

# Flash Note

Wednesday, 27 July 2016

## Fertilizers

### FFC: Surprise Other Income Contributed PKR 1.23/share (72%) to Profitability

- Fauji Fertilizer Company's (FFC) profitability took a hit of 8%YoY to PKR 2.2bn (EPS PKR 1.7) in 2QCY16, taking 1HCY16 earnings to PKR 4.9bn (EPS PKR 3.85), a dip of 41%YoY. Company also announced a cash dividend of PKR 1.55/share, resulting in cumulative dividend for 1HCY16 to PKR 3.4/share.
- Revenue dipped by 11%YoY to PKR 16.7bn in 2QCY16, which we believe is on the back of lower offtake and urea prices.
- Gross margins shrunk by 234bpsYoY to 32% in 2QCY16, primarily due to lower urea price and higher fuel gas price hike which took place in Sept-15.
- Other income leaped up by +220%YoY to PKR 1.6bn possibly due to DAP subsidy and due dividend from wind power which started operating in May-13.
- Finance cost increased by +149%YoY to PKR 617mn in 2QCY16 owing to higher borrowings post payment of GIDC.

#### Recommendation

The scrip is currently trading at CY16E P/E of 8.7x. With our Dec-16 TP of PKR 109/share, we recommend 'Hold' call on the scrip.

#### Exhibit: Financial Highlights

PKR mn	2QCY16E	2QCY16	YoY	1HCY16E	1HCY15	YoY
Net Sales	16,676	18,778	-11%	28,322	39,186	-28%
Cost	11,401	12,399	-8%	19,995	24,504	-18%
Gross Profit	5,275	6,379	-17%	8,327	14,682	-43%
Dist. Expense	1,587	1,588	0%	3,104	3,169	-2%
Opt. income	1,561	488	220%	4,299	2,933	47%
Other Expenses	441	447	-1%	814	1,181	-31%
EBIT	4,808	4,831	0%	8,708	13,265	-34%
Interest Expense	617	248	149%	1,178	443	166%
PBT	4,191	4,584	-9%	7,530	12,822	-41%
Tax	2,026	2,225	-9%	2,637	4,556	-42%
PAT	2,165	2,359	-8%	4,893	8,266	-41%
EPS	1.70	1.85		3.85	6.50	
DPS	1.55	1.75		3.40	5.69	
<i>Key Ratios</i>						
Gross Margin	32%	34%		29%	37%	
Net Margin	13%	13%		17%	21%	
Effective Tax Rate	48%	49%		35%	36%	

Source: IGI Research, Company Financials

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### Analyst Certification

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### Valuation Methodology

The analyst<sup>^</sup> 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)

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