PAKISTAN
FOOD

May 12, 2026

REP-019

MARKET VISTA

Profitability rebounds in 1QCY26 on demand recovery

- **Food sector's profitability grew 15%YoY in 1QCY26 on higher sales amid improved margins along with decline in finance costs.**
- **Sector's gross margins expanded on improving demand, and easing finance cost on lower interest rates supported bottom-line.**
- **FCEPL & NESTLE led the earnings recovery, with FCEPL posting growth on gross margin expansion and a decline in finance cost.**
- **We maintain a positive outlook due to volumetric recovery in key segments amid improved macros, improving operational efficiencies, and eased finance cost.**

Profitability recovery led by demand: Pakistan's listed food sector profitability increased by 15%YoY to PkR17.0bn in 1QCY26 from PkR14.8bn in SPLY, mainly driven by i) higher sales, ii) gross margin expansion, and iii) reduction in finance cost. Revenue increased by 5%YoY to PkR196.2bn in 1QCY26, compared to PkR186.9bn in SPLY, with major growth led by Beverages (up 17%YoY), and Condiments & Culinary (up 16%YoY) segments. The said growth in former was led by improved macroeconomic conditions and sales recovery post GST implementation, whereas, growth in the latter was primarily supported by better product-mix and improving purchasing power amid easing inflation.

Gross margins slightly higher on improving prices: Gross margins expanded by 152bps to 28.4% in 1QCY26, primarily led by higher prices amid demand recovery. Sector-wise, Condiments and Culinary witnessed the highest increase in its gross margins by 138bps to 40.3% in 1QCY26, mainly due to NATF's sales growth amid high local demand. However, the overall improvement was partially diluted by the margins attrition in Beverages segment by 183bps to 23.4% in 1QCY26 due to elevated input costs.

Other income & finance cost provides relief: Finance cost declined by 8%YoY to PkR2.6bn vs PkR2.8bn in SPLY, mainly due to ease in policy rate, though partially offset by a 9%YoY increase in sector debt to PkR91.0bn as of Mar'26. Moreover, other income increased by 13%YoY, supported by 10%YoY increase in cash & ST investments, outweighing lower investment yields.

FCEPL & NESTLE lead earnings recovery: Out of the 17 companies under review, 11 reported earnings growth in 1QCY26. FCEPL led the pack, posting a 71%YoY increase in earnings to PkR1.9bn, primarily driven by higher sales, cost efficiencies, alongside a 65% YoY lower finance cost due to decline in interest rate. Similarly, NESTLE recorded a 12% YoY earnings increase, largely attributable to i) sales growth mainly on recovery post GST implementation last year, ii) 46%YoY reduction in finance cost due to deleveraging, and iii) higher other income supported by an increase in cash and short-term investments. Segment-wise, Condiments & Culinary, and Dairy had the most profitability increase by 24%YoY/20%YoY led by improved consumer demand and better product mix.

Investment Perspective: The food sector is currently trading at a trailing P/E of 19.0x. We maintain a positive outlook, supported by (i) volumetric recovery in key segments including dairy, beverages, and condiments, (ii) improving operational efficiencies, and (iii) lower finance cost. We prefer NATF, FFL, and FCEPL in the sector, due to i) increasing demand amid improving income levels, ii) supported gross margins given tilt towards value-added segments, and iii) easing finance cost. However, prolonged Middle East conflict could reduce purchasing power, which may limit sector demand. In addition, increasing input prices amid commodity price volatility and supply chain disruptions also pose risks, particularly for export-oriented companies.

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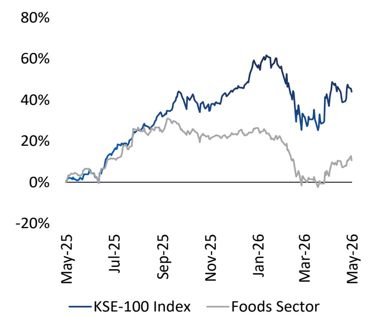
KSE100 vs. Food sector performance



