

Dated: August 24, 2020



BUNNY'S LIMITED

Investor Presentation



Bunny's – At a glance





*37 years
experience makes
us the best*

The birth of great idea !



The Entrepreneur Mindset

***Younus Shafiq Ch. (Late) & Haroon Shafiq Ch.**, the two brothers, ventured in the construction and trading business in Middle East market in 70s. Then, the two brothers returned home in early 80s and initiated this bread manufacturing facility in Lahore with the help of NDFC. From there onward, the company kept on growing adding ovens, products, space, etc.*



Younus Shafiq Ch. (Late)



Haroon Shafiq Ch.

33 Years: Going great

Second Generation in Bread making ...

The business today is being managed by Haroon Shafiq Ch. & Omar Shafiq Ch.

The company is moving through a transitionary phase wherein the reins have been passed on to the second-generation involving Omar and other family members. This involves change in strategy and approach.



Omar Shafiq Ch.



2020: Bunny's today stands as the first listed bread manufacturer of Pakistan.

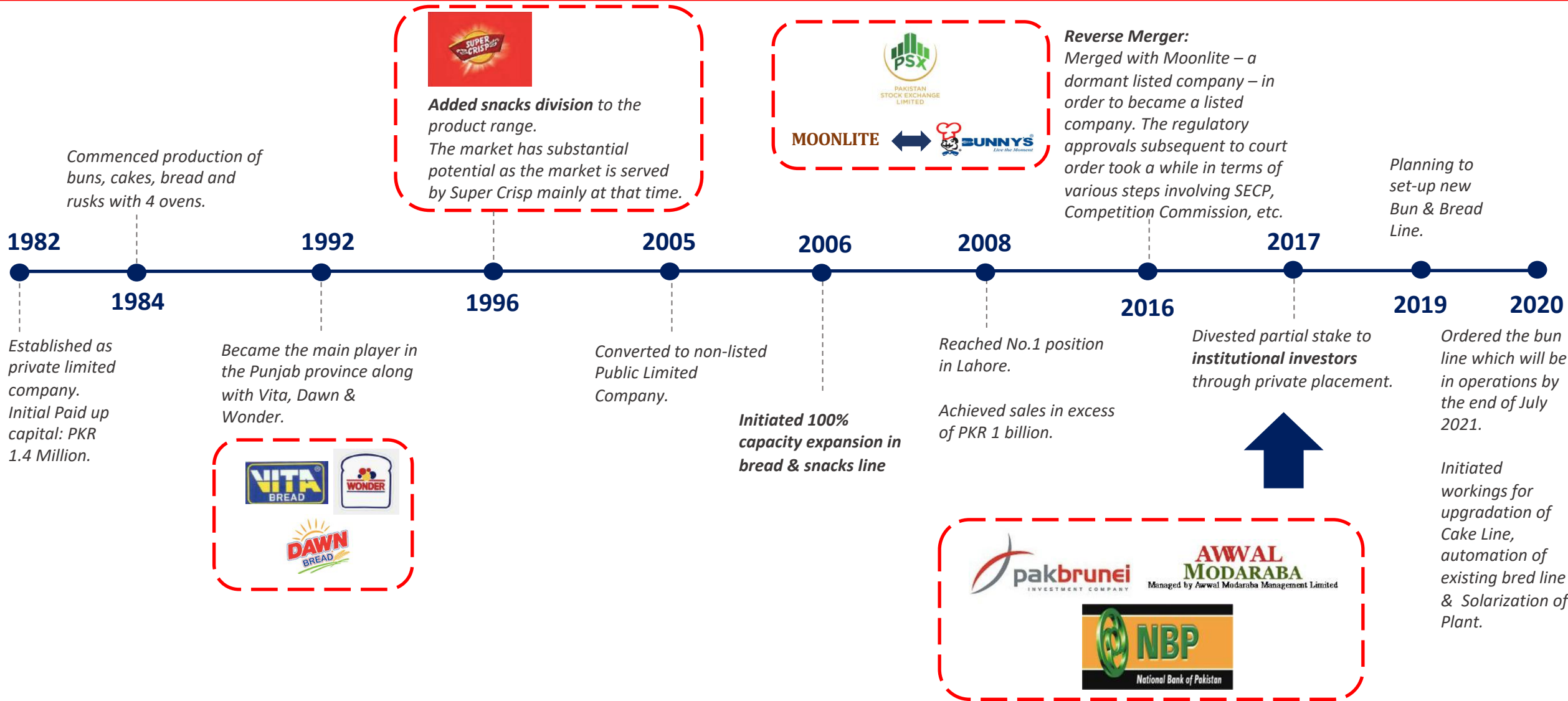


Agenda



- Bunny's Limited
 - Historical Overview
 - Business Segments, Geographical Presence, Production Capacities, Quality Standards/Certifications & Institutional Business
- Production Process
 - Manufacturing Facility & Process
- Corporate Affairs
 - Shareholding Structure, Board of Directors, Management Team & Credit Ratings
- Expansion Strategy
 - Two-Pronged strategy: Capacity Enhancement & Automation
- Financial Projections & Valuations
 - Historical Financials, Projections & Valuations
- Investment Thesis

Evolution of Bunny's



Business Segments: Bread & Snacks



Bread & related products division

- The division accounts for 90% of the revenue, with products like buns, cakes, etc.
- The company produces multiple types/categories of bread in various sizes.
 - The bread category accounts for 40% of the revenue since bread has attained a staple food status being a substitute for roti (flatbread), which is an important part of every Pakistani meal
 - Bread Division has an installed capacity of 111,600,000 units per annum and 89 Unique Stocking Units (SKUs)

Snacks Division

- Snacks accounts for 10% of the total revenue of Bunny's Limited
- Targets high-end consumers through Munchers and teenage crowd through Bunny's
- Tolling agreement with "*PepsiCo International*" to manufacture, package and distribute snacks under Kurkure brand name

Brands



- Bunny's represents the brand name for the baked goods
- Muncherz – the brand name for Snacks – was introduced in March 2008

Bread Range



Snack's Range



Key Competitors



Bunny's: Bread contributes the maximum!



