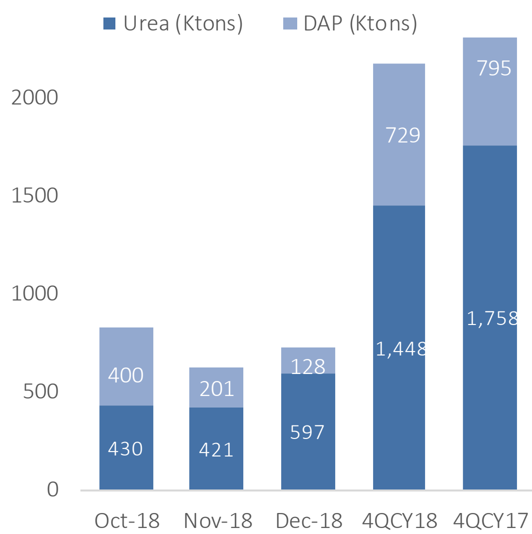
Day Break

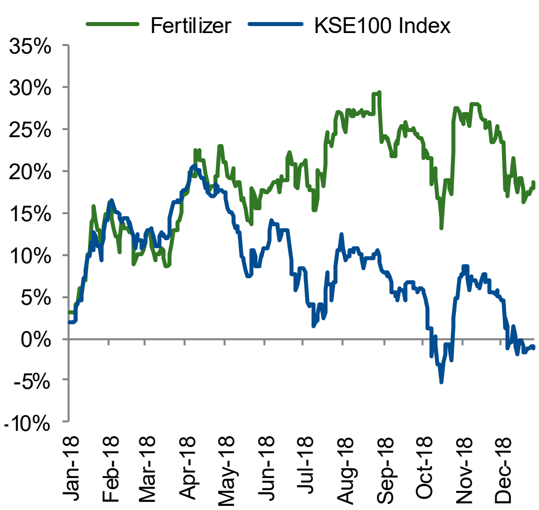
Wednesday, 30 January 2019

Sector Update

Exhibit: Industry Offtake (K tons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Sector's profitability to stay afloat; EFERT to outperform

- We preview earnings for the fertilizer companies under IGI coverage (FFC, FFBL, EFERT & FATIMA) wherein we expect the total profitability to decrease by 8%YoY to PKR 13.10bn for the 4QCY18. The drop in earnings is due to low offtakes (both DAP and urea) and high finance cost amid increase in interest rates.
- With respect to stock performance, the sector has over performed by 20% YoY against the benchmark index, spurred by improved sector dynamics, high pricing power and growth in earnings.
- On individual basis for the 4QCY18, EFERT is expected to drive sectors profitability with earnings estimated at PKR 4.80bn (EPS: PKR 3.59), an increase of +13.8%YoY. While, on the other side, FATIMA is expected to witness a substantial drop of 30.8%YoY to PKR 2.70bn (EPS: PKR 1.28). Similarly, FFC / FFBL may also follow the trail, seeing a decline of 8.1%/4.8%YoY in their earnings to PKR (3.45/1.31)/share

We preview earnings for the fertilizer companies under IGI coverage (FFC, FFBL, EFERT & FATIMA) wherein we expect the total profitability to decrease by 8%YoY to PKR 13.10bn for the 4QCY18. The drop in earnings is due to low offtakes (both DAP and urea) and high finance cost amid increase in interest rates. Nevertheless, limited supply levels and strong demand kept urea prices inflated during the quarter. On cumulative basis, for the full year, sector's profitability is expected to surge by +29%YoY to PKR 43.11bn led by high urea offtakes and increased retention prices during the 2HCY18. With respect to stock performance, the sector has outperformed by 20%YoY against the benchmark index, spurred by improved sector dynamics, high pricing power and growth in earnings.

EFERT to drive sector's profitability, FATIMA to witness substantial drop

On individual basis for the 4QCY18, EFERT is expected to drive sectors profitability with earnings estimated at PKR 4.80bn (EPS: PKR 3.59), an increase of +13.8%YoY. While, on the other side, FATIMA is expected to witness a substantial drop of 30.8%YoY to PKR 2.70bn (EPS: PKR 1.28). Similarly, FFC / FFBL may also follow the trail, seeing a decline of 8.1%/4.8%YoY in their earnings to PKR (3.45/1.31)share.

