based Jun-21 TP of Rs 14 as the rapid acceptance of the company's products by consumers, expected efficiencies in inventory management, impervious to Covid-19 crisis for being a provider of essential goods and Exemption from 2% ACD on import of edible oils and oil seeds under PM's COVID19 Relief Package have made the fundamentals of the company much more attractive

Right Issue to Improve the Gearing Ratios

As the revenue of the company has massively grown by 120% YoY to Rs20bn in 9MFY20, following a growth of 407% YoY in FY19, it is pertinent to mention here that growth in revenues always comes up with higher working capital requirements. The short-term borrowings of the company have reached around Rs4bn in 9MFY20 as compared to Rs2.6bn during SPLY, recording a growth of 54% YoY. Resultantly, the debt to equity ratio of the company has reached 0.7x in 9MFY20 as compared to 0.45x during the same period last year while exhausting almost all the working capital lines available to the company. Therefore, in our view, the decision to the issue right shares would help the company to mitigate cashflow constraints, reduce debt level in order to bring the capital structure to the optimal level and decrease the burden from the bottom line through the reduction of finance cost hence, enhancing the expected returns for the shareholders.

Improving Gross Margin Despite Unstable Exchange Rate

The company imports the raw materials on a month to month basis. Therefore, the depreciating exchange rate could significantly affect the GM of the company. However, despite around 55% devaluation of Pak rupee against USD in the last two years, the gross margin of the company is continuously on the rising trajectory since the commencement of its operations. The company posted the GM at 9.1% in FY19 as compared to 8.9% in SPLY which depicts the prudent decision making by the senior management with respect to inventory management. Going forward, we expect the company's gross margin to remain stable as the establishment of the oil terminal would allow the company to hold inventory and thereby control costs.

Valuation

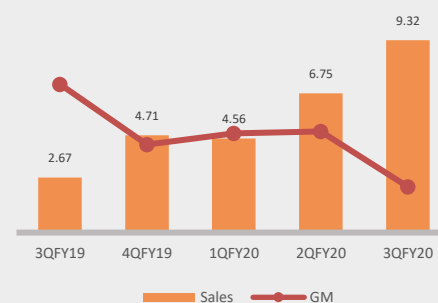
UNITY is currently trading at FY21E PE of 17.9x. Furthermore, the scrip is trading at a FY21E P/B of 1.12x which offers a discount of around 79% relative to its historical 2-year average of above 2x. We maintain our BUY stance on the scrip with a DCF based Jun-21 TP of Rs 14.

Key Statistics

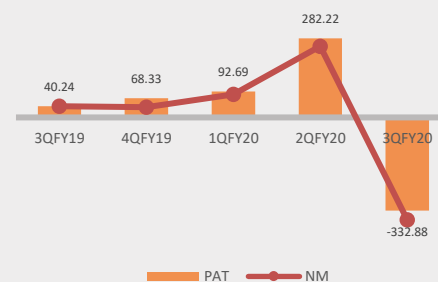
Symbol	UNITY
TP - Jun 21	14.00
LDPC	11.69
Upside (%)	19.76
Ex-Rights Price	10.92

	Pre Right Issue	Post Right Issue
No. of Shares ('mn)	544.05	994.05
Free Float ('mn)	244.82	447.32
Book Value (Rs)	10.44	10.24
EPS FY19	0.47	0.26
EPS 9MFY20	0.08	0.04

Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Revenue	2,782	14,097	27,480	38,217	53,122	60,915	69,867
Cost of sales	-2,534	-12,820	-25,474	-35,160	-48,341	-54,823	-62,182
Gross profit	248	1,277	2,006	3,057	4,781	6,091	7,685
Distribution cost	-56	-357	-742	-1,032	-1,434	-1,645	-1,886
Administrative expenses	-55	-181	-209	-290	-404	-463	-531
Other operating expenses	-22	-178	-5	-191	-266	-305	-349
Profit from operations	116	562	1,050	1,544	2,677	3,679	4,919
Other income	34	1	-412	8	11	12	14
Finance cost	-52	-288	-510	-650	-888	-802	-715
Profit before income tax	98	275	127	902	1,800	2,890	4,218
Income tax expense	24	-20	-48	-262	-522	-838	-1,223
Profit for the year	122	255	79	640	1,278	2,052	2,995
EPS	0.12	0.26	0.08	0.64	1.29	2.06	3.01
EBITDA	138	624	1,150	1,713	2,930	3,969	5,219