Bakery Industry

- Premium artisan bakers make up for 2/3rd of the local industry players.
- The bakers usually sell 'fresh from the oven' products and are preferred by high-end consumers.

Organized Market:

- The organized market is dominated by economy and premium brands like Bunny's and Dawn.
- **Punjab Region**
 - Bunny's has been the leading player in branded market in Punjab Province with extensive outreach and dominating position in main cities like Lahore, Gujranwala, etc.
 - Dawn is the direct competitor to Bunny's. It has three different manufacturing facilities in Punjab. Therefore, the two competes closely in these markets.
 - Bunny's ensure high quality products as it supplies from one unit across the territory.

Market Share – Organized Bread Market

Competitors	Nationwide	Punjab
Dawn	40%	25%
Bunny's	15%	35%
Others	45%	40%

Source: Independent Estimates

Key Competitors: Punjab Province



Key Competitors: Nationwide



Geographical Presence



**Lahore and nearby areas
including Faisalabad,
Gujranwala, Sialkot and Jhelum**

Retail Business

- Extensive urban penetration in Punjab province with partial supplies to adjacent areas
- Over 10,000 outlets have been served on daily basis with an estimated consumers of 8-10 million

Institutional Business

- This contributes roughly 10% of total business with clients like Pepsi, Unilever, Engro, Hyper, etc.

Product Capacities & Utilization

Bread Division	Installed Capacity (Units/Day)	Capacity Utilization (%)
Bread- Standard Loaves	80,000	72.1%
Bread- Large Loaves	40,000	33.4%
Buns	80,000	80.0%
Cake pieces	10,000	141.0%
Queen Cakes – Packs of 6 each	10,000	53.3%
Rusks Packs of 200 Gms	25,000	60.2%
Cake Rusk Packs of 80 Gms	5,000	90.0%
Shawarma Bread Packs of 5 Each	10,000	96.0%
Cookies Packs of 80 Gms	5,000	22.0%
Bakerkhani – Pack of 2 Pieces (6800)	5,000	135.0%

Combined utilization comes to 100%

Total Capacity:
111,600,000
Units/Annum

Snacks Division	Installed Capacity (Kgs/Day)	Capacity Utilization (%)
Nimkos & Peanuts	5,000	62.0%
Dry roasted nuts	4,000	25.0%

Total Capacity:
3,456,000
Kilograms/Annum

Note: For Breads' & Buns' 80% equipment is common. With the addition of a newly fully automated Bun line which will made more than double the capacity of Buns' existing the mixing/proofing/baking equipment. Being used for Buns' will be utilized to produce additional quantities of Bread. Thus, increasing the capacity for Bread & Bread for Rusks'.

Certifications

- Bunny's maintains a full quality department in order to ensure best quality at every stage of production. The premises have been subject to frequent quality audits by PepsiCo International, Unilever, etc. for the last 8-10 years. Accordingly, the facility has been upgraded from time to time keeping in view the requirements.

Bunny's maintains high quality standards and has following certifications:

- AIB International (American Institute of Baking)
- TUV Austria – Food Safety System Certification 22000
- Punjab Food Authority
- ISO 22000 -2005 certified
- Pakistan Standards and Quality Control Authority
- HACCP (Hazard Analysis and Critical Control Point)
- Management Association of Pakistan