Exhibit:

Sector: 4QCY18 Result Highlights

Period end Dec-PKRmn	4QCY18E	4QCY17	YoY	CY18E	CY17	YoY
Net Sales	105,277	98,730	7%	317,254	258,188	23%
Gross Profit	28,399	25,570	11%	95,941	67,676	42%
Selling / Dist.	7,721	7,019	10%	26,137	24,172	8%
Other Op. Income	2,665	5,834	-54%	11,494	21,094	-46%
EBIT	20,632	21,091	-2%	71,087	55,841	27%
Finance Cost	2,332	2,259	3%	7,426	9,258	-20%
Pre-Tax Profits	18,300	18,832	-3%	63,661	46,584	37%
Taxation	5,197	4,659	12%	21,084	13,136	61%
Post-Tax Profits	13,104	14,173	-8%	43,114	33,447	29%

Source: IGI Research, Company Financials, PSX

FFBL: High finance cost and drop in sales to inch down earnings by 5%YoY to PKR 1.31/share for 4QCY18

Fauji Fertilizer Bin Qasim Limited (FFBL) is scheduled to announce its financial results for 4QCY18 on 30th Jan-19 wherein we expect the company to report earnings of PKR 1.22bn (EPS: 1.31) on unconsolidated basis taking total earnings for CY18 to PKR 1.02bn (EPS: PKR 1.09). For the quarter decline (5%YoY) in profitability is attributed to decreased urea /DAP offtakes by 36%/49%YoY, reflecting a drop of 8%YoY in top line. However, dividend (PKR 1.75/share) contribution from Fauji Power Company Limited (FPCL) is expected to inflate other income by +44%YoY. Nevertheless, increase in finance cost may partially offset the impact by 54%YoY on the back of high interest rates and increased borrowings. We expect company to announce cash dividend of PKR 0.80/share for the year.

Exhibit:

FFBL: 4QCY18 Result Highlights

Period End Dec- PKRmn	4QCY18E	4QCY17	YoY	CY18E	CY17	YoY
Net Sales	23,582	25,577	-8%	61,155	52,733	16%
Gross Profit	3,027	3,945	-23%	7,790	6,028	29%
Selling / Dist.	1,651	1,552	6%	4,879	4,872	0%
Other Op. Income	1,280	888	44%	2,743	4,377	-37%
EBIT	2,184	2,249	-3%	3,578	3,382	6%
Finance Cost	723	469	54%	2,246	1,941	16%
Pre-Tax Profits	1,462	1,780	-18%	1,332	1,441	-8%
Taxation	241	498	-52%	852	437	95%
Post-Tax Profits	1,220	1,282	-5%	1,017	1,004	1%
EPS	1.31	1.37		1.09	1.08	
DPS	0.80	0.75		0.80	0.85	
Key Ratios						
Gross Profit Margins	12.8%	15.4%		12.7%	11.4%	
Ebit Margins	9.3%	8.8%		5.9%	6.4%	
Effective Tax Rate	16.5%	28.0%		64.0%	30.3%	

Source: IGI Research, Company Financials, PSX *No.of shares: 934mn*

FFC: Earnings to clock in at PKR 4.39bn (EPS: PKR 3.45), down by 8%YoY for 4QCY18

Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial results for 4QCY18 on 31th Jan-19 wherein we expect the company to report earnings of PKR 4.39bn (EPS: 3.45), down by 8%YoY. Although, urea sales have decreased (18%YoY), top-line is expected to incline by +5%YoY to PKR 34.69bn, led by price increase and relatively flat DAP offtake. Major attrition to the earnings stems from decrease (68%YoY) in other income, owing to removal of DAP subsidy, and nil dividend from AKBL and FCCL. However, we expect dividend contribution of PKR 500mn from Fauji wind power to provide cushion to the earnings. Lastly, we expect company to declare cash dividend of PKR 3.00/share, taking full year dividend to PKR 7.95/share.

Exhibit:

FFC: 4QCY18 Result Highlights

Period End Dec- PKRmn	4QCY18E	4QCY17	YoY	CY18E	CY17	YoY
Net Sales	34,692	32,964	5%	105,369	90,714	16%
Gross Profit	8,715	6,530	33%	26,827	18,093	48%
Selling / Dist.	2,489	2,039	22%	9,200	8,574	7%
Other Op. Income	1,035	3,208	-68%	5,943	10,324	-42%
EBIT	6,680	7,106	-6%	21,582	18,212	19%
Finance Cost	546	553	-1%	1,729	2,471	-30%
Pre-Tax Profits	6,134	6,553	-6%	19,853	15,741	26%
Taxation	1,744	1,775	-2%	6,937	5,030	38%
Post-Tax Profits	4,390	4,778	-8%	12,915	10,711	21%
EPS	3.45	3.76		10.15	8.42	
DPS	3.00	3.00		7.95	7.00	
Key Ratios						
Gross Profit Margins	25.1%	19.8%		25.5%	19.9%	
Ebit Margins	19.3%	21.6%		20.5%	20.1%	
Effective Tax Rate	28.4%	27.1%		34.9%	32.0%	