Source: PSX & AKD Research

Company-wise multiples

TTM	EV/Sales (x)	P/E (x)
NESTLE	1.6	19.3
UPFL	3.8	26.2
ISIL	1.4	30.6
NATF	1.8	12.0
RMPL	1.1	13.4
FCEPL	0.8	23.0
FFL	1.4	40.4
MUREB	0.6	7.7
BBFL	1.0	10.3
PREMA	0.7	12.4
TOMCL	0.5	13.5
MFL	1.1	34.6
BNL	0.8	17.0
MFFL	1.3	25.3
QUICE	1.6	109.3
SHEZ	0.5	12.4
GIL	0.3	187.8
Sector	**1.4**	**19.0**

Source: PSX & AKD Research

AKD Securities Limited

Company-wise sales and profitability trend

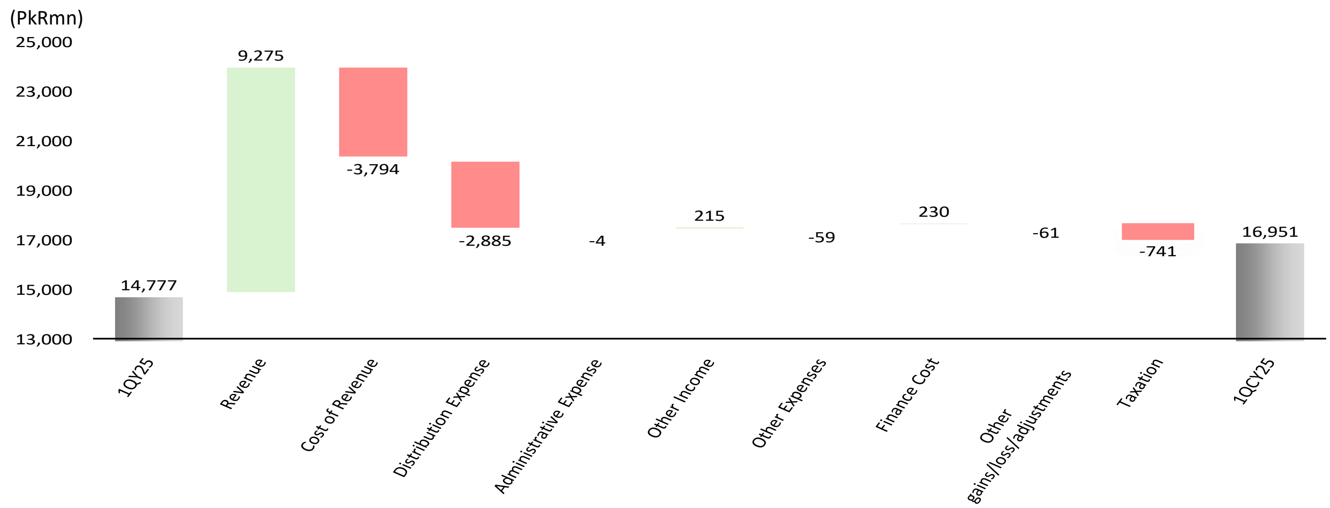
	Company	Mkt cap (PkRmn)	Sales 1QCY26 (PkRmn)	Change YoY	NPAT 1QCY26 (PkRmn)	Change YoY	Reasons
1	NESTLE	345,372	54,020	7%	5,612	12%	Revenue growth with stable gross margins, along with a major decline in finance cost.
2	UPFL	167,325	13,192	26%	2,108	26%	Both consumer and corporate demand drove revenue expansion, which in turn lifted profitability.
3	ISIL	126,761	26,884	-7%	1,008	-8%	Export sales decline and high input costs led to decline in earnings.
4	NATF	88,493	16,115	9%	2,663	23%	Revenue growth on the back of healthy demand, alongside other income, drove increase in profitability.
5	RMPL	88,419	19,044	0%	2,033	4%	Gross margin improved and lower finance cost, supported modest earnings growth, despite headwinds from Afghanistan trade closure and weaker export demand.
6	FCEPL	79,649	28,722	10%	1,851	71%	Earnings recovery was primarily driven by improving sales and lower finance cost.
7	FFL	45,259	8,543	8%	302	-10%	Higher distribution and lower other income outweighed the sales growth.
8	MUREB	25,561	7,368	20%	641	3%	Sales growth supported by stronger local demand and expansion in the liquor division, was largely offset by gross margin compression.
9	BBFL	13,759	3,854	12%	356	8%	Profitability was primarily driven by higher sales, alongside increase in other income.
10	PREMA	7,545	3,225	15%	167	-15%	High input costs outweighed the impact of increased sales.
11	TOMCL	6,831	3,143	-3%	17	-86%	Absence of exports to Afghanistan amid border closure along with lower exports to China, coupled with higher input cost, weighed on profitability.
12	MFL	6,474	5,834	-30%	86	42%	Improved gross margins due to better product mix led to profitability growth.
13	BNL	5,498	1,951	7%	57	55%	Higher flour and raw-material costs and a sharp rise in fuel caused margin contraction, but a tax credit drove bottom-line up.
14	MFFL	3,674	921	28%	-67	n.m	Gross margin contraction from higher input costs combined with sharply higher opex on post-management-transition led to net loss.
15	QUICE	2,675	422	25%	5	-60%	Revenue grew due to Ramadan/Eid-led demand, and a rise in exports, but was outweighed by higher distribution expenses.
16	SHEZ	2,302	2,400	8%	111	2x	Profitability recovers due to sales growth, led by improving demand of juices.
17	GIL	578	559	51%	1	9x	Decline in taxation outweighed the reduction in margins which aided in profitability.
	Total	**1,016,174**	**196,196**	**5%**	**16,951**	**15%**	

