Day Break

Wednesday, 12 April 2017

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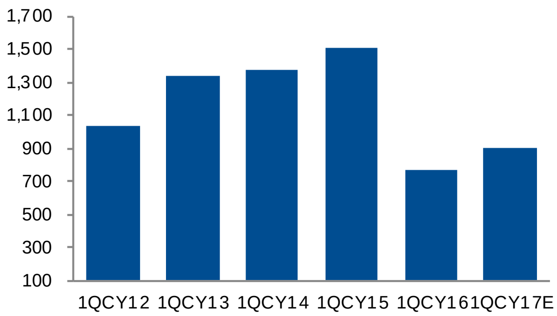
Sector Update

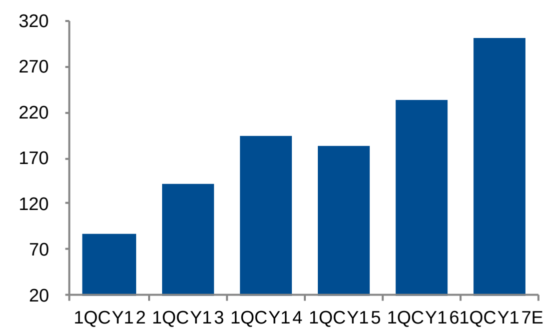
UREA/DAP Offtake (Ktons)

	1QCY17	YoY	4QCY16	YoY
Urea	908	18%	2,022	-55%
Dap	301	110%	986	-69%

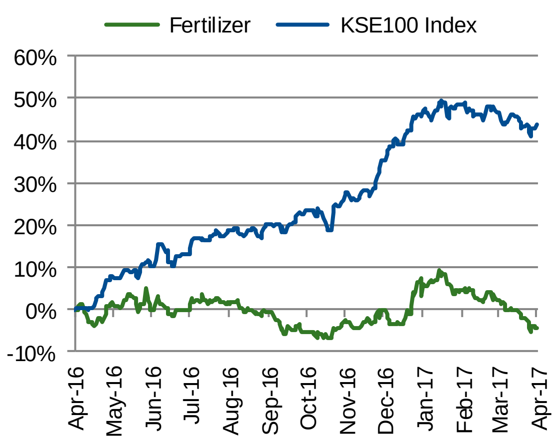
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE100



Source: Bloomberg, KSE 100 & IGI Research

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Fertiliser Review

Lower Retention prices to hit earnings in 1QCY17, while DAP manu. to benefit from lower Phos-acid prices

- We preview 1QCY17 earnings for FFC, EFERT and FFBL, whereby we estimate FFC and EFERT profitability to decline by 36%YoY and 21%YoY whereas for FFBL we estimate the company to post earnings of PKR 0.22/share from a loss reported last year same period.
- Urea manufacturers, companies are expected to witness a decline in top line owing to lower retention prices. For DAP, volumetric growth given low phosphoric acid prices would help elevate margins.
- We recommend **"BUY"** call on EFERT, FFBL and FFC with our Dec-17 target price of PKR 86/share(upside +42%), PKR 59/share (upside +16%) and PKR 114/share (upside +17%) respectively. FFBL/EFERT/FFC is currently trading at a CY17E P/E of 7.5x/10.1x/10.66x and dividend yield of 11%/6.7%/8.2%, respectively

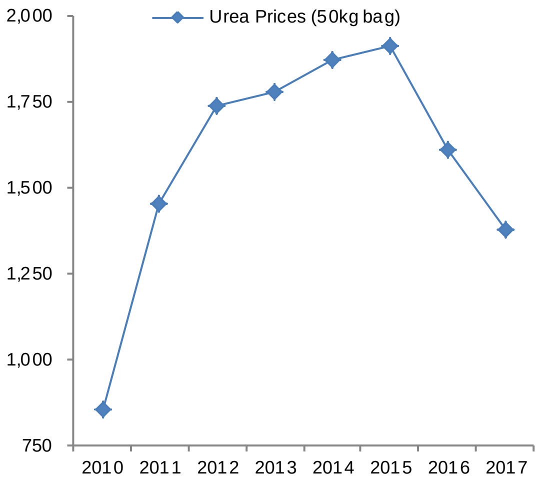
We preview 1QCY17 earnings for FFC, EFERT and FFBL, whereby we estimate FFC and EFERT profitability to decline by 36%YoY and 21%YoY whereas for FFBL we estimate the company to post earnings of PKR 0.22/share from a loss reported last year same period.