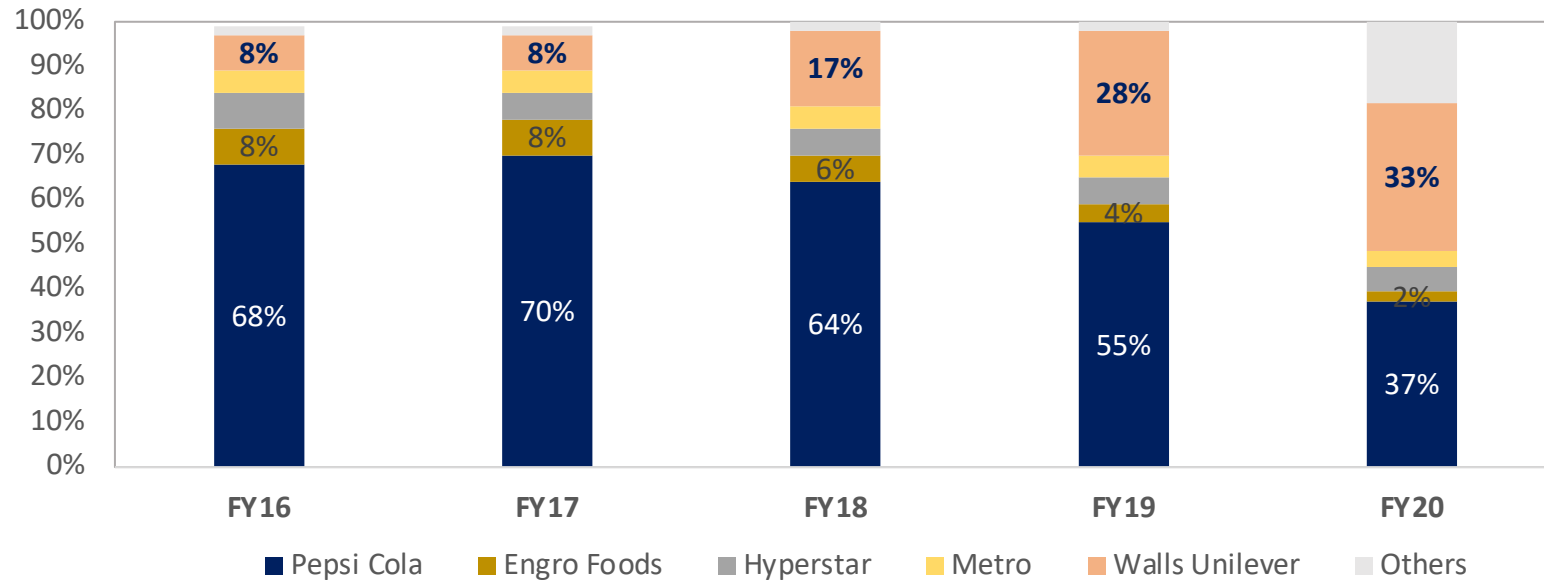


On average, the company maintains wastage in the range of 4-5% with separate set-up to handle the wastage related to production and to market returns.

Institutional Business

- Institutional sales make up 10% of the top-line of Bunny's Limited
- **Key Institutions:**
 - Supplying to PepsiCo International under a manufacturing and supply agreement. This covers all the aspects including manufacturing, processing and packaging of "Kurkure" brand.
 - Supplying processed peanuts and nuts to Unilever and Engro Foods for their ice cream range for the last 8-10 years.
 - Supplying processed peanuts and nuts to Mayfair and others.

Institutional Sales Break-up



Bulk Consumers



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Bread Manufacturing – The process

Dough Making

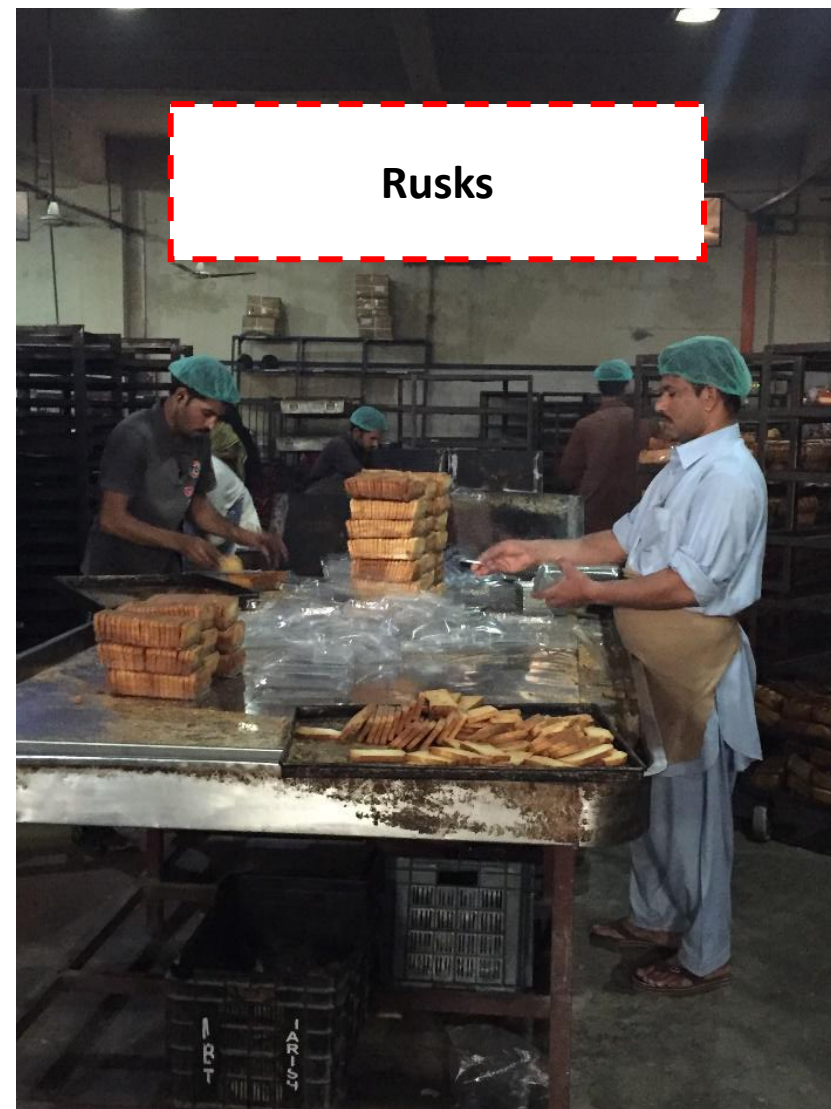
Bread Manufacturing

Other Confectionary Products – At a Glance

Cakes



Rusks



Other Confectionary Products – At a Glance

Frozen Paratha



Shawarma Bread



Warehouse & Dispatch Zone – At a Glance

Warehouse



Dispatch Zone



The dispatch section works round the clock depending upon the delivery destination. The dispatch for cities like Jhelum, Gujrat, Gujranwala, Sialkot, Faisalabad, Bahawalpur, etc. takes place in the middle of night, while for nearby areas it takes place early morning.

