

Day Break

Monday, 30 January 2017

COMPANY UPDATE

FAUJI FERTILIZER COMPANY LIMITED

FERTILIZER

| | |
|------------------------|----------------|
| Recommendation | NEUTRAL |
| Target Price | 114.6 |
| Last Closing 27-Jan-17 | 116.5 |
| Upside | (1.6) |

Market Data

| | |
|----------------------------|-------------------|
| Bloomberg Tkr. | FFC PA |
| Shares (mn) | 1,272.2 |
| Free Float Shares (mn) | 699.7 |
| Free Float Shares (%) | 55.0% |
| Market Cap (PKRbn USDmn) | 148.2 1,410.4 |
| Exchange | KSE 100 |
| Price Info. | 90D 180D 365D |
| Abs. Return | 11.4 2.5 4.8 |
| Low | 103.1 102.7 102.7 |
| High | 119.0 119.0 121.5 |

Key Company Financials

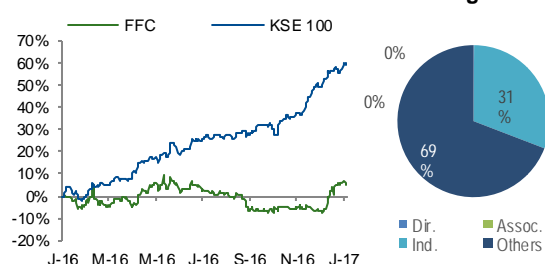
Period End: Dec

| PKRbn | CY15A | CY16E | CY17F | CY18F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 84.8 | 72.9 | 80.7 | 82.2 |
| Net Income | 16.77 | 12.4 | 13.8 | 14.0 |
| EPS (PKR) | 13.2 | 9.7 | 10.8 | 11.0 |
| DPS (PKR) | 11.9 | 8.4 | 9.7 | 9.9 |
| Total Assets | 80.1 | 75.0 | 70.9 | 66.5 |
| Total Equity | 27.3 | 29.0 | 30.4 | 31.8 |

Key Financial Ratios

| | | | | |
|---------|------|------|------|------|
| ROE (%) | 61.4 | 42.7 | 45.4 | 44.1 |
| P/E (x) | 8.8 | 12.0 | 10.8 | 10.6 |
| P/B (x) | 5.4 | 5.1 | 4.9 | 4.7 |
| DY (%) | 10.2 | 7.2 | 8.4 | 8.5 |

Relative Price Performance & Shareholding



About the Company

The Company is a public limited company incorporated in Pakistan. The Company is in the business of manufacturing, purchasing and marketing of fertilizers, chemicals including investment in other fertilizer, chemical, banking and others manufacturing and energy generation.

Source: Bloomberg, KSE 100 & IGI Research

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Fertilizer

FFC: Earning Expected at PKR 3.83/share for 4QCY16

- Fauji Fertilizer Company Limited (FFC) board meeting is scheduled on 31st Jan-17 to announce financial result for CY16. We expect company to post profit of PKR 4.87bn (EPS PKR 3.83) for the 4QCY16, merely up of 1%YoY as compared to PKR 4.82bn (EPS PKR 3.79).
- FFC's inventory level has also come down from a high of 549k tons in May-16 to 193k tons in Dec-16. We believe increase in local demand on subsidized urea and export of urea will further reduce inventory level.
- We maintain our "HOLD" call on FFC with our Dec-17 target price of PKR 114/share. The company is currently trading at CY17E P/E of 10.8x and dividend yield of 8.4%.

Earnings to clock in at PKR 3.83/share in 4QCY16

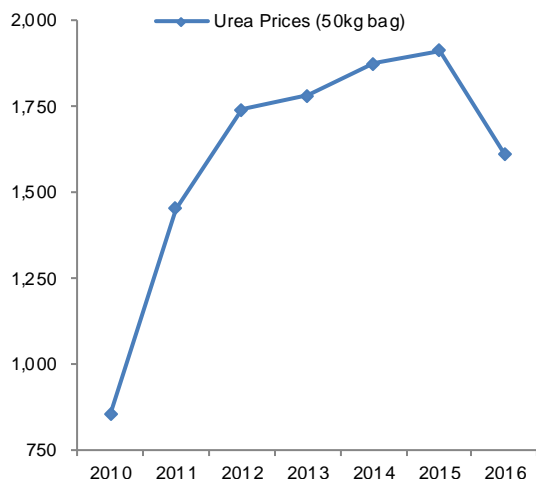
Fauji Fertilizer Company Limited's (FFC) board meeting is scheduled on 31st Jan-17 to announce financial result for CY16. We expect the company to report earnings of PKR 12.3bn (EPS PKR 9.73), down by 26%YoY in CY16. This dreary performance is primarily owing to a) 12%YoY decline in topline due to lower retention prices of urea/DAP, b) +57%YoY increase in financial charges as company has increased short term borrowing due to delay in subsidy receivables and funding of GIDC obligation during 2015, and c) +6% increase in distribution expense. However, other income is expected to elevate by +69%YoY on the back of PKR 7.0bn subsidy for urea/DAP and drop in other expenses by 17%YoY to provide support to bottomline.