Source: PSX & AKD Research

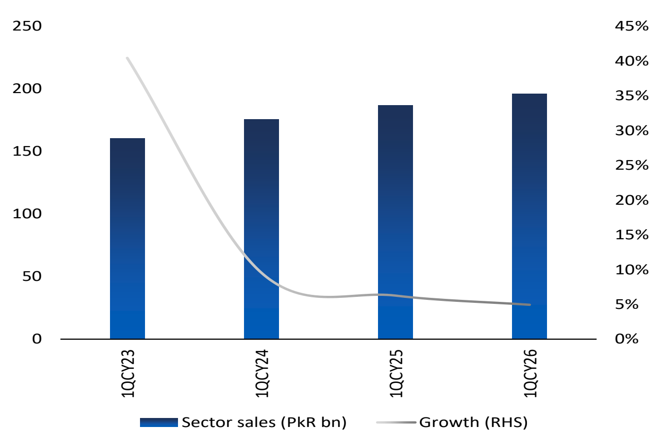
Food Sector Earnings Snapshot

(PkRmn)	1QCY26	1QCY25	YoY	4QCY25	QoQ
Revenue	196,196	186,921	5%	179,469	9%
Cost of Revenue	140,532	136,738	3%	136,850	3%
Gross Profit	**55,663**	**50,183**	**11%**	**42,619**	**31%**
Gross Margin	28.4%	26.8%	-	23.7%	-
Distribution Expense	**21,454**	**18,569**	**16%**	**19,570**	**10%**
Administrative Expense	5,359	5,354	0%	4,412	21%
Operating Profit	**28,851**	**26,259**	**10%**	**18,637**	**55%**
Other Income	1,906	1,691	13%	2,460	-22%
Other Expenses	**2,271**	**2,211**	**3%**	**1,286**	**77%**
Finance Cost	2,613	2,843	-8%	2,391	9%
Other gains/loss/adjustments	234	296	-21%	34	594%
Profit Before Taxation	**26,108**	**23,192**	**13%**	**17,454**	**50%**
Taxation	9,157	8,415	9%	6,113	50%
Profit After Taxation	**16,951**	**14,777**	**15%**	**11,340**	**49%**