Snack's Division – At a Glance

Store

Processing

Quality/Packaging

Sorting Process

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Shareholding Structure

Going Public:

- The sponsors have been gearing up to take the company public for quite sometime, however, the process got dragged because of various regulatory and procedural delays.
- Some of the key initiatives taken before going on exchange are as follows:
 - Reverse merger in order ensure smooth fast-track listing as the business doesn't have immediate capital raise requirement
 - Succession planning to provide comfort to stakeholders that the management has deep knowledge of bread making
 - Credit rating in order to provide comfort to creditors and shareholders on business financial health
 - Private placement of equity with institutional investors to ascertain fair value of stock for the existing and upcoming investors



Pak Brunei Investment Company Limited ; 10%

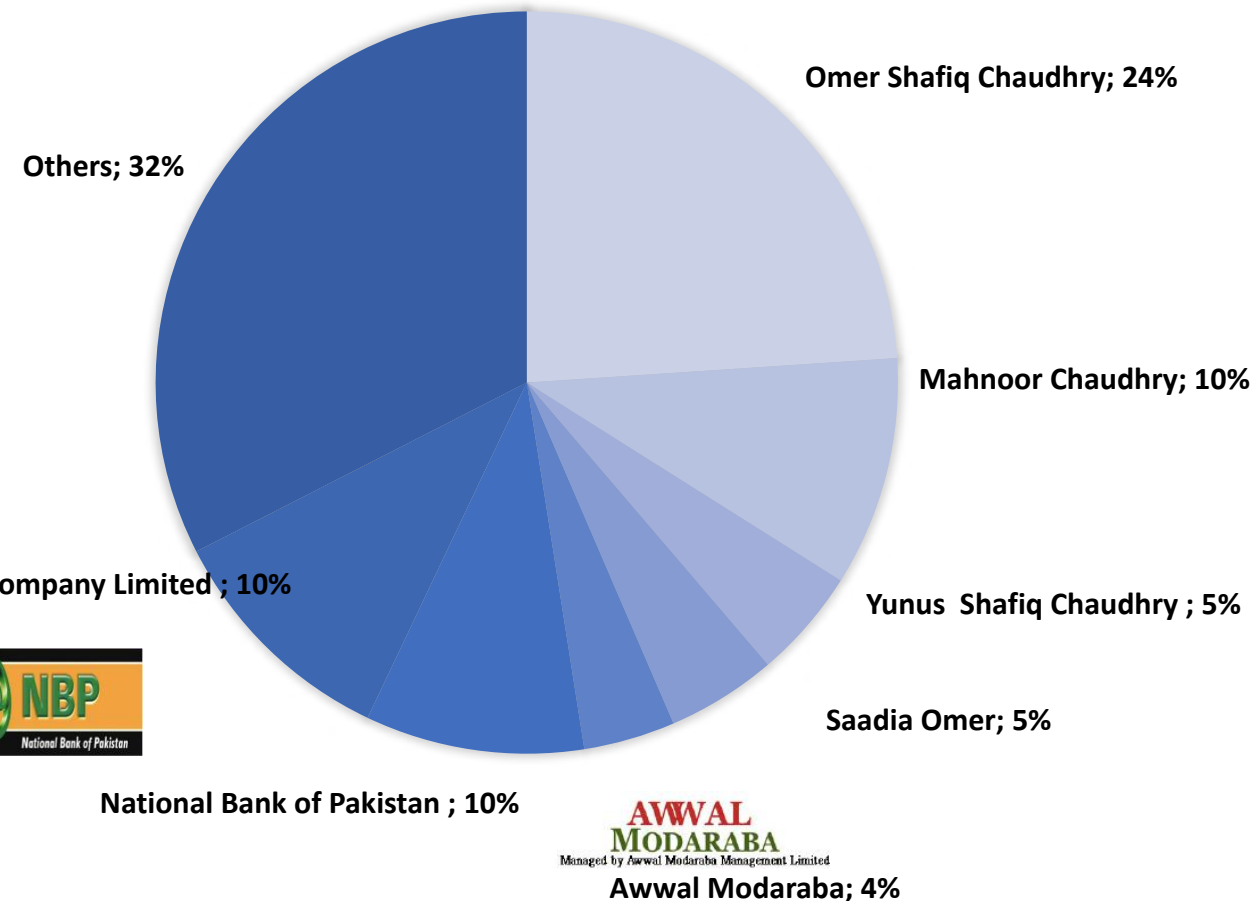


National Bank of Pakistan ; 10%



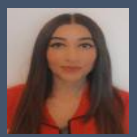
Awwal Modaraba; 4%

Main Shareholders



Experienced – Board of Directors

In 2018, Bunny's opted for reverse merger and constituted a new board. Overtime, the board has helped Company in formulating effective corporate strategy and create more value for all stakeholders.



Saadia Omar

Chairman of the Board of Directors

Executive Directors



Haroon Shafiq Ch.

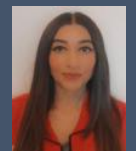
Co-Founder & Chief Executive Officer



Omar Shafiq Ch.

Director, Chief Operating Officer

Family Directors



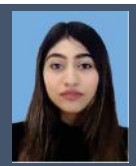
Saadia Omar

Director



Mahnoor Shafiq Ch.

Director



Mahnan Omar

Director

Independent Directors



Rehan Mobin

Nominee Director
Head Capital Markets,
National Bank of Pakistan



Adnan R. Naqvi

Nominee Director
Head of Corporate Banking
Pak Brunei Investment



Muhammad Rafi uz Zaman

Independent Director

Best in class Management Team



Haroon Shafiq Ch.

Chief Executive, Bunny's

Mr. Shafiq has been serving as the CEO of Bunny's since its inception in 1983. He is a professional with over 40 years of experience in food industry and the market. Haroon plays a key role in the management of Bunny's Limited and works towards the establishment and achievement of the strategic goals of the company. He is currently in the process of working for the expansion of Bunny's production and distribution network to increase capacity and cover a wider geographical area. He is an extremely talented leader and the success of Bunny's can be duly attributed to his skill and expertise.



Omar Shafiq Ch.

Chief Operating Officer, Bunny's

Mr. Omar Shafiq has been associated with the company for the last twenty-three years starting his career with Bunny's from sales and then moving on to the other departments like operations procurement, production, marketing, and so on. He joined the family business immediately after graduation. He has been trained well by the family elders in order to ensure smooth transition from one generation to the next. At present, he handles day to day matters especially on marketing and operational side. He has got good understanding of industry dynamics in terms of product pricing, market selection, brand management, etc. Overtime, he has developed good relationship with the key stakeholders of the business like the suppliers, vendors, dealers, associations, etc.



