

Day Break

Monday, 29 January 2018

COMPANY UPDATE

Fauji Fertilizer Company Limited

Fertilizer

Recommendation	NEUTRAL
Target Price:	89.1
Last Closing: 26-Jan-18	87.7
Upside:	1.6
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

Market Data

Bloomberg Tkr.	FFC PA
Shares (mn)	1,272.2
Free Float Shares (mn)	699.7
Free Float Shares (%)	55.0%
Market Cap (PKRbn USDmn)	111.6 1,007.8
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	4.5 4.4 (25.7)
Lo	73.7 70.1 70.1
Hi	92.0 92.0 118.1

Key Company Financials

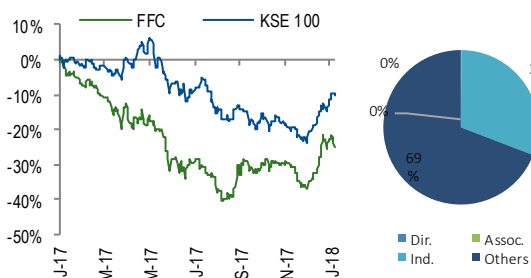
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	72.9	87.1	81.4	86.9
Net Income	11.8	9.7	9.9	11.9
EPS (PKR)	9.3	7.7	7.8	9.4
DPS (PKR)	7.9	6.5	7.0	8.4
Total Assets	90.7	82.8	75.7	74.5
Total Equity	28.2	29.7	30.1	31.3

Key Financial Ratios

ROE (%)	41.8	32.8	32.8	38.1
P/E (x)	9.5	11.5	11.3	9.4
P/B (x)	4.0	3.8	3.7	3.6
DY (%)	9.0	7.4	8.0	9.6

Relative Price Performance



About the Company

The Company is a public limited company incorporated in Pakistan. The Company is in the business of manufacturing, purchasing and marketing of fertilizers, chemicals including investment in other fertilizer, chemical, banking and others manufacturing and energy generation.

Source: Bloomberg, PSX & IGI Research

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Fertilizer

FFC: 4QCY17 earnings to clock in at PKR 3.8bn; (EPS: PKR 2.99/share)

- Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial result for CY17 on 30th Jan-18, wherein we expect the company to post earnings of PKR 3.8bn (EPS: PKR 2.99/share), down by 11%YoY for 4QCY17.
- We attribute the decrease in earnings to reduction in urea subsidy by PKR 56/bag.
- We expect DAP and urea sales to normalize in the upcoming quarter as seasonal demand slows down.
- We have a 'HOLD' call on the scrip based on Dec-18 target price of PKR 89.1/share, offering +2% upside from its last closing. The company is currently trading at CY18E P/E of 11.5x and offers a dividend yield of 7.8%.

Earnings for 4QCY17 to decrease by 11%YoY to PKR 3.8bn (EPS: PKR 2.99/share)

Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial result for CY17 on 30th Jan-18, wherein we expect the company to post earnings of PKR 3.8bn (EPS: PKR 2.99/share), down by 11%YoY for 4QCY17. Although the offtake for DAP/urea remained almost in-line with that of last year, yet reduction in other income due to decline in urea subsidy may trim earnings during the quarter, in our view. On a cumulative basis, earnings for CY17 are estimated to clock in at PKR 9.7bn (EPS: PKR 7.66/share), down by 17%YoY. We also expect the company to declare a cash dividend of PKR 2.5/share, taking full year dividend to PKR 6.5/share.

Improved pricing dynamics to increase net sales by +9%YoY to PKR 29bn for 4QCY17

Total offtake during the quarter stands at 983k tons almost in line with the offtake (989k tons) achieved in the same period last year. Urea sales dipped merely by 1%YoY to 824ktons, while DAP offtake for the period crept up by +1%YoY to 160k tons. With respect to pricing, for both Sona Urea and DAP, prices have increased during the quarter as demand surged, therefore retention prices improved during the period. Hence, net sales are expected to increase by +9%YoY to PKR 29bn, culminating net sales to PKR 87bn (+19%YoY) for the whole year.

Reduction in urea subsidy to hamper other income by 39% YoY to PKR 2.4bn

Other income for 4QCY17 is expected to decrease by 41%YoY to PKR 2.3bn owing to a reduction of PKR 56/bag (negative impact of PKR 0.47/share) in urea subsidy. For the whole year, other income is expected to glide down by 12%YoY to PKR 9.4bn further corroborated by reduced income support (PKR~1.7bn v/s PKR 2.4bn in CY16) from diversified business.

