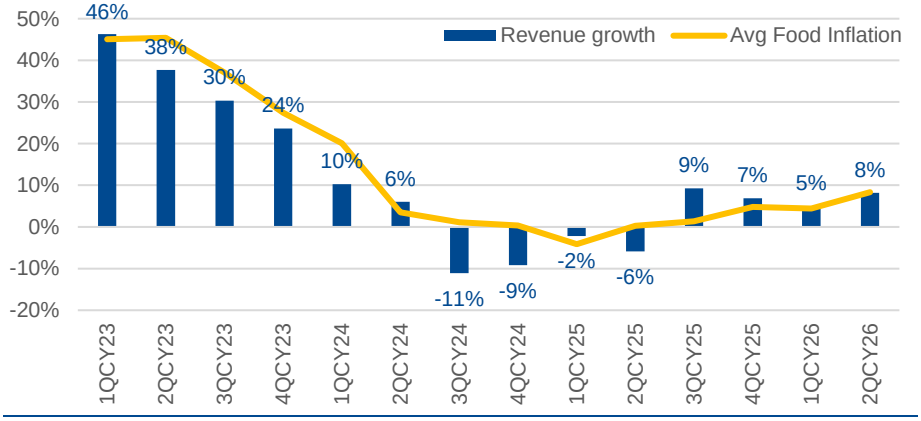
Food sector: Chasing volumes amid rising input costs

- We review food sector's profitability for Jun-2026 quarter based on cumulative figures of 9 listed food companies. Our sample reported 8% YoY growth in topline along with stable margins. Companies placed significant emphasis on sales-volume expansion through the launch of new products, new variants and increasing investment in marketing and distribution.
- Most companies reported stable (or marginally lower) operating margins on both a YoY and QoQ basis, except FCEPL and UPFL. Elevated energy and input costs, higher selling expense were the key challenges faced by the companies, where effective product diversification enabled the company to stabilize margins.
- Our sample underperformed the benchmark KSE100 Index CYTD, as the sector market capitalization is down 9% compared to 1.8% decline reported by the index. FCEPL stands out as the best-performing stock in our Food Universe. Resultantly, the sector P/S and P/E multiples now stand at 1.4x and 18x based on the trailing 4Q's sales and earnings.

2QCY26 Review: Brand investments supporting growth

Our selected sample of food companies reported 8% YoY revenue growth in 2QCY26. Companies placed significant emphasis on sales-volume expansion through the launch of new products and new variants (flavors) of existing product lines, while keeping globally popular Gen-Z flavors in mind. Other initiatives included reshaping/rebranding existing product lines, aggressive social and electronic media marketing to enhance product visibility, investment in distribution networks, and geographic diversification. From sauces to recipe mix, and from noodles to ice creams, we saw significant investment in brands by most players on marketing in order to revive demand, which suffered significantly during 2023-2024.

Sector YoY revenue up 8% YoY in 2QCY26



Source: Company accounts, JS Research

Despite emerging inflationary pressures from the US-Iran war, particularly on energy prices, freight, and input costs, the sector remained focused on maintaining competitiveness to drive volumes and, consequently, market share. Among the covered companies, UPFL (32% YoY revenue growth) outperformed its peers, driven by expansion in the noodles segment, followed by FCEPL (14% YoY growth), supported by improved volumes in the dairy and ice cream segments, and MFL, driven by stronger rice exports.

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Company-wise YoY sales trend

	2QCY26	4Q trailing
Nestlé Pakistan	4%	10%
FrieslandCampina Engro*	14%	6%
Rafhan Maize	10%	3%
Ismail Industries	0%	-1%
National Foods (cons.)	6%	14%
Unilever Foods	32%	27%
Matco Foods	14%	-11%
Fauji Foods	18%	13%
Muree Brewery	1%	11%
Sector	**8%**	**7%**

Source: Company accounts, JS Research

Food sector: Company-wise YoY PAT trend

	2QCY26	4Q trailing
NESTLE	-20%	10%
FCEPL	11x	154%
RMPL	9%	-11%
ISIL	-48%	-31%
NATF	6%	71%
UPLF	57%	15%
MFL	29%	36%
FFL	-35%	-10%
MUREB	38%	16%
Sector cumulative	**13%**	**14%**

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

Maintaining margins despite cost pressures

Our selected companies cumulatively reported slightly lower or stable gross and operating margins, both on a YoY and QoQ basis. FCEPL and UPFL reported YoY jump in margins. Companies cited commodity cost inflation, elevated energy tariffs, increased marketing expenses, and export disruptions,particularly those arising from the Afghanistan border closure and unrest in the Middle East as key factors putting pressure on margins.