Muhammad Shafique

Chief Financial Officer, Bunny's

Mr. Shafique is a Certified Chartered Accountant with over thirty years of experience of financial management in the manufacturing Sector. He is responsible for the financial management and strategic planning and works along with the Chief Operating Officer to set the long-term goals of the Company. He handles matters of corporate governance including statutory, taxation, treasury and legal affairs. He is further involved in the designing and implementation of accounting systems and internal controls in all areas of the business for efficient financial administration.



Nasir Mahmood

General Manager Sales, Bunny's

Mr. Mahmood holds an in-depth knowledge of account management and value-added services and is experienced in both direct and in-direct channels for sales and services. He is the key person working towards the success of the Bunny's brand. He is also involved in the day to day planning and controlling of the wide-spread sales and distribution channel of the company.

Credit Rating:

- Bunny's Limited was assigned a rating of A- and A-2 for short term and long term debt respectively by JCR-VIS Credit Rating Company Limited. The firm was assigned a 'stable' rating outlook.

Rationale:

- Moderate business risk profile (established brand name stable product demand)
- Net sales increased by CAGR of 8% over the past 5 years
- The positive momentum in sales is expected to continue in the future at the back of expansion activities
- Top management team comprises experienced resources and includes representatives of the sponsoring family

Press Release

VIS Reaffirms Ratings of Bunny's Limited

Karachi, December 5, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings assigned to Bunny's Limited (BL) at 'A-/A-2' (Single A Minus/A-Two). The medium to long-term rating of 'A-' denotes good credit quality with adequate protection factors. Moreover, the risk factors may vary with possible changes in economy. The short-term rating of 'A-2' denotes good certainty of timely payment coupled with sound company fundamental and liquidity factors. Outlook on the assigned rating is 'Stable'. The previous rating action was announced on September 11, 2018.

The ratings assigned to BL take into account the company's moderate business risk profile owing to its presence in fast moving consumer goods market and largely established brand name. The ratings also derive strength from adequate cash flows in relation to outstanding debt and sound debt service coverage. However, the ratings remained constrained on account of market based limitations including range bound growth in revenues, decline in margins and minimal initiatives of the company towards new market development due to production capacity constraints. The gross margins declined during the outgoing year owing to inability of the company to timely pass the incremental raw material cost into final retail prices owing to market sentiments. The decline mainly attributed to increased utility charges, petrol and lubricant cost and packing material cost that out casted better capacity utilization. Further, currently liquidity profile derives strength from adequate cash flows in relation to outstanding obligations. Going forward, the ratings will remain dependent on maintenance of liquidity indicators and cash coverages above the benchmark level.

For further information on this rating announcement, please contact Ms. Maham Qasim at 042-35723411-13 (Ext: 8005) or the undersigned at 021-35311861-66 (Ext: 201) or email at info@vis.com.pk

Javed Callea
Advisor

Applicable rating criterion: Corporates (May, 2019)
<https://www.vis.com.pk/kc-meth.aspx>

Corporate Social Responsibility

- Bunny's is supplying confectionary products to Ghulab Devi Chest Hospital at subsidized rates for the last 15-20 years.
- The Company is supplying cup cakes to a local school, Jinnah High School, Lahore, for free. The school is dedicated for special children and is managed by Sakina Nazli Trust. The trust
- In addition, the company actively donates to SOS Children's Village.
- The company regularly participates in various social and recreational activities.
- It regularly organizes various literary competitions for its social media followers on Facebook and Instagram.
- It recently donated for the upliftment of one of the graveyards in Lahore.



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Three Pronged Growth Strategy

Capacity Enhancements

2021-22

New Buns Line, Lahore

Capex of PKR 300 Million

2023-24 & 2024-25

New Bread Line, Rawalpindi/Islamabad

Capex of PKR 400-600
Million

Geographical Penetration

Process Automation

Keep real time track of
supplies across the region

Ensuring Presence

100% Penetration in Punjab
Province and adjacent areas

Solarisation of plant

Bring the energy costs down using
latest technology

Capex of PKR 40-50 Million

Capacity Expansion

- Currently the production facilities for buns and bread are being shared; the management intends to set-up a new integrated buns line.
- Estimated cost of new buns line is PKR 300 million.
- The firm plans to make addition to capacities (units/day) to following products:

Product	Capacity Addition (Units/day)
Bread standard loaves	20,000
Buns	60,000
Cake – pieces	5,000
Cake – premium	5,000
Queen cakes (pack of 6)	5,000
Shawarma Bread	10,000
Baqer Khani	5,000

Capacity utilization for major products is expected to improve over the next 5 years with these planned expansions.

Fully Automated Buns Line

New Bun Line – In-process of shipment

- The bun line will involve automated manufacturing with minimal human involvement ensuring high quality and accuracy. The line is ideal for bulk customized production.
- Once installed, the company will likely penetrate in burger market aggressively as most of the burger chains have specific bun requirement in terms of size, quality, shelf life, etc. which can only be satisfied on such lines.



Geographical Presence – Expansion Plans



Retail Business

- The management plans to strengthen their distribution network in order to ensure deliveries in markets beyond the core market
- The expansion plan includes adding up 10 new distributors in following cities:
 - I. Rawalpindi/Islamabad,
 - II. Nowshera/Peshawar,
 - III. Multan/Bahawalpur and
 - IV. Mirpur/Muzaffarabad.

Automated Bread Line

The sponsors have been exploring option to set-up new bread line in order to meet the growing demand of bread.

- In a recent trip to China, the procurement committee visited multiple suppliers of the automated bread line. In parallel, the process for land acquisition has been initiated for this new unit.
- The estimated capacity of this plant will likely be 25% of the exiting unit and it will likely come on-line by 2023-24.