Exhibit:

FFC Result Highlights

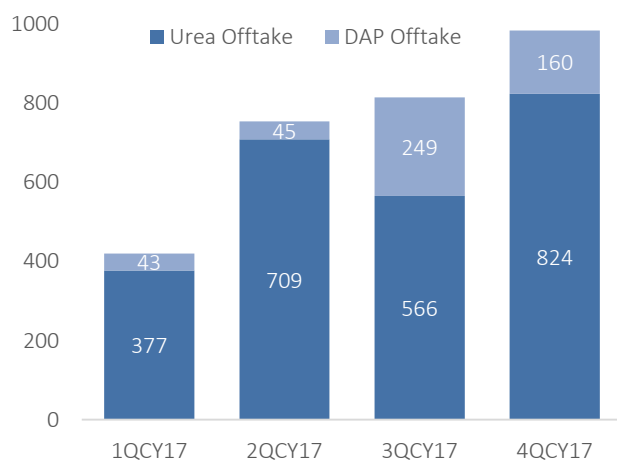
Period End Dec- PKRmn	4QCY17E	4QCY16	YoY	CY17E	CY16	YoY
Net Sales	29,315	26,951	9%	87,065	72,877	19%
Gross Profit	6,772	5,632	20%	18,335	18,050	2%
Selling / Dist.	2,638	2,329	13%	9,173	7,154	28%
Other Op. Income	2,390	3,932	-39%	9,506	10,665	-11%
EBIT	5,978	6,702	-11%	17,084	19,800	-14%
Finance Cost	676	621	9%	2,593	2,406	8%
Pre-Tax Profits	5,303	6,080	-13%	14,491	17,394	-17%
Taxation	1,496	1,804	-17%	4,751	5,612	-15%
Post-Tax Profits	3,807	4,276	-11%	9,741	11,782	-17%
EPS	2.99	3.36		7.66	9.26	
DPS	2.50	2.75		6.50	7.90	

Key Ratios

Gross Profit Margins	23%	21%	21%	25%
EBIT Margins	20%	25%	20%	27%
Effective Tax Rate	28%	30%	33%	32%

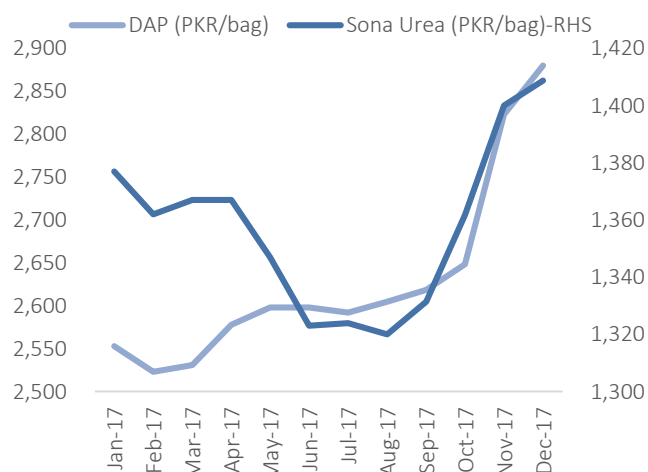
Source: IGI Research, Company Financials, PSX

Exhibit:

DAP and Urea offtake (Ktons)

Source: IGI Research, Company Financials, Bloomberg

Exhibit:

Local DAP and Sona Urea prices (PKR/bag)**Outlook**

We expect DAP and urea sales to normalize in the upcoming quarter as seasonal demand slows down. Moreover, as per NFDC data urea inventory levels have now subsided and possibility of supply glut seems unlikely. Furthermore, much depends on what the new fertilizer policy has to offer: removal of GIDC on feed or fuel gas could be beneficial for FFC in lowering down its costs but the overall impact will be nullified with a corresponding decrease in urea price cap. In another scenario, removal of urea subsidy in the form of reduced sales tax seems another option as can be inferred from changes made in DAP sales tax/subsidy regime previously.

Recommendation

We have a 'HOLD' call on the scrip based on a Dec-18 target price of PKR 89.1/share, offering +2% upside from its last closing. The company is currently trading at CY18E P/E of 11.5x and offers a dividend yield of 7.8%.

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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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