

# Day Break

Thursday, 25 January 2018

## COMPANY UPDATE

### Fauji Fertilizer Bin Qasim Limited

Fertilizer

<b>Recommendation</b>	<b>NEUTRAL</b>
Target Price:	41.4
Last Closing: 25-Jan-18	39.5
Upside:	4.9
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

### Market Data

Bloomberg Tkr.	FFBL PA
Shares (mn)	934.1
Free Float Shares (mn)	326.9
Free Float Shares (%)	35.0%
Market Cap (PKRbn   USDmn)	36.9   332.9
Exchange	KSE 100
<b>Price Info.</b>	90D 180D 365D
Abs. Return	14.0 7.2 (28.2)
Lo	- - -
Hi	40.8 40.8 58.4

### Key Company Financials

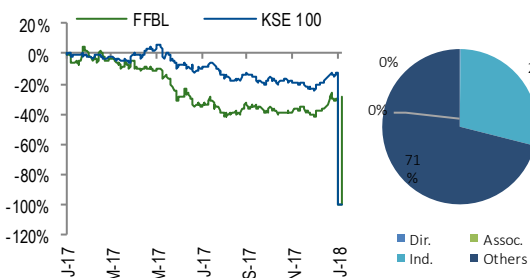
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	45.0	53.1	51.7	55.2
Net Income	1.3	2.4	1.0	2.6
EPS (PKR)	1.4	2.5	1.0	2.8
DPS (PKR)	0.5	1.4	0.5	1.7
Total Assets	63.8	60.6	57.7	54.1
Total Equity	12.8	13.8	13.7	14.8

### Key Financial Ratios

ROE (%)	10.5	17.2	7.0	17.5
P/E (x)	27.5	15.5	38.5	14.2
P/B (x)	2.9	2.7	2.7	2.5
DY (%)	1.3	3.5	1.3	4.2

### Relative Price Performance



### About the Company

The Company is a public limited company incorporated in Pakistan. The principal objective of the company is manufacturing, purchasing and marketing of fertilizers. The Company commenced its commercial production effective from January 01, 2000.

Source: Bloomberg, PSX &amp; IGI Research

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## Fertilizer

### FFBL: 4QCY17 earnings expected to increase by +71%YoY to PKR 2.84/share

- Fauji Fertilizer Bin Qasim Limited (FFBL) is scheduled to announce its financial result for CY17 on 26<sup>th</sup> Jan-18 wherein we expect company to post earnings of PKR 2.7bn (EPS: PKR 2.84/share), up by +71%YoY for 4QCY17.
- We attribute this increase in earnings to +13%YoY growth in net sales, tuning at PKR 26bn along with improvements in gross margins (decrease in international phosphoric acid prices).
- We expect DAP demand in the upcoming quarter to narrow down as the Rabi season approaches its end. However, we expect the company to garner support through its other income stream.
- We have a 'HOLD' call on the scrip based on Dec-18 target price of PKR 41.4/share, offering +4% upside from its last closing. The company is currently trading at CY18E P/E of 38.1x and offers a dividend yield of 1.3%.

### Earnings for 4QCY17 to increase by +71%YoY to PKR 2.7bn (EPS: PKR 2.84/share)

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### Net sales are expected to grow by +13%YoY to PKR 26bn for 4QCY17

Total offtake during the quarter stands at 608k tons v/s 614k tons in the same period last year. Although DAP sales have declined by 16%YoY to 406k tons but a massive surge (+53%YoY) in urea sales were able to arrest the decline in total offtake. In addition to this, retention prices of urea/DAP have also increased (+2%/+25%YoY), thereby pushing up net sales further. We attribute this increase to a) discontinuation of discounts in urea and b) PKR 300/bag reduction in sales tax for DAP. As a result, net sales for 4QCY17 is estimated at PKR 26bn (+13%YoY), translating into cumulative sales of PKR 53bn (+18%YoY) for the whole year.

### Decline in international phosphoric acid prices to improve gross margins

Gross margins for the quarter are expected to hover around 26%, owing to reduction in raw material costs for DAP; international phosphoric acid prices have reduced by 21% to 567 USD/ton as compared to 715 USD/ton in the corresponding period of the preceding year. Lastly, increase in DAP prices by PKR50/bag in Dec-17 has also enhanced primary margins.