During the 1QCY17, Urea and DAP off-take expect to increase by +18%YoY and +2.1xYoY to 908k units and 301k tons, respectively. However, for Urea manufacturers, companies are expected to witness a decline in top line owing to lower retention prices (1QCY17: Urea retention price of PKR 1,250/bag, compared to PKR 1530/bag in 1QCY16). For DAP, volumetric growth given low phosphoric acid prices (USD ~550-590/ton, compared to USD 750/ton in 1QCY16) would help elevate FFBL margins during the period under review.

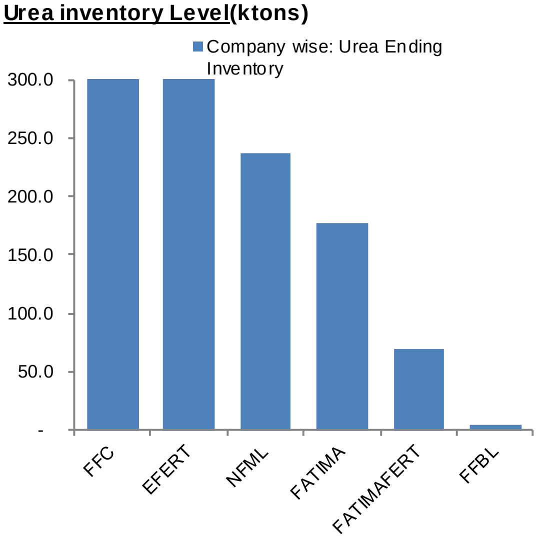
FFC: Lower retention prices along with dividend income, to drag earnings to PKR 1.37/share, down by 36%YoY in 1QCY17

We expect the Fauji Fertiliser Company Limited (FFC) to report earnings of PKR 1.74bn (EPS PKR 1.37) down by 36%YoY in 1QCY17. Our estimates are based on a to a) +15%YoY/+211%YoY increase in urea/DAP offtake due to lower urea/DAP prices, b) decline in other income by 2%YoY on the primarily due to lower dividend income from FFBL and FCCL, and c) +27%YoY increase in financial charges as company has increased its long and short term borrowing due to delay in subsidy receivables. The company is expected to announce cash dividend of PKR 1.12/share for 1QCY17.

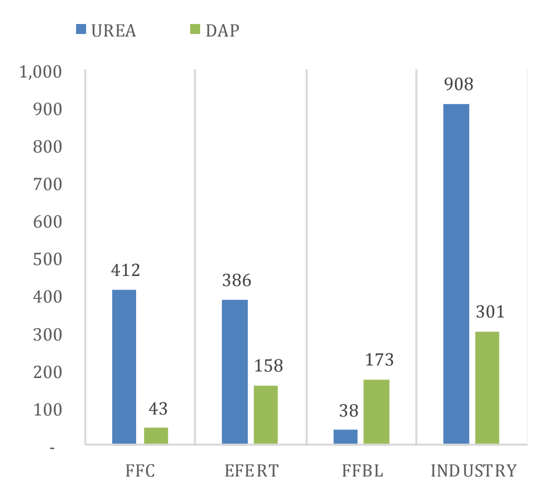
Urea Local Price (PKR/bag)



Urea inventory Level(ktons)



Company Wise: Urea/DAP Offtake(ktons)



Source: IGI Research

Exhibit:

FFC Financial Highlights

PKRmn (Period end=Dec)	1QCY17E	1QCY16A	YoY	4QCY16A	QoQ
Net Sales	12,013	11,646	3%	26,951	-55%
Gross Profit	1,698	3,052	-44%	5,632	-70%
Mkting. / Dist. Cost	1,081	1,517	-29%	2,329	-54%
Other Op. Income	2,682	2,738	-2%	3,932	-32%
Finance Cost	711	561	27%	621	14%
Pre-Tax Profits	2,345	3,339	-30%	6,080	-61%
Profit After Tax	1,741	2,728	-36%	4,276	-59%
EPS (PKR)	1.37	2.14	-36%	3.36	
DPS (PKR)	1.12	1.85		2.75	
KEY RATIOS					
Gross Profit Margins	14.1%	26.2%		20.9%	
EBIT Margins	25.4%	33.5%		24.9%	
Effective tax rate	25.7%	18.3%		29.7%	

Source: IGI Research, Company Financials *No. of shares* *1,272.2*

FFBL: Lower phosphoric acid prices to uplift gross margins; 1QCY17 earnings estimated at PKR 0.22/share

Fauji Fertilizer Bin Qasim Limited's (FFBL) is estimated to post earnings of PKR 199mn (EPS PKR 0.22) in 1QCY17 compared to loss of PKR 697mn (LPS PKR 0.55) recorded in the same period last year. Company's net sales are estimated to increase by +86%YoY due to growth in DAP offtake (up +2.4xYoY), while gross margins are estimated to improve significantly to xx% (1QCY16 gross loss of) owing to decline in phosphoric acid prices (USD ~570-590/ton, compared to USD 750/ton in 1QCY16). This translates into primary margins of USD 128/ton compared to 95/ton in 1QCY16. In addition, we expect +47%YoY increase in other income on the back of DAP/urea of PKR 300/156/bag subsidy. However, company's finance cost is expected to increase by +34%YoY owning to additional long term borrowings.