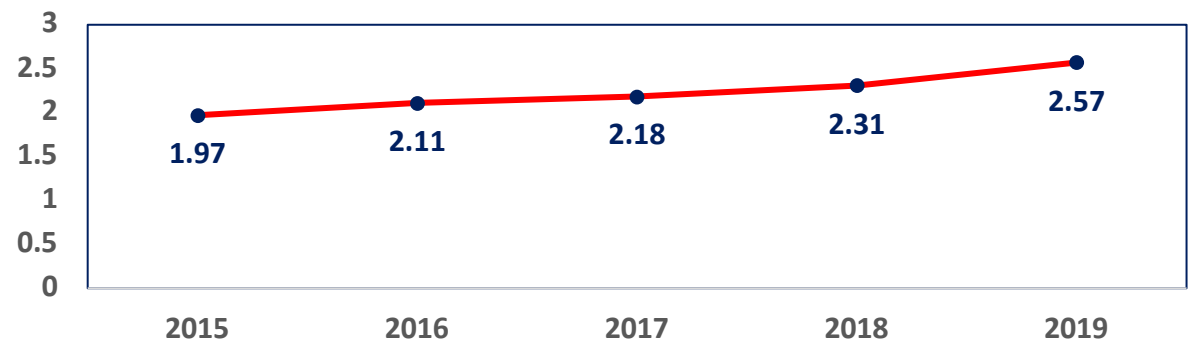
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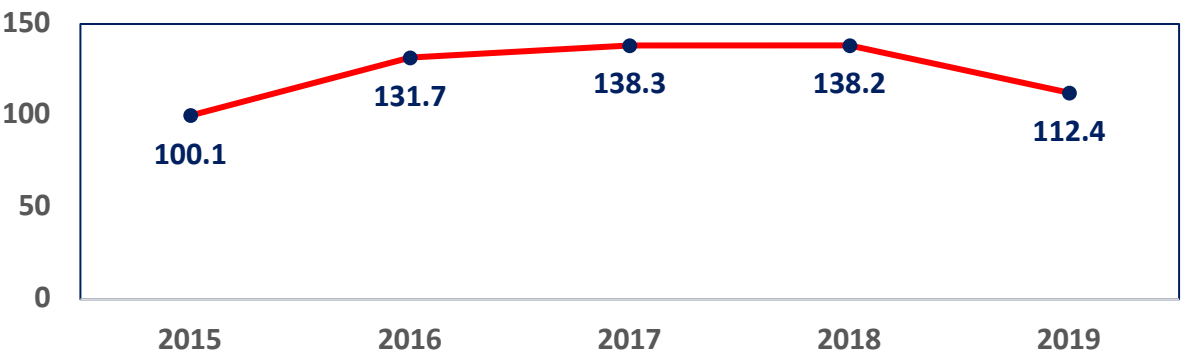
Financial Highlights – Historical

Sales - Net (In billion PKR)



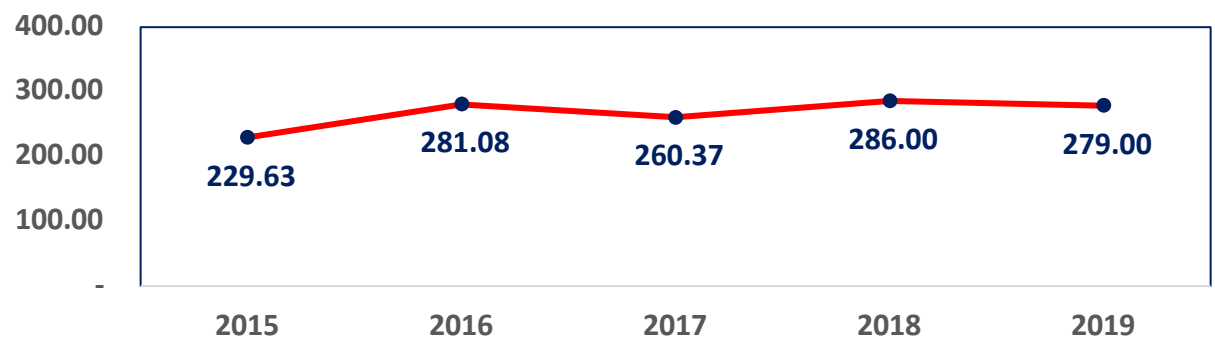
Net sales witnessed CAGR* of 6.87% over past 4-5 years

Profit for the year (In million PKR)



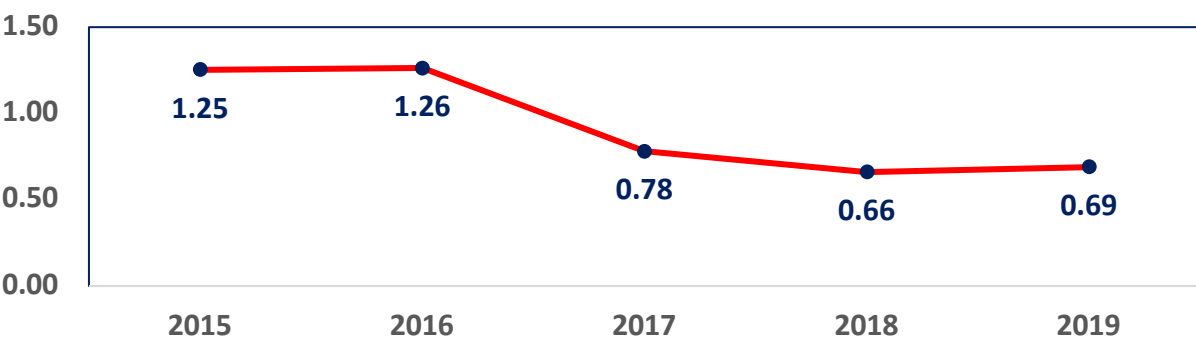
Profits remained range bound PKR 110-140 million in recent past

