

Day Break

Friday, 25 October 2019

COMPANY UPDATE

Fauji Fertilizer Bin Qasim Limited

Fertilizer

Recommendation	BUY		
Target Price:	Dec/20	23.0	
Last Closing:	24-Oct-19	16.3	
Upside:		41.4	
Valuation Methodology:	Discounted Cash Flow	(DCF)	
Time Horizon:		14M	

Market Data

Bloomberg Tkr.	FFBL PA		
Shares (mn)	934.1		
Free Float Shares (mn)	326.9		
Free Float Shares (%)	35.0%		
Market Cap (PKRbn USDmn)	15.2 97.8		
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(6.4)	(44.4)	(54.6)
Lo	14.4	14.4	14.4
Hi	18.9	29.5	43.6

Key Company Financials

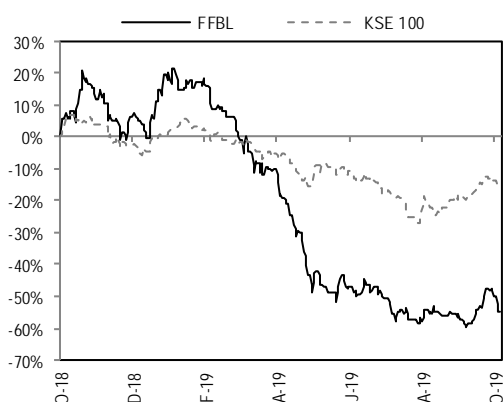
Period End: Dec

PKRbn	CY18a	CY19e	CY20f	CY21f
Total Revenue	61.5	57.0	63.0	63.1
Net Income	1.4	0.5	1.0	1.4
EPS (PKR)	1.5	0.5	1.0	1.5
DPS (PKR)	1.0	