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Revenue		406.7%	94.9%	39.1%	39.0%	14.7%	14.7%
Cost of sales		405.9%	98.7%	38.0%	37.5%	13.4%	13.4%
Gross profit		414.8%	57.1%	52.4%	56.4%	27.4%	26.2%
Distribution cost		541.3%	108.1%	39.1%	39.0%	14.7%	14.7%
Administrative expenses		228.5%	15.4%	39.1%	39.0%	14.7%	14.7%
Other operating expenses		715.0%	-96.9%	3376.8%	39.0%	14.7%	14.7%
Profit from operations		386.1%	86.9%	47.1%	73.4%	37.4%	33.7%
Other income		-96.6%	-35929.1%	-101.9%	39.0%	14.7%	14.7%
Finance cost		456.0%	77.0%	27.4%	36.7%	-9.8%	-10.8%
Profit before income tax		180.9%	-53.7%	608.5%	99.6%	60.6%	45.9%
Income tax expense		-17.2%	146.2%	440.7%	99.6%	60.6%	45.9%
Profit for the year		109.9%	-69.1%	711.4%	99.6%	60.6%	45.9%
EPS		109.9%	-69.1%	711.4%	99.6%	60.6%	45.9%
EBITDA		350.9%	84.2%	49.0%	71.0%	35.5%	31.5%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
GP Margin	%	8.92	9.06	7.30	8.00	9.00	10.00	11.00
NP Margin	%	4.37	1.81	0.29	1.68	2.41	3.37	4.29
OP Margin	%	4.15	3.99	3.82	4.04	5.04	6.04	7.04
ROE	%	6.85	4.48	1.43	10.91	18.94	24.86	28.52
ROCE	%	6.51	9.87	20.09	30.95	52.37	67.13	70.45
ROA	%	2.66	2.44	0.51	3.26	4.69	6.98	9.10
Liquidity Ratios		FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Current	x	1.08	1.54	1.10	1.00	0.97	0.98	1.04
Quick	x	0.43	0.65	0.42	0.36	0.40	0.38	0.42
Activity Ratios		FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Inventory Turnover	x	1.71	5.48	5.80	5.29	5.28	4.85	4.85
Inventory Days		213.07	66.63	62.93	68.98	69.09	75.27	75.27
Receivables Days		4.07	0.03	0.03	0.03	0.03	0.03	0.03
Payables Days		251.31	56.48	90.00	90.00	100.00	100.00	100.00
Operating Cycle		-34.18	10.18	-27.04	-20.99	-30.88	-24.70	-24.71
Investment Ratios		FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
DPS		0.50	0.10	0.25	0.30	0.40	0.55	0.75
Div. Yield	%	4.35	0.87	2.17	2.61	3.48	4.78	6.52
Dividend Cover	x	0.24	2.57	0.32	2.15	3.21	3.75	4.02
Retention	%		61.03	#####	53.42	68.88	73.35	75.10
Payout	%		38.97	314.94	46.58	31.12	26.65	24.90
No. of Shares	('m)	0.99	0.99	0.99	0.99	0.99	0.99	0.99
EPS		0.12	0.26	0.08	0.64	1.29	2.06	3.01
BVPS		1.78	5.73	5.56	5.90	6.79	8.30	10.56
P/E	x	94.07	44.82	144.87	17.85	8.95	5.57	3.82
Sales per share		2.80	14.18	27.64	38.45	53.44	61.28	70.29
P/BV	x	6.44	2.01	2.07	1.95	1.69	1.39	1.09
P/S	x	4.11	0.81	0.42	0.30	0.22	0.19	0.16
Solvency Ratios		FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Total Debt to Equity	x	0.35	0.45	0.70	0.98	1.28	1.05	0.83
L.T Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	2.23	1.95	2.06	2.38	3.01	4.59	6.88

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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