Food sector – Demand recovery amid challenges ahead

The food sector in PSX have reported a CYTD loss of 9%, underperforming the KSE-100 Index, which was down 1.8%. Consequently, our sector universe P/S and P/E multiples now stand at 1.4x and 18x, respectively, based on trailing 4Q sales and net profit figures for the period ending Jun-2026.

FCEPL stands out as the best-performing stock in our Food Universe, with a 69% CY26TD gain (adjusted), driven by a 3.2x YoY jump in 1HCY26 EPS to Rs5.74. This improvement was supported by a favourable product portfolio mix, an emphasis on aggressive marketing and brand-development strategies that resulted in UHT market-share gains, and new launches in ice cream. These initiatives were complemented by ongoing efficiency measures, including the installation of a 3.4MW solar power plant.

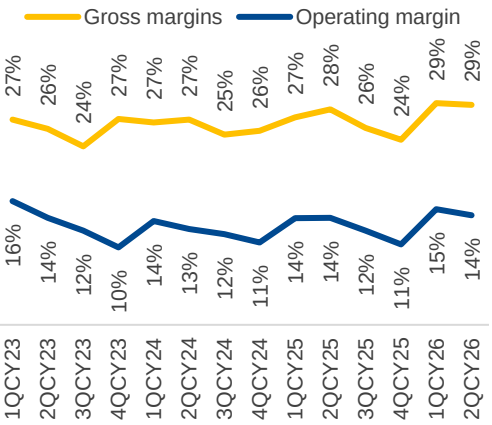
Going forward, we believe investors should closely monitor developments on the geopolitical front, particularly those impacting energy and food inflation, which could further increase costs and continue to pressure consumers' disposable incomes. This is likely to keep the operating environment challenging for food companies.

Food sector: Key valuations

(Rs mn)	Mkt Cap	4Qs Trailing*					
		Revenue	PAT	Equity	P/S (x)	P/E (x)	ROE (%)
NESTLE	335,686	204,799	16,798	19,184	1.64	19.98	88%
FCEPL	107,216	110,826	5,772	18,681	0.97	18.58	31%
RMPL	83,497	75,017	6,783	31,044	1.11	12.31	22%
ISIL	119,602	104,305	3,954	32,061	1.15	30.25	12%
NATF	81,728	50,652	5,918	31,087	1.61	13.81	19%
UPFL	159,780	46,240	7,195	7,220	3.46	22.21	100%
MFL	5,583	23,847	565	11,050	0.23	9.88	5%
FFL	37,245	30,770	980	11,263	1.21	38.01	9%
MUREB	25,857	33,011	3,791	20,767	0.78	6.82	18%
Sector	**956,194**	**679,467**	**51,756**	**182,357**	**1.41**	**18.48**	**28%**

*Source: Company accounts, PSX, JS research I * Based on 4Q trailing financials ending Jun-2026*

Margins remain stable



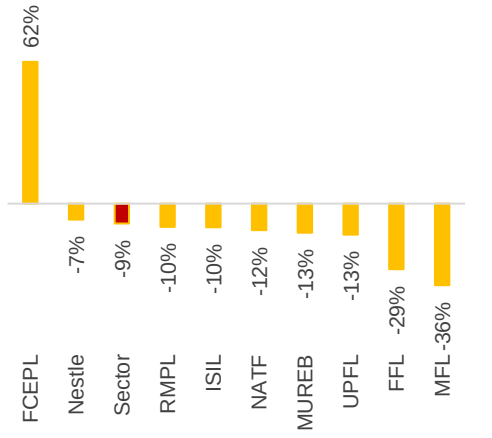
Source: Company accounts, JS Research

Co-wise: Quarterly Operating profit margin

	4QCY25	1QCY26	2QCY26
NESTLE	11%	18%	18%
FCEPL	4%	12%	14%
RMPL	13%	18%	16%
ISIL	9%	9%	10%
NATF	15%	17%	3%
UPLF	22%	27%	28%
MFL	7%	8%	6%
FFL	3%	5%	5%
MUREB	18%	16%	14%
Sector	**11%**	**15%**	**14%**

Source: Company accounts, JS Research

Food Companies CY26 TD performance



Source: PSX, JS Research

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