EBITDA (In million PKR)



EBITDA witnessed CAGR of 4.99% over past 4-5 years

Leverage (Total Liabilities/Total Equity)

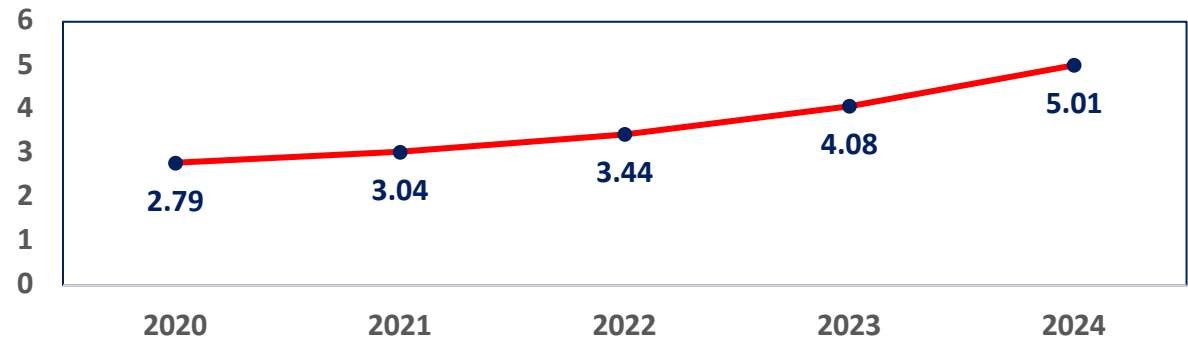


Leverage ratio declined as the company utilized internal cash

*CAGR = Cumulative Annual Growth Rate

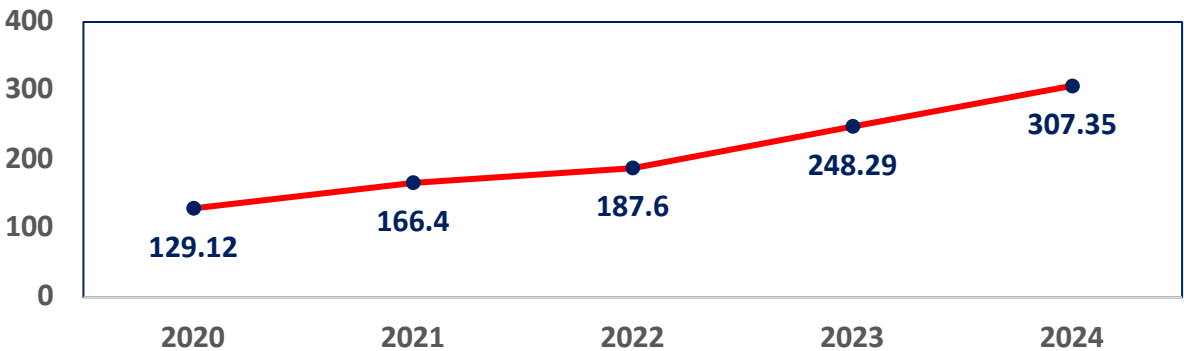
Financial Highlights – Projections

Sales - Net (In billion PKR)



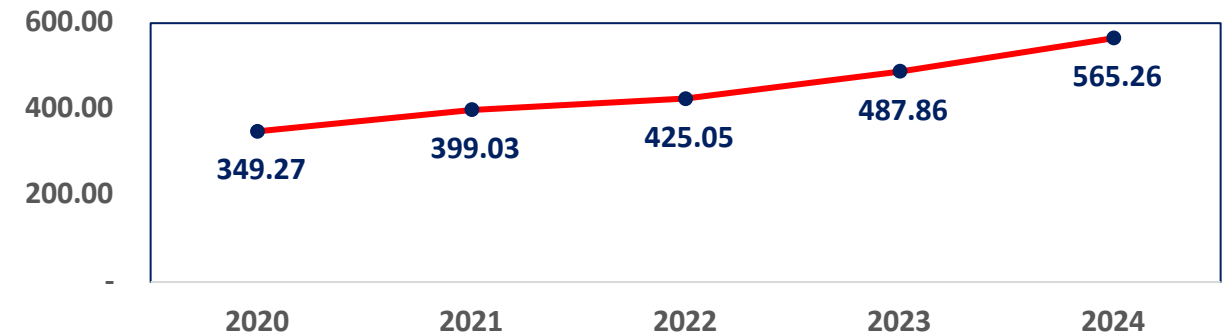
Net sales will increase at a CAGR* of 15.76% over next 4-5 years

Profit for the year (In million PKR)



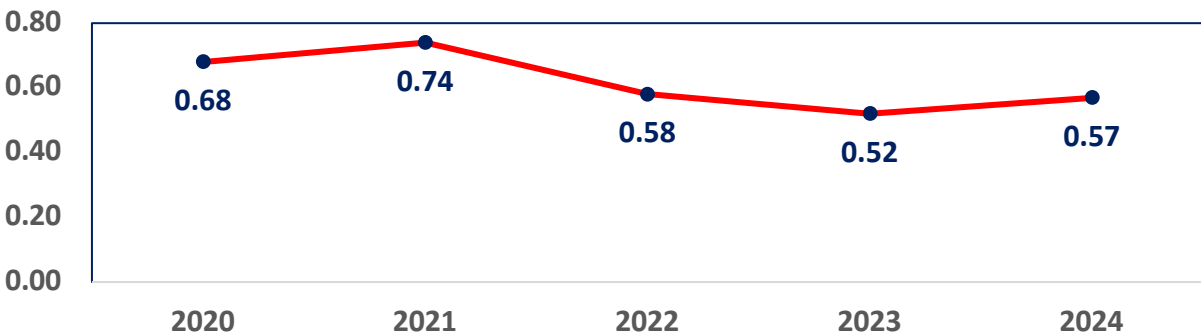
Profitability will demonstrate strong growth and low leverage

EBITDA (In million PKR)



EBITDA will grow at a CAGR of 12.79% over next 4-5 years

Leverage (Total Liabilities/Total Equity)



Leverage ratio declined as the company utilized internal cash

*CAGR = Cumulative Annual Growth Rate

Valuations



Cashflows based Valuation: The cash flows for 10 years have been considered for valuation purposes keeping in view the planned expansions in 4th & 5th year impacting top line in 7th year onwards.

