

# Flash Note

Friday, 26 January 2018

## Fertilizer

### FFBL: High costs dragged down CY17 earnings by 24%YoY to PKR 1.0bn (EPS: PKR 1.08)

- Fauji Fertilizer Bin Qasim Limited (FFBL) announced its financial results for CY17 with unconsolidated earnings clocking at PKR 1.0bn (EPS: PKR 1.08), down by 24%YoY as compared to PKR 1.3bn (EPS: PKR 1.43) in the last year. For the fourth quarter alone earnings were down by 46%YoY to PKR 1.3bn (EPS: PKR 1.38/share).
- The company also announced a cash dividend of PKR 0.75/share, bringing CY17 total cash dividend to PKR 0.85/share.
- Net sales jumped by +17%YoY to PKR 52.7bn during the year supported by high urea and DAP offtake, especially during the last quarter.
- Gross margins for the 4QCY17 clocked in at 15.4%, taking full year gross margins to 11.4%. However, gross margins are relatively low from our estimates (26%) which we attribute to high fuel and power costs.
- Other income decreased by 50%YoY to PKR 4.4bn on account of discontinuation of subsidy in DAP.
- Distribution cost leaped up by +11%YoY to PKR 4.9bn as compared to PKR 4.4bn in CY16. In addition, finance costs decreased by 10%YoY to PKR 1.9bn, thus easing down some pressure on bottom-line.

Exhibit:

#### FFBL Result Highlights

Period End Dec- PKRmn	4QCY17	4QCY16	YoY	CY17	CY16	YoY
Net Sales	25,577	22,910	12%	52,733	45,011	17%
Gross Profit	3,945	880	4.5x	6,028	1,219	5x
Selling / Dist.	1,552	1,383	12%	4,872	4,371	11%
Other Op. Income	888	4,848	-82%	4,377	8,726	-50%
EBIT	2,249	3,556	-37%	3,382	3,757	-10%
Finance Cost	469	582	-19%	1,941	2,156	-10%
Pre-Tax Profits	1,780	2,973	-40%	1,441	1,601	-10%
Taxation	486	581	-16%	425	262	62%
Post-Tax Profits	1,294	2,393	-46%	1,016	1,338	-24%
EPS	1.38	2.56		1.08	1.43	
DPS	0.75	0.50		0.85	0.50	

#### Key Ratios

Gross Profit Margins	15%	4%	11%	2.7%
EBIT Margins	9%	16%	6%	8%
Effective Tax Rate	27%	20%	30%	16%

Source: IGI Research, Company Financials, PSX

#### Analyst

Suleman Ashraf

[suleman.ashraf@igi.com.pk](mailto:suleman.ashraf@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 957

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**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)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2017 IGI Finex Securities Limited

## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	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	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

#### 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](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, PSX 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- Liaqat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Tel: (92-992) 408243 - 44

#### Peshawar Office

2nd Floor, The Mall Tower,  
35 The Mall Peshawar Cantt.  
Tel: (92-91) 5253035, 5278448

#### 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

#### Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad  
Station, Mansehra Road, Abbottabad  
Tel: (+92-99) 2408243 - 44

#### Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,  
Mubarak Pura, Sialkot.  
Tel: (+92-52) 3258437, 3258762