## Exhibit:

**FFBL Result Highlights**

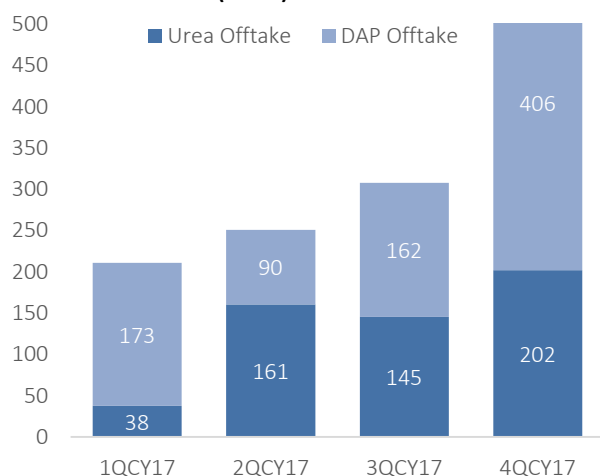
Period End Dec- PKRmn	4QCY17E	4QCY16	YoY	CY17E	CY16	YoY
Net Sales	25,989	22,910	13%	53,145	45,011	18%
Gross Profit	6,724	880	7.6x	8,807	1,219	7.2x
Selling / Dist.	2,589	1,383	87%	5,909	4,371	35%
Other Op. Income	1,045	4,848	-78%	4,535	8,726	-48%
EBIT	4,247	3,556	19%	5,380	3,757	43%
Finance Cost	521	582	-11%	1,993	2,156	-8%
Pre-Tax Profits	3,727	2,973	25%	3,388	1,601	2.1x
Taxation	1,070	581	84%	1,009	262	3.9x
Post-Tax Profits	2,656	2,393	11%	2,379	1,338	78%
EPS	2.84	2.56		2.55	1.43	
DPS	1.30	0.50		1.40	0.50	

**Key Ratios**

Gross Profit Margins	26%	4%		17%	3%	
EBIT Margins	16%	16%		10%	8%	
Effective Tax Rate	29%	20%		30%	16%	

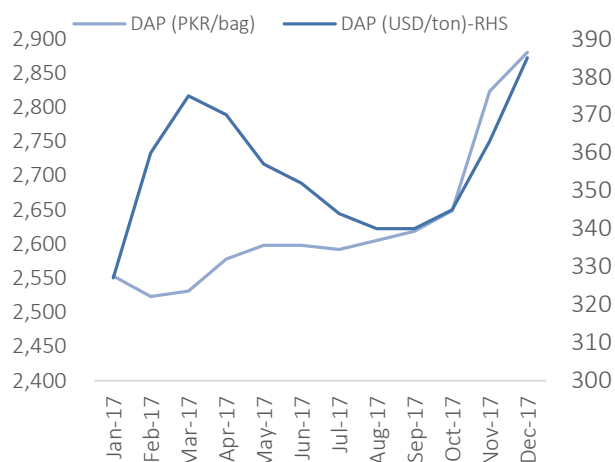
Source: IGI Research, Company Financials, PSX

## Exhibit:

**DAP and Urea offtake (Ktons)**

Source: IGI Research, Company Financials, Bloomberg

## Exhibit:

**Local (PKR/bag) and international DAP prices (USD/ton)-RHS****Outlook:**

We expect DAP demand in the upcoming quarter to narrow down as the Rabi season approaches its end. However, we expect the company to garner support through its other income stream. With FFBL Power becoming operational, it is expected to bode well for the company in not only ensuring smooth supply of gas for urea production (as evident from +25%YoY increase in urea production) but also in uplifting other income through sale of electricity to K-Electric. With respect to new fertilizer policy (in process), we expect the company's fuel or feed costs to ease off incase GIDC is reduced. However, this may likely result in subsequent reduction in urea prices as well, thereby offsetting the impact.

#### Recommendation

We have a **'HOLD'** call on the scrip based on Dec-18 target price of PKR 41.4/share, offering +4% upside from its last closing. The company is currently trading at CY18E P/E of 38.5x and offers a dividend yield of 1.3%.

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**Time Horizon:** Dec – 2018

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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