We expect company to post profit of PKR 4.87bn (EPS PKR 3.83) for the 4QCY16, merely up of +1%YoY as compared to PKR 4.82bn (EPS PKR 3.79) reported in the same period last year. The company is expected to announce cash dividend of PKR 3.26/share in 4QCY16, taking cumulative dividend for CY16 to PKR 8.41/share as compared to PKR 11.86/share in the same period last year.

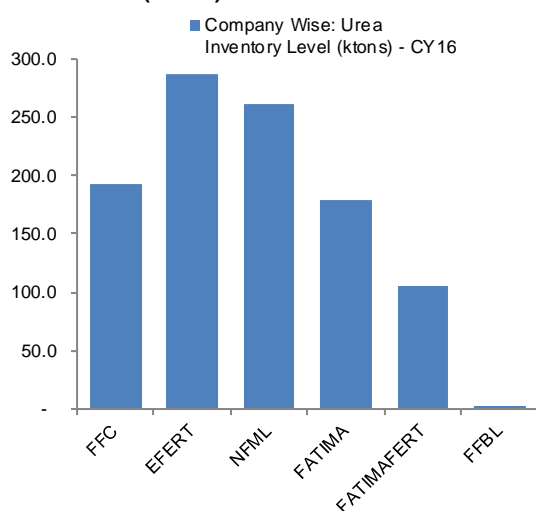
Sale Volumes up +13%YoY in 4QCY16

During 4QCY16, FFC's offtake surged by +13%YoY to 832k tons as compared to 712k tons last year mainly due to price reduction (implementation of subsidy) taking cumulative offtake to 2.4mn tons (up by +1%YoY).

Urea Local Price (PKR/bag)



DAP Offtake (ktons)



Outlook

Industry's inventory touched a decade high of 1.7mn tons in May-16 as weak demand and higher production created supply glut of urea. However, with Government's incentive in federal budget, inventory level has eased down to 1.03mn tons in Dec-16. FFC's inventory level has also come down from a high of 549k tons in May-16 to 193k tons in Dec-16. We believe increase in local demand of subsidized urea and exports will further reduce inventory level for FFC.

Recommendation

We maintain our "HOLD" call on FFC with our Dec-17 target price of PKR 114/share. The company is currently trading at a CY17E P/E of 10.8x and dividend yield of 8.4%.

Exhibit:

Financial Highlights

| PKR'mn | 4QCY16E | 4QCY15 | YoY | CY16E | CY15 | YoY |
|--------------------|---------|--------|------|--------|--------|------|
| Net Sales | 26,964 | 30,537 | -12% | 72,890 | 84,831 | -14% |
| Gross Profit | 6,974 | 8,248 | -15% | 19,391 | 28,882 | -33% |
| Distb. Exp | 2,427 | 1,835 | 32% | 7,252 | 6,814 | 6% |
| Other Income | 3,707 | 1,826 | 103% | 10,440 | 6,194 | 69% |
| Other op. Exp | 660 | 643 | 3% | 1,888 | 2,285 | -17% |
| EBIT | 7,594 | 7,595 | 0% | 20,692 | 25,978 | -20% |
| Finance Cost | 538 | 512 | 5% | 2,322 | 1,475 | 57% |
| EBT | 7,056 | 7,083 | 0% | 18,370 | 24,503 | -25% |
| PAT | 4,872 | 4,820 | 1% | 12,378 | 16,766 | -26% |
| EPS | 3.83 | 3.79 | | 9.73 | 13.18 | |
| DPS | 3.26 | 3.42 | | 8.41 | 11.86 | |
| <i>Key Ratios</i> | | | | | | |
| Gross Margin | 26% | 27% | | 27% | 34% | |
| Net Margin | 18% | 16% | | 17% | 20% | |
| Effective Tax Rate | 31% | 32% | | 33% | 32% | |

Source: IGI Research, Company Financials

Source: NFDC & IGI Research

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| 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 - 2017

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.

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IGI Finex Securities Limited

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