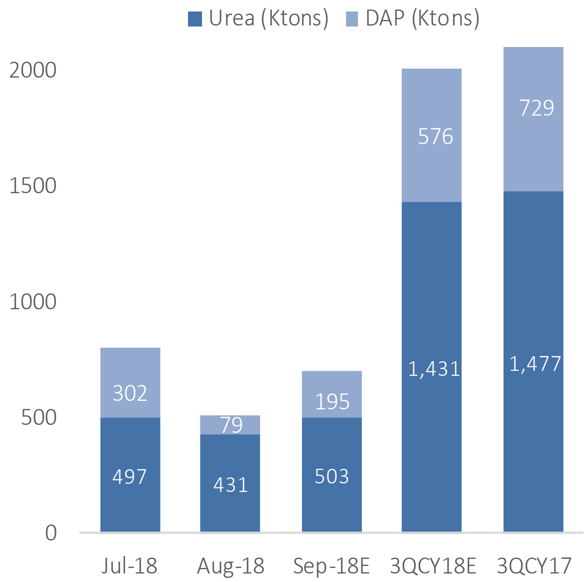
Day Break

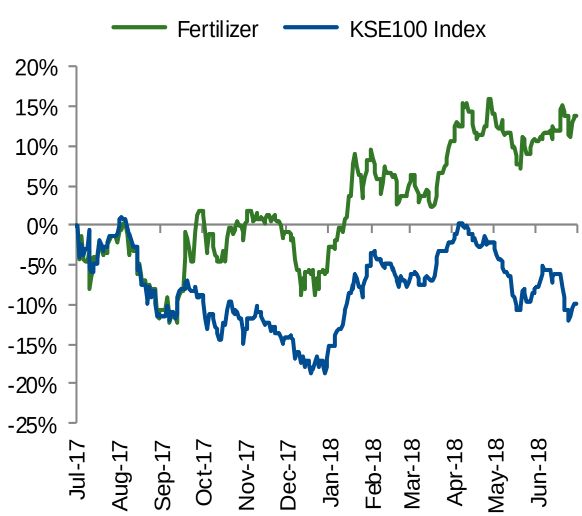
Wednesday, 17 October 2018

Sector Update

Industry Offtake: Urea (ktons) and DAP (ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Recovery in prices to drive sector's profitability up by +60%YoY for 3QCY18

- We preview earnings for the fertilizer companies under IGI coverage (FFC, FFBL, EFERT & FATIMA) wherein we expect the profitability to surge by +60%YoY to PKR 11.90bn on the back of improved fundamentals driven by high pricing power.
- With respect to stock performance, the sector has over performed by 20% CY18TD against the benchmark index, spurred by sustained offtakes and high pricing power stemming from low inventory levels.
- Company wise, FATIMA is expected to lead the sector's profitability with earnings attaining at PKR 3.91bn (EPS: PKR 1.86). Similarly, FFC and EFERT will follow the trail witnessing double-digit growth in their earnings at PKR 3.74bn (EPS: PKR 2.94) and PKR 4.35bn (EPS: PKR 3.26) respectively. FFBL however will impede sector earnings a bit with a loss of PKR 98mn (LPS: PKR 0.11).

We preview earnings for the fertilizer companies under IGI coverage (FFC, FFBL, EFERT & FATIMA) wherein we expect the total profitability to surge by +60%YoY to PKR 11.90bn for the 3QCY18. The increase in earnings is due to improved fundamentals driven by increase in prices (strong recovery seen during the last quarter) and sustained urea offtake expected during the quarter. In addition, low finance costs and handling charges (low inventory levels) will prop up profitability in our view while other income will decrease substantially owing to removal of urea and DAP subsidy. Hence, on cumulative basis for the 9MCY18, sector earnings will jump by +50%YoY to PKR 29.1bn. With respect to stock performance, the sector has over performed by 20% CY18TD against the benchmark index, spurred by sustained offtakes and high pricing power stemming from low inventory.

Increased prices and sustained offtake expected to increase net sales

With total urea and DAP offtake expected to clock in at 1.4mn tons and 430k tons (IGI coverage), net sales are expected to increase by +18%YoY to PKR 81.37bn. Most importantly, improved urea prices (DTP averaging around PKR 1,520-1,570/bag) and high DAP prices will further bolster sector's topline.

FATIMA to drive sector's profitability followed by EFERT and FFC

Company wise, FATIMA will lead the sector's profitability with earnings estimated at PKR 3.91bn (EPS: PKR 1.86). Similarly, FFC and EFERT will follow the trail witnessing double-digit growth in their earnings at PKR 3.74bn (EPS: PKR 2.94) and PKR 4.35bn (EPS: PKR 3.26) respectively. FFBL however will impede sector earnings a bit with a loss of PKR 98mn (LPS: PKR 0.11).

