

Flash Note

Thursday, 21 April 2016

Fertilizers

FFBL: PKR 0.55/share loss reported despite PKR 500/bag subsidy

- Fauji Fertilizer Bin Qasim (FFBL) reported net loss of PKR 514mn (LPS PKR0.55) in 1QCY16, a huge decline of 6.24x in profitability. This is the highest loss reported by FFBL in last decade.
- Revenue declined by 24%YoY to PKR 4.4bn in 1QCY16 which in our view is on the back of steep discounts on DAP (~20-25% discounts). Company is anticipated to record DAP offtake of 78k tons in 1QCY16, whereas inventory levels have been reported at 22k tons, 40k tons and 77k tons in Dec-15, Jan-16 and Feb-16 respectively.
- FFBL reported gross loss of PKR 697mn in 1QCY16, a fall of 2x compared to same period last year.
- Other income leaped up by a massive +120%YoY to PKR 1.3bn in 1QCY16, which we believe is due to PKR 500/bag DAP subsidy and higher dividend income from long term investments in FCCL and AKBL.

Recommendation

The result was far below of expectations, which we think is largely on the back of steep discounts on DAP prices. The scrip is currently trading at CY16E P/E of 15x and our Dec-16 TP of PKR 58/share, we maintain our '**HOLD**' call on the scrip.

Exhibit: Financial Highlights

PKR mn	1QCY16	1QCY15	YoY	4QCY15	QoQ
Net Sales	4,414	5,799	-24%	27,131	-84%
Cost	5,111	5,089	0%	24,405	-79%
Gross Profit	(697)	710	-198%	2,726	-126%
Dist. Expense	677	492	38%	1,467	-54%
Admin. Expense	348	275	27%	511	-32%
Oth. Income	1,253	570	120%	4,563	-73%
EBIT	(469)	508	-192%	4,976	-109%
Finance Cost	406	421	-4%	447	-9%
EBT	(875)	87	-1102%	4,529	-119%
Tax	(361)	11	-3456%	1,215	-130%
Net Profit /(Loss)	(514)	98	-624%	3,314	-116%
EPS	(0.55)	0.11		3.55	
<i>Key Ratios</i>					
Gross Margin	-16%	12%		10%	
Net Margin	-12%	2%		12%	
Effective Tax Rate	41%	12%		27%	

Source: IGI Research, Company Financials

Analyst

Rashmina Lalani

rashmina.lalani@igi.com.pk

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

Analyst Certification

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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.quereshi@igi.com.pk

IGI Finex Securities Limited

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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