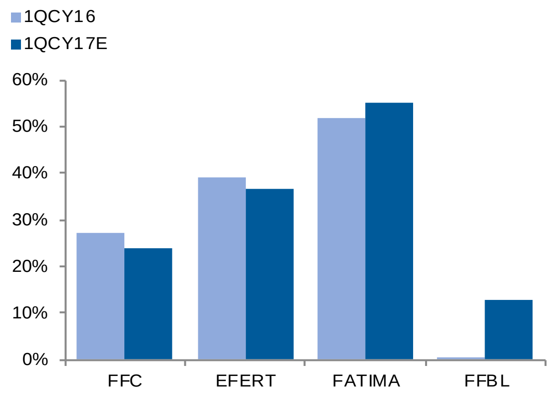
Exhibit:

FFBL Financial Highlights

PKRmn (Period end=Dec)	1QCY17E	1QCY16A	YoY	4QCY16A	QoQ
Net Sales	8,232	4,414	86%	22,910	-64%
Gross Profit	63	(697)	NM	880	-93%
Mkting. / Dist. Cost	822	677	21%	1,383	-41%
Other Op. Income	1,846	1,253	47%	4,848	-62%
Finance Cost	546	406	34%	582	-6%
Pre-Tax Profits	187	(875)	NM	2,973	-94%
Profit After Tax	204	(514)	NM	2,393	-91%
EPS (PKR)	0.22	(0.55)	NM	2.56	
DPS (PKR)	-	-		0.50	
KEY RATIOS					
Gross Profit Margins	0.8%	-15.8%		3.8%	
EBIT Margins	8.9%	-10.6%		15.5%	
Effective tax rate	-9.4%	41.3%		19.5%	

Source: IGI Research, Company Financials *No. of shares* *934.1*

Gross Margin (Including Subsidy) (%)



EFERT: lower Urea/DAP offtake along with Lower retention prices expected to reduce earnings to PKR 1.25/share, down by 21%YoY in 1QCY17

We expect the company to record profitability of PKR 1.6bn (EPS PKR 1.25), down by a massive 21%YoY in the 1QCY17 compared to last year. We base our estimate on a) 22%YoY decline in revenue mainly due to lower urea/DAP offtake by 8%YoY/43%YoY along with lower retention prices of urea (PKR 1250/bag) compared to same period of last year (PKR 1530/bag) as company took additional measures (in addition to government subsidy) and by offering discounts. However 12%YoY decrease in financial charges as company re-priced its long term liabilities combined with government subsidy of PKR 156/bag on urea and PKR 300/bag on DAP is estimated to increase company's other income to PKR ~1.1bn for 1QCY17 (PKR 2723n in 1QCY16), which are likely to support company's bottom-line.

Exhibit:

EFERT Financial Highlights

PKRmn (Period end=Dec)	1QCY17E	1QCY16A	YoY	4QCY16A	QoQ
Net Sales	9,890	12,605	-22%	27,893	-65%
Gross Profit	2,953	4,938	-40%	4,959	-40%
Mkting. / Dist. Cost	648	855	-24%	3,277	-80%
Other Op. Income	1,150	273	322%	4,453	-74%
Finance Cost	664	751	-12%	773	-14%
Pre-Tax Profits	2,425	3,088	-21%	4,732	-49%
Profit After Tax	1,673	2,121	-21%	3,369	-50%
EPS (PKR)	1.25	1.59	-21%	2.52	
DPS (PKR)	-	-		2.50	
KEY RATIOS					
Gross Profit Margins	29.9%	39.2%		17.8%	
EBIT Margins	31.2%	30.5%		19.7%	
Effective tax rate	31.0%	31.3%		28.8%	

Source: IGI Research, Company Financials *No. of shares* *1,335.3*

Recommendation

We recommend **"BUY"** call on EFERT, FFBL and FFC with our Dec-17 target price of PKR 86/share(upside +42%), PKR 59/share (upside +16%) and PKR 114/share (upside +17%) respectively. FFBL/EFERT/FFC is currently trading at a CY17E P/E of 7.5x/10.1x/10.66x and dividend yield of 11%/6.7%/8.2%, respectively.

Source: NFDC, Bloomberg, Company Acc.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target priceon aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

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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