Exhibit:

Sector: 3QCY18 Result Highlights

Period end Dec-PKRmn	3QCY18E	3QCY17A	YoY	9MCY18E	9MCY17A	YoY
Net Sales	81,365	68,739	18%	207,777	159,458	30%
Gross Profit	26,527	17,976	48%	65,241	42,106	55%
Other Op. Income	1,012	3,193	-68%	8,485	15,247	-44%
EBIT	18,625	12,995	43%	48,107	34,741	38%
Finance Cost	1,630	2,502	-35%	4,838	6,982	-31%
Pre-Tax Profits	16,995	10,493	62%	43,268	27,759	56%
Taxation	5,098	3,038	68%	14,299	8,444	69%
Post-Tax Profits	11,896	7,455	60%	29,104	19,315	51%

Source: IGI Research, Company Financials, PSX

EFERT: Earnings for 3QCY18 to increase by +53%YoY to PKR 4.35bn (EPS: PKR 3.26/share)

Engro Fertilizers Company Limited is scheduled to announce its financial result for 3QCY18 on 18th Oct-18 wherein, we expect earnings for 3QCY18 to increase by +53%YoY to PKR 4.35bn (EPS: PKR 3.26) taking total profitability for 9MCY18 to PKR 11.50bn (EPS: PKR 8.6), up by +65%YoY. Accretion to earning stems from increased urea prices following last quarter. Net sales will increase by +23%YoY to PKR 26.1bn with urea/ DAP offtake to clock in at 497/147k tons. Support to earnings may also stem from decreased finance cost on the back of debt repayments. We expect, the company may declare a cash dividend of PKR 2.50/share for the quarter. We have a **"BUY"** call on the scrip based on our Dec-18 target price of PKR 81/share.

Exhibit:

EFERT: 3QCY18 Result Highlights

Period End Dec- PKRmn	3QCY18E	3QCY17A	YoY	9MCY18E	9MCY17A	YoY
Net Sales	26,108	21,162	23%	67,224	48,473	39%
Gross Profit	8,839	6,164	43%	22,859	14,911	53%
Other Op. Income	320	989	-68%	1,974	4,270	-54%
EBIT	6,697	4,859	38%	18,015	12,666	42%
Finance Cost	485	678	-28%	1,371	1,986	-31%
Pre-Tax Profits	6,212	4,181	49%	16,644	10,681	56%
Taxation	1,864	1,332	40%	5,146	3,696	39%
Post-Tax Profits	4,348	2,849	53%	11,498	6,984	65%
EPS	3.26	2.13		8.62	5.23	
DPS	2.50	3.00		6.50	5.50	
Key Ratios						
Gross Profit Margins	33.9%	29.1%		34.0%	30.8%	
Ebit Margins	25.7%	23.0%		26.8%	26.1%	
Effective Tax Rate	30.0%	31.9%		30.9%	34.6%	

Source: IGI Research, Company Financials, PSX *No. of shares :1,334mn*

FFBL: Company to report a loss of PKR 98mn (LPS: PKR 0.11) for 3QCY18

Fauji Fertilizer Bin Qasim Limited (FFBL) is scheduled to announce its financial results for 3QCY18 on 25thOct-18 wherein we expect the company to report a loss of PKR 98mn (LPS: 0.11) on unconsolidated basis taking total loss for the 9MCY18 to PKR 1.09bn (LPS: PKR 1.17) compared to PKR 0.28bn (LPS: PKR 0.41) in the same period last year. Major erosion to earnings stems from decrease in margins primarily owing to steam prices and subsequent capacity payments along with increase in phosphoric acid prices. With estimated offtake in urea and DAP, to tune at 153k tons and 171k tons respectively, we expect net sales for the quarter to clock in at PKR 16.13bn, up by +39%YoY. However, major dent to earnings may come from decrease in other income owing to decrease in subsidy for urea and removal of DAP subsidy (corresponding reduction in tax rate) and possibly nil dividend from associates. We have a **"BUY"** call on the scrip based on our Dec-18 target price of PKR 40.1/share.