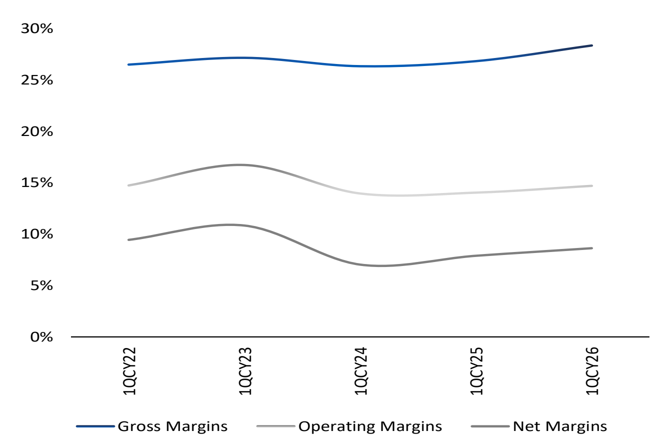
1QCY25 → 1QCY26 sector PAT bridge



Sales grew 5%YoY on volumetric recovery



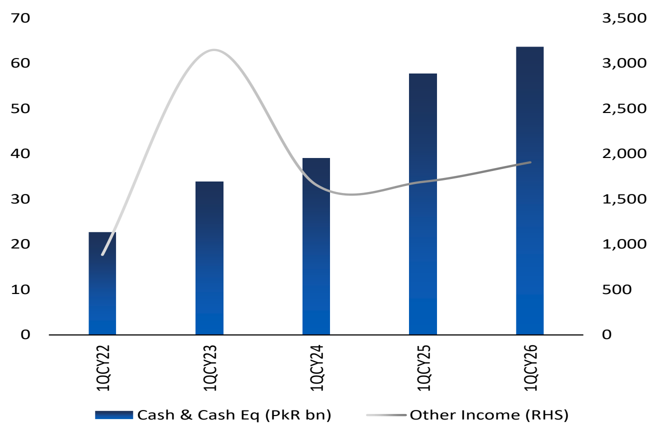
...with gross and operating margins up



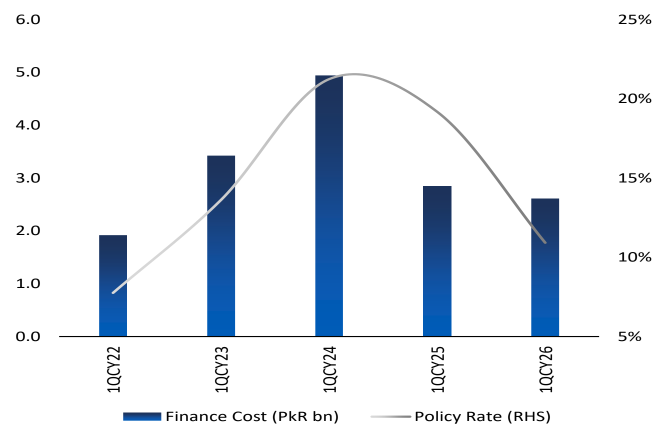
Source: PSX & AKD Research

Sales recovery & margins expansion drive profitability growth

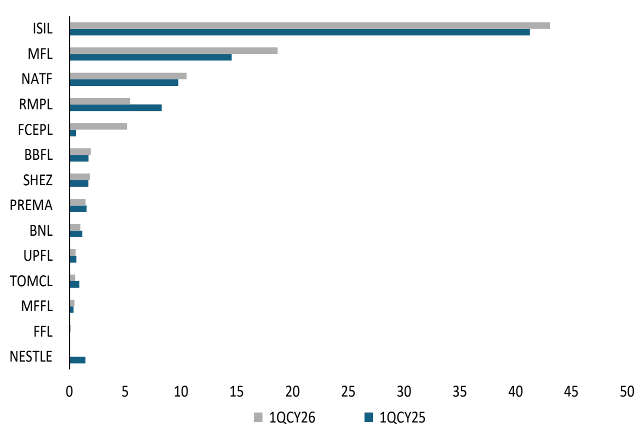
Other income increased on higher cash & ST investments



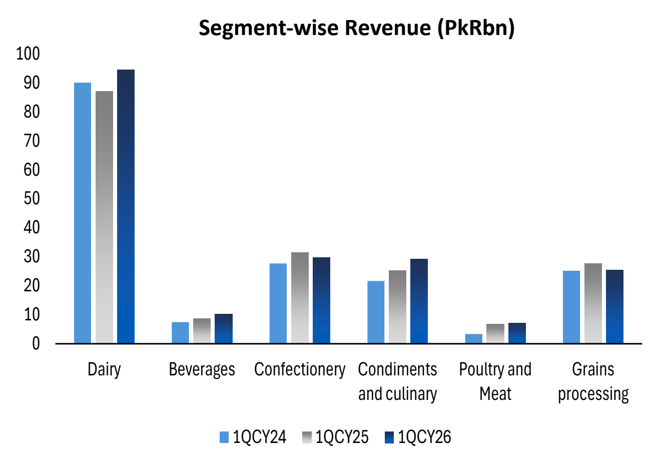
...while finance cost declined along with lower policy rate



