

Day Break

Thursday, 25 July 2019

Sector Update

Sym	Target price	P/E 2019	D/Y2019	Recomm.
FFC	91.5	8.3	9.7%	HOLD
FFBL	36.1	11.3	5.8%	BUY

Fertilizer

FFBL & FFC : 2QCY19 Result Preview

- Fauji Fertilizers Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 2QCY19 on 26th Jul-19 where we expect company to report a loss of PKR 0.96bn (LPS: PKR 1.03), signaling an increase of +76%YoY. We have a “**BUY**” call on FFBL, based on our Dec-19 target price of PKR 36.1/share.
- Fauji Fertilizers Company Limited (FFC) is scheduled to announce its financial result for 2QCY19 on 29th Jul-19 where we expect earnings to increase by +69%YoY to PKR 4.1bn (EPS: PKR 3.25). We expect company to declare a cash dividend of PKR 2.50/share for the 2QCY19. We have a “**HOLD**” call on FFC, based on our Dec-19 target price of PKR 91.5/share.

FFBL: High finance cost to dampen earnings; loss of PKR 1.03/share expected for 2QCY19

Fauji Fertilizer Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 2QCY19 on 26th Jul-19 where we expect company to report a loss of PKR 0.96bn (LPS: PKR 1.03), signaling a massive increase of +76% YoY. On a cumulative basis, total loss for 1HCY19 is expected to rise by almost three time times to 2.8bn. For the quarter in review, the substantial increase in loss is primarily due to high finance cost. Net sales are estimated at PKR 17.6bn attributed to a) expected increase in urea/DAP offtake, up by 13%/2.5xYoY and b) increase in retention prices of fertilizers during the quarter. Likewise, gross margins are expected to improve at ~10% owing to increase in urea prices and sufficient sales generated to absorb costs (capacity payments for fuel and power from Fauji Power). However, major dent to earnings may come from hefty increase in finance cost (increase in borrowings and high interest rates) to the tune of PKR 1.0bn.

Exhibit:

FFBL: 2QCY19 Result Highlights

Period End Dec- PKRmm	2QCY19E	2QCY18	YoY	1HCY19E	1HCY18	YoY
Net Sales	17,575	8,646	2.0x	21,075	18,928	11%
Gross Profit	1,722	670	2.6x	1,039	1,416	-27%
Selling / Dist.	1,146	987	16%	1,825	1,923	-5%
Other Op. Income	253	860	-71%	1,054	1,220	-14%
EBIT	279	(114)	n.m	(626)	(345)	81%
Finance Cost	1,023	498	2.1x	1,935	917	2.1x
Pre-Tax Loss	(744)	(612)	22%	(2,561)	(1,262)	2.0x
Taxation	(216)	68	n.m	(165)	269	n.m
Post-Tax Loss	(960)	(544)	76%	(2,827)	(994)	2.9x
LPS	(1.03)	(0.58)		(3.03)	(1.06)	

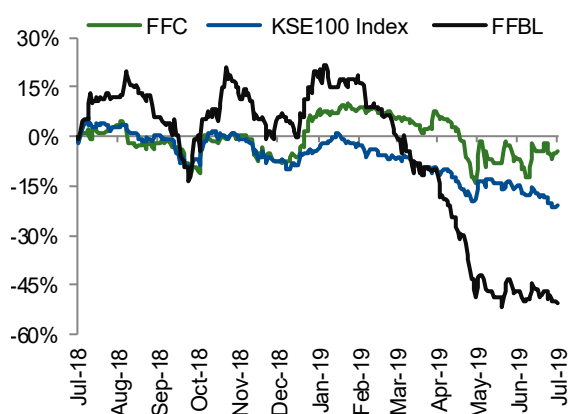
Key Ratios

Gross Profit Margins	9.8%	7.8%	4.9%	7.5%
Ebit Margins	1.6%	-1.3%	-3.0%	-1.8%
Effective Tax Rate	29.0%	n.m	6.4%	n.m

Source: IGI Research, Company Financials, PSX

No. of shares: 934mm

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Recommendation

We have a “**BUY**” call on FFBL, based on our Dec-19 target price of PKR 36.1/share. The company is currently trading at CY19E P/E of 11.3x and offers a dividend yield of 5.8%.

FFC: Expecting +69% on year increase in earnings to PKR 3.25/share for 2QCY19

Fauji Fertilizers Company Limited (FFC) is scheduled to announce its financial result for 2QCY19 on 29th Jul-19 where we expect earnings to increase by +69%YoY to PKR 4.1bn (EPS: PKR 3.25) taking total earnings for 1HCY19 to PKR 7.84bn (EPS: PKR 6.16). We attribute increase in retention prices and improved margins as the key factors in accretion to earnings. Topline is expected to increase by +14%YoY to PKR 25.9bn despite downfall of 5%/2%YoY in urea/DAP sales. Gross margins are expected to remain strong at 33% supported by increase in retention prices (PKR 80/bag). Likewise, ample cash tied up in short-term investments is expected to support income to the tune of PKR 0.72mn. However, increase in finance cost (52%YoY) may act as a drag to the profitability, in our view. We expect company to declare a cash dividend of PKR 2.50/share for the 2QCY19.

Exhibit:

FFC: 2QCY19 Result Highlights

Period End Dec-	PKRmn	2QCY19E	2QCY18	YoY	1HCY19E	1HCY18	YoY
Net Sales		25,972	22,708	14%	46,283	43,266	7%
Gross Profit		8,712	5,427	61%	14,675	9,520	54%
Selling / Dist.		2,393	2,444	-2%	4,399	4,370	1%
Other Op. Income		720	2,158	-67%	2,720	4,244	-36%
EBIT		6,420	4,685	37%	11,892	8,556	39%
Finance Cost		591	388	52%	1,059	765	39%
Pre-Tax Profits		5,829	4,297	36%	10,832	7,791	39%
Taxation		1,690	1,847	-8%	2,997	3,076	-3%
Post-Tax Profits		4,139	2,450	69%	7,835	4,715	66%
EPS		3.25	1.93		6.16	3.71	
DPS		2.50	1.40		5.00	3.15	
Key Ratios							
Gross Profit Margins		33.5%	23.9%		31.7%	22.0%	
Ebit Margins		24.7%	20.6%		25.7%	19.8%	
Effective Tax Rate		29.0%	43.0%		27.7%	39.5%	

Source: IGI Research, Company Financials, PSX

No. of shares: 1272mn

Recommendation

We have a “**HOLD**” call on FFC, based on our Dec-19 target price of PKR 91.5/share. The company is currently trading at CY19E P/E of 8.3x and offers a dividend yield of 9.7%.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec – 2019

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(Reserve Based DCF Valuation)

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