Exhibit:

FFBL: 3QCY18 Result Highlights

Period End Dec- PKRmn	3QCY18E	3QCY17A	YoY	9MCY18E	9MCY17A	YoY
Net Sales	16,126	11,602	39%	35,055	27,156	29%
Gross Profit	1,679	1,794	-6%	3,095	2,083	49%
Other Op. Income	191	543	-65%	1,412	3,490	-60%
EBIT	419	680	-38%	74	1,133	-93%
Finance Cost	560	550	2%	1,477	1,472	0%
Pre-Tax Profits	(141)	130	n.m	(1,403)	(339)	4.14x
Taxation	(42)	24	n.m	(176)	(61)	2.86x
Post-Tax Profits	(98)	107	n.m	(1,092)	(278)	3.93x
EPS	(0.11)	0.11		(1.17)	(0.30)	
DPS	-	-		-	0.10	
Key Ratios						
Gross Profit Margins	10.4%	15.5%		8.8%	7.7%	
Ebit Margins	2.6%	5.9%		0.2%	4.2%	
Effective Tax Rate	30.0%	18.1%		12.5%	18.1%	

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

FFC: Earnings to clock in at PKR 2.94bn (EPS: PKR 2.94), up by +77%YoY for 3QCY18

As per our analysis, we expect the company to report unconsolidated earnings of PKR 3.73bn (EPS: PKR 2.94), up by +77%YoY for 3QCY18. As a result, total profitability for 9MCY18 will increase by +42%YoY to PKR 8.45bn (EPS: PKR 6.64). Although top-line is estimated to inch down by 3%YoY owing to low DAP offtake, sustained offtakes of urea and increased prices may improve margins and hence profitability. As a result, net sales are estimated to clock in at PKR 26.75bn, taking total net sales for 9MCY18 to PKR 70.0bn, up by +21%YoY. In addition, decrease in finance cost owing to subsequent debt repayments may also lift earnings by +53%YoY. Lastly, we expect company to declare cash dividend of PKR 2.50/share. We have a **"BUY"** call on the scrip based on our Dec-18 target price of PKR 100.0/share.

Exhibit:

FFC: 3QCY18 Result Highlights

Period End Dec- PKRmn	3QCY18E	3QCY17A	YoY	9MCY18E	9MCY17A	YoY
Net Sales	26,753	27,589	-3%	70,019	57,750	21%
Gross Profit	7,892	5,325	48%	17,411	11,563	51%
Other Op. Income	402	1,549	-74%	4,646	7,116	-35%
EBIT	5,672	4,041	40%	14,228	11,106	28%
Finance Cost	335	715	-53%	1,100	1,917	-43%
Pre-Tax Profits	5,337	3,325	60%	13,128	9,189	43%
Taxation	1,601	1,209	32%	4,677	3,255	44%
Post-Tax Profits	3,736	2,116	77%	8,451	5,934	42%
EPS	2.94	1.66		6.64	4.66	
DPS	2.50	1.50		5.65	4.00	
Key Ratios						
Gross Profit Margins	29.5%	19.3%		24.9%	20.0%	
Ebit Margins	21.2%	14.6%		20.3%	19.2%	
Effective Tax Rate	30.0%	36.4%		35.6%	35.4%	

Source: IGI Research, Company Financials, PSX *No. of shares :1,272mn*

FATIMA: Low Finance cost and improved gross margins to drive earnings by +64%YoY to PKR 3.91bn (EPS: PKR 1.86) for 3QCY18

We expect the company to report a profit of PKR 3.91bn (EPS: PKR 1.86) on unconsolidated basis, up by +64%YoY taking total earnings for 9MCY18 to PKR 10.25bn (+54%YoY). Low finance cost (down by 55%YoY) and sustained offtake have catalyzed earnings for the quarter. Top line is expected to grow by +48%YoY to PKR 12.38bn led by increase in CAN/NP offtakes, estimated at 136/96k tons. Gross margins may hover around 65% as against 56% for the 2QCY17 owing to increase in retention prices covering up increased phosphate rock prices. We have a **"BUY"** call on the scrip based on our Dec-18 target price of PKR 40.5/share.

Exhibit:

FATIMA: 3QCY18 Result Highlights

Period End Dec- PKRmn	3QCY18E	3QCY17A	YoY	9MCY18E	9MCY17A	YoY
Net Sales	12,378	8,387	48%	35,479	26,079	36%
Gross Profit	8,117	4,693	73%	21,876	13,550	61%
Other Op. Income	99	112	-12%	453	371	22%
EBIT	5,837	3,416	71%	15,789	9,836	61%
Finance Cost	251	559	-55%	891	1,608	-45%
Pre-Tax Profits	5,586	2,857	96%	14,899	8,229	81%
Taxation	1,676	474	3.53x	4,652	1,554	2.99x
Post-Tax Profits	3,910	2,383	64%	10,247	6,675	54%
EPS	1.86	1.13		4.88	3.18	
Key Ratios						
Gross Profit Margins	65.6%	56.0%		61.7%	52.0%	
Ebit Margins	47.2%	40.7%		44.5%	37.7%	
Effective Tax Rate	30.0%	16.6%		31.2%	18.9%	

Source: IGI Research, Company Financials, PSX *No. of shares :2,100 mn*

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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):
(Discounted Cash Flow)

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