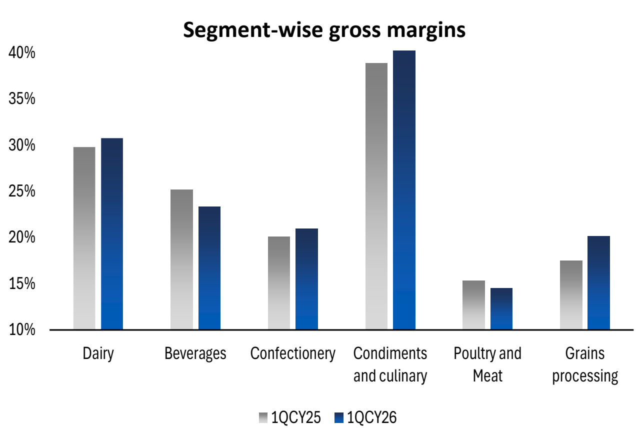
...despite increase in total debt



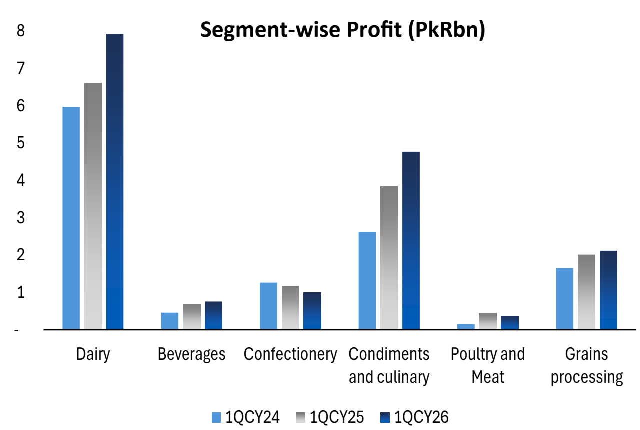
Beverages lead the revenue growth



...with Condiments & culinary segment led margin expansion



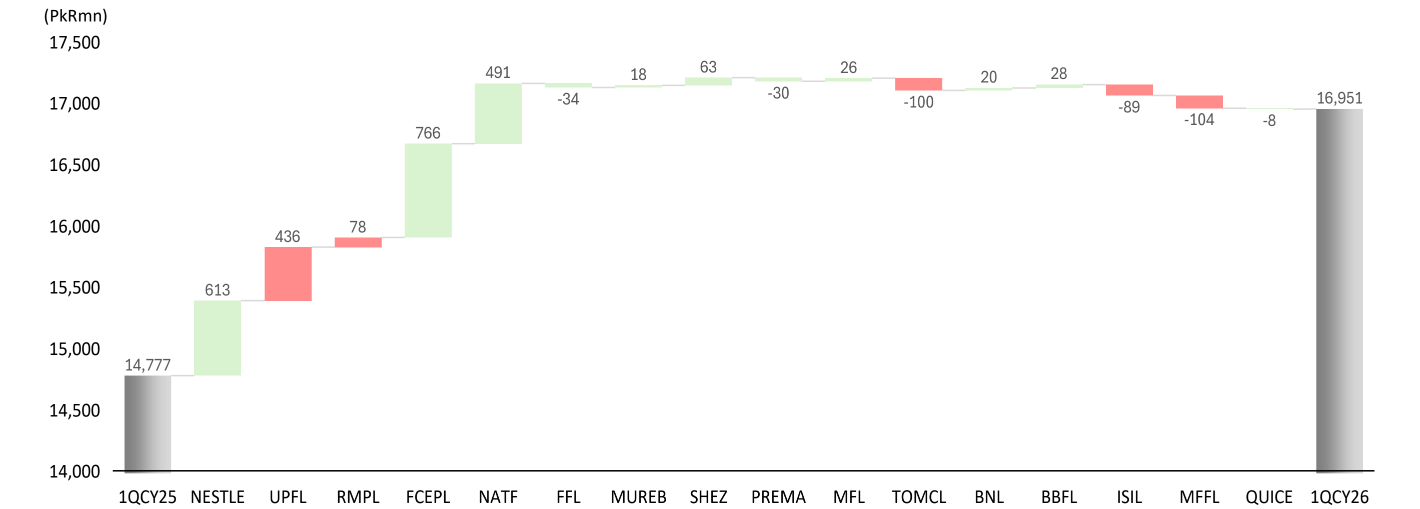
....leading to witness most growth in profitability



