

Day Break

Wednesday, 20 April 2016

Company Update

Fauji Fertilizer Bin Qasim

Fertilizer

Recommendation	HOLD
Target Price	59.0
Last Closing	54.0
Upside	9%

Market Data

Bloomberg Tkr.	FFBL PA
Shares (mn)	934.1
Market Cap (PKRbn USDmn)	50.4 481.3
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	13.2 (9.3) 11.3
Low	46.2 46.2 46.2
High	55.7 60.0 66.1

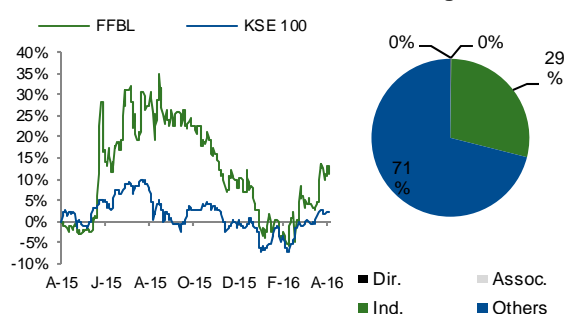
Key Company Financials

PKRbn	CY14A	CY15A	CY16E	CY17F
Total Revenue	49.4	52.2	50.4	58.1
Net Income	4.0	4.1	3.3	3.1
EPS (PKR)	4.3	4.3	3.5	3.3
DPS (PKR)	3.7	3.8	2.6	2.7
Total Assets	46.2	59.4	47.7	46.3
Total Equity	13.1	14.3	15.1	15.7

Key Financial Ratios

ROE (%)	31%	28%	22%	20%
P/E (x)	12.6	12.4	15.5	16.2
P/B (x)	3.9	3.5	3.3	3.2
DY (%)	6.9	7.0	4.8	5.0

Relative Price Performance & Shareholding



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, KSE 100 & IGI Research

Analyst

Rashmina Lalani

rashmina.lalani@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 826

Fauji Fertilizer Bin Qasim Limited

PKR 500/bag DAP subsidy saving the Boat in 1QCY16

- Fauji Fertilizer Bin Qasim's (FFBL) board meeting is scheduled on 21st Apr-16 to announce financial results of 1QCY16. We estimate company to post profit of PKR 66mn (EPS PKR 0.07) in 1QCY16, depicting a substantial decline of 33%YoY/98%QoQ.
- Company's meat business commenced its operation from 2nd Apr-16. FFBL has set up 100ton/meat capacity at 8 hours/shift at a project cost of USD 70mn, which is aimed to capture local as well as generate export business. During the quarter, company invested further PKR 56mn in NOPK, taking the total investment so far to PKR 593mn.
- Our current revised Dec-16 target price of PKR 60/share from PKR 68/share previously, reflects only the weakening core business operations, whereas we will incorporate the value emerging from diversification shortly. The scrip is currently trading at CY16E P/E 15.5x providing upside of 11% and divided yield of 4.8%.

1QCY16 Earnings Escaping the Negative Territory

Fauji Fertilizer Bin Qasim's (FFBL) board meeting is scheduled on 21st Apr-16 to announce financial results for 1QCY16. We estimate company to post profit of PKR 16mn (EPS PKR 0.02) in 1QCY16, depicting a substantial decline of 84%YoY/100%QoQ. Our estimates are based on a) 8%YoY decline in DAP offtake to 78k tons, b) lower prices of DAP (excluding subsidy of PKR 500/bag) leading to primary margin of USD 178/ton as compared to USD 265/ton in same period last year, c) hike in gas prices since Sept-15, d) +15% increase in financial cost due to +34% rise in debt to the tune of PKR 25bn in 1Q and e) +106% growth in other income on the back PKR 750mn DAP subsidy and cash dividend of PKR 1.75/share and PKR 1.25/share by FCCL and AKBL, respectively. It is pertinent to mention here that, as per our calculations, earnings would fall in the negative territory to the tune of PKR -0.49/share, without subsidy on DAP.

Core Business in Doldrums

Major international crop prices have remained low throughout CY15, which had kept farmers in tighter cash position. Consequently, domestic crop prices also remained under pressure leading to weak

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farm economies. Local Gas price hike in Sept-15, in an environment of low international fertilizer and crop prices, has hammered the profitability of domestic fertilizer sector. Although FFBL had some respite due to DAP business and PKR 500/bag subsidy announced by govt. till Jun-16. However, removal of subsidy in Jul-16 will likely exert pressure on company's profitability.

Fauji Meat Operational and Further Investment in NOPK

FFBL's meat business commenced its operation from 2nd Apr-16. Company has set up 100ton/meat capacity at 8 hours/shift at a project cost of USD 70mn , which is aimed to capture local as well as generate export business. During the quarter, company invested further PKR 56mn in NOPK, taking the total investment so far to PKR 593mn.

Outlook

Our current revised Dec-16 target price of PKR 60/share from PKR 68/share previously, reflects only the weakening core business operations, whereas we will incorporate the value emerging from diversification shortly. The scrip is currently trading at CY16E P/E 15.5x providing upside of 11% and divided yield of 4.8%.

Exhibit: Financial Highlights

PKR mn	1QCY16E	1QCY15	YoY	4QCY15	QoQ
Net Sales	5,358	5,799	-8%	27,131	-80%
Cost	5,244	5,089	3%	24,405	-79%
Gross Profit	114	710	-84%	2,726	-96%
Dist. Expense	536	492	9%	1,467	-63%
Admin. Expense	161	275	-42%	511	-69%
Oth. Income	1,127	570	98%	4,563	-75%
EBIT	506	508	-1%	4,976	-90%
Finance Cost	483	421	15%	447	8%
EBT	23	87	-74%	4,529	-99%
Tax	7	11	-32%	1,215	-99%
Net Profit /(Loss)	16	98	-84%	3,314	-100%
EPS	0.02	0.11		3.55	
<i>Key Ratios</i>					
Gross Margin	2%	12%		10%	
Net Margin	0%	2%		12%	
Effective Tax Rate	32%	12%		27%	

Source: IGI Research, Company Financials

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20, Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road, Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life Building, 2- Liaquat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651