Source: IGI Research, Company Financials, PSX *No.of shares: 1272mn*

EFERT: Earnings for 4QCY18 to increase by +14%YoY to PKR 4.80bn (EPS: PKR 3.59)

Engro Fertilizers Company Limited is scheduled to announce its financial result for 4QCY18 on 8th Feb-19, where we expect earnings for 4QCY18 to increase by +14%YoY to PKR 4.80bn (EPS: PKR 3.59) taking total profitability for CY18 to PKR 17.04bn (EPS: PKR 12.77), up by +53%YoY. Accretion to earning stems from increase in prices of urea and DAP taking net sales up by +30%YoY to PKR 37.2bn. Moreover, possibility of one-offs such as tax reversal (PKR ~300mn) may lift earnings for the quarter to PKR 3.82/share in our view. We expect, company to declare a cash dividend of PKR 3.00/share for the quarter.

Exhibit:

EFERT: 4QCY18 Result Highlights

Period End Dec- PKRmn	4QCY18E	4QCY17	YoY	CY18E	CY17	YoY
Net Sales	37,160	28,656	30%	106,375	77,129	38%
Gross Profit	10,774	8,308	30%	34,670	23,219	49%
Selling / Dist.	2,400	2,344	2%	7,646	7,245	6%
Other Op. Income	155	1,584	-90%	2,023	5,866	-66%
EBIT	7,537	6,638	14%	26,218	19,313	36%
Finance Cost	688	646	7%	2,108	2,648	-20%
Pre-Tax Profits	6,849	5,992	14%	24,110	16,665	45%
Taxation	2,055	1,779	15%	7,066	5,509	28%
Post-Tax Profits	4,795	4,212	14%	17,044	11,156	53%
EPS	3.59	3.16		12.77	8.36	
DPS	3.00	3.00		11.00	8.50	
Key Ratios						
Gross Profit Margins	29.0%	29.0%		32.6%	30.1%	
Ebit Margins	20.3%	23.2%		24.6%	25.0%	
Effective Tax Rate	30.0%	29.7%		29.3%	33.1%	

Source: IGI Research, Company Financials, PSX *No.of shares: 1334mn*

FATIMA: Low offtakes to dampen earnings by 31%YoY to PKR 1.28/share for 4QCY18

We expect the company to report a profit of PKR 2.70bn (EPS: PKR 1.28) on unconsolidated basis, down by 31%YoY taking total earnings for CY18 to PKR 12.14bn (+15%YoY). On pre-tax basis, profitability is estimated to depress by 14%YoY to PKR 3.86bn. The decline is attributed to drop in total offtake during the quarter wherein urea/CAN/NP sales have dropped by 41%/31%/45%YoY, reflecting 8%YoY drop in net sales to PKR 9.84bn. We expect, company to declare a cash dividend of PKR 4.00/share for the whole year.

Exhibit:

FATIMA: 4QCY18 Result Highlights

Period End Dec- PKRmn	4QCY18E	4QCY17	YoY	CY18E	CY17	YoY
Net Sales	9,843	11,533	-15%	44,354	37,612	18%
Gross Profit	5,883	6,787	-13%	26,654	20,337	31%
Selling / Dist.	1,181	1,084	9%	4,412	3,482	27%
Other Op. Income	196	155	26%	785	527	49%
EBIT	4,230	5,098	-17%	19,710	14,935	32%
Finance Cost	375	591	-36%	1,344	2,198	-39%
Pre-Tax Profits	3,855	4,508	-14%	18,366	12,736	44%
Taxation	1,156	607	91%	6,229	2,160	1.88x
Post-Tax Profits	2,698	3,901	-31%	12,138	10,576	15%
EPS	1.28	1.86		5.78	5.04	
DPS	4.00	3.60		4.00	3.60	
Key Ratios						
Gross Profit Margins	59.8%	58.8%		60.1%	54.1%	
Ebit Margins	43.0%	44.2%		44.4%	39.7%	
Effective Tax Rate	30.0%	13.5%		33.9%	17.0%	

Source: IGI Research, Company Financials, PSX *No.of shares: 2100mn*

Recommendation

We have a liking for EFERT, based on our Dec-19 target price of PKR 80.2/share, offering +6% upside from its last closing. The company is currently trading at CY19E P/E of 6.76x and offers a dividend yield of 13%.

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Time Horizon: Dec – 2019

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

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