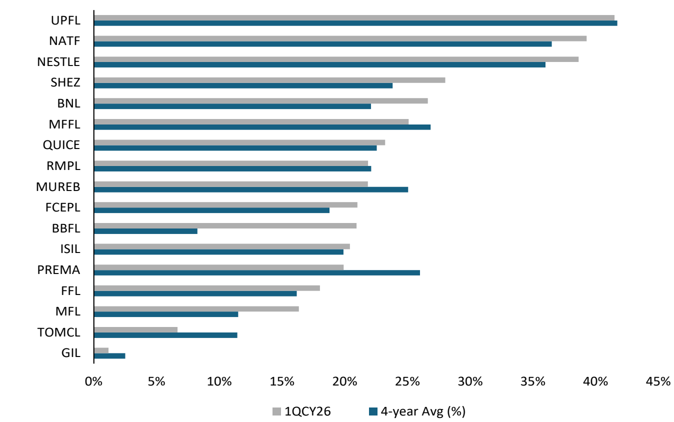
Source: PSX & AKD Research

Cost relief and sales recovery drive food sector profitability

FCEPL & Nestle top sector earnings contribution



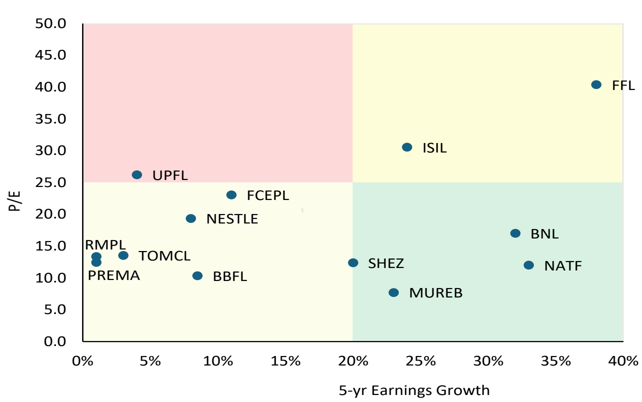
Dairy companies growth in gross margins outpaces the 4-year avg.



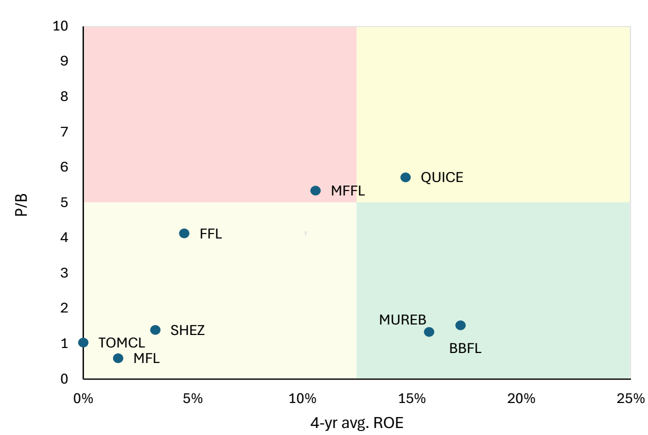
MFFL's avg. annual revenue growth rate outpaces the sector

YoY change	1QCY23	1QCY24	1QCY25	1QCY26	CAGR
NESTLE	31%	10%	-7%	7%	8%
UPFL	63%	-18%	20%	26%	4%
RMPL	41%	-1%	9%	0%	1%
FCEPL	62%	21%	-5%	10%	11%
NATF	18%	30%	14%	9%	33%
FFL	0%	8%	42%	8%	38%
MUREB	26%	7%	16%	20%	23%
SHEZ	25%	-21%	23%	8%	20%
PREMA	99%	-14%	4%	15%	1%
MFL	75%	8%	14%	-30%	48%
TOMCL	38%	105%	-3%	-3%	3%
BNL	25%	19%	1%	7%	32%
BBFL	0%	0%	0%	12%	8%
ISIL	52%	9%	15%	-7%	24%
MFFL	5%	-4%	4%	28%	49%
QUICE	124%	-15%	3%	25%	-53%
GIL	54%	-12%	-22%	51%	8%

NATF & MUREB remain attractive on P/E basis



...while MUREB & BBFL stand well-positioned in terms of P/B



* Outlier

Source: PSX & AKD Research

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