ASSUMPTIONS	
Risk free Rate (10 Years PIB)	8.99%
Market Risk premium	10.00%
Beta	0.80
Cost of Equity	16.99%
Terminal Growth Rate	7.50%
Cost of Debt	14.77%
WACC	15.8%

Valuation (FCFE) PKR	0	1	2	3	4	5	6	7	8	9	10
Years	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CFO	99,358,139	191,374,939	245,824,089	304,694,343	384,043,907	477,724,068	568,550,600	660,324,103	750,923,074	851,089,739	955,563,561
Less: CF Investment	(179,303,818)	(243,938,120)	(25,703,604)	(225,036,842)	(328,788,685)	(195,456,238)	(53,750,465)	(55,094,227)	(56,471,583)	(112,281,824)	(60,690,418)
Add: Net borrowing	107,983,891	151,453,934	(235,200,971)	(84,941,034)	101,527,786	(123,750,000)	(55,000,000)	(55,000,000)	(55,000,000)	(55,000,000)	(55,000,000)
Free Cashflow to Equity	28,038,212	98,890,753	(15,080,486)	(5,283,533)	156,783,008	158,517,831	459,800,135	550,229,876	639,451,492	683,807,915	839,873,143
Present Value of FCFE	28,038,212	84,529,236	(11,018,383)	(3,299,729)	83,695,870	72,332,657	179,339,787	183,443,776	182,229,078	166,569,489	174,874,419
Fair Value Per Share - FCFE	58.06										

Valuation (FCFF) PKR	0	1	2	3	4	5	6	7	8	9	10
Years	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CFO	99,358,139	191,374,939	245,824,089	304,694,343	384,043,907	477,724,068	568,550,600	660,324,103	750,923,074	851,089,739	955,563,561
Add: Interest (1-t)	66,657,268	76,000,704	64,713,417	61,418,029	51,699,184	40,026,439	41,017,271	41,380,213	41,793,577	42,556,283	43,608,527
Less: CF Investments	(179,303,818)	(243,938,120)	(25,703,604)	(225,036,842)	(328,788,685)	(195,456,238)	(53,750,465)	(55,094,227)	(56,471,583)	(112,281,824)	(60,690,418)
Free Cashflow to Firm	(79,945,679)	(52,563,181)	220,120,485	79,657,500	55,255,222	282,267,831	514,800,135	605,229,876	694,451,492	738,807,915	894,873,143
Present Value of FCFF	(79,945,679)	(45,404,305)	164,244,649	51,342,006	30,763,438	135,749,522	213,860,689	217,184,112	215,260,822	197,819,911	206,973,776
Fair Value Per Share - FCFF	74.17										

*The valuations have been carried out on the basis of future cash flows. The same will be shared with investors and advisors for their independent assessment as the actual results may vary subject to various outside factors.

Benchmark Valuation

Last Transaction: The private placement of shares took place at PKR 48/share based on 17.84x P/E and 1.74x P/BV in 2017.

P/E Multiple Valuation	Benchmark
Net Earnings (FY 2020)	2.51
P/E Multiples	17.84
Value per share	44.83

P/BV Multiple Valuation	Benchmark
Net Earnings (FY 2020)	31.20
P/BV Multiples	1.74
Value per share	54.32

Comparative Valuation:

Valuation per share	Share Price PKR
P/E Multiple *	44.83
P/BV Multiple *	54.32
FCFE	58.06
FCFF	74.17
Average value per share	57.76

*The last sale purchase in the stock of Bunny's took place with NBP in 2017. Therefore the same multiple for price to earning and price to book value has been used as bench mark for valuation guidance.

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High growth industry	<ul style="list-style-type: none">Population growth, urbanization, altering tastes, preferences and rising incomes provide producers with the incentive to deliver high quality goodsBakery items such as bread, buns, rusks and naans are considered semi-staple food and therefore, enjoy relatively inelastic demand.
Expansion plans	<ul style="list-style-type: none">The company is planning to introduce a new line for Buns. Currently, the Buns are being produced on the same production as the Bread.The Bread production is expected to increase by 20,000 units per day while the new line will have the capacity to produce 80,000 units per day.
Strong management team	<ul style="list-style-type: none">Board of directors has over 40 years of experience in the food industry .Essential training of heirs regarding marketing, planning, control and management of the family business which reflects a smooth succession strategyExperience & engaged management with domestic & international experience.
Growth & improving margins	<ul style="list-style-type: none">The Company expects a Compound Annual Growth Rate of approximately 11% and 9% respectively over the next five years at the back of capacity expansion and improved capacity utilization rates.Operating Profit Margin and Net profit Margin are expected to reach 12% and 7% respectively by 2022 compared to a current levels.
Attractive valuation	<ul style="list-style-type: none">Firm valuation based on free cash flows to the firm and assumption of 'going concern' is forecasted to be PKR 57.76-74.17/share.Multiple based valuations are expected to be in the range of PKR 44.83-54.32/share. The number will likely be higher in coming years as the new buns line becomes fully operational plus the Covid impact gets diluted.Current average valuation comes to PKR 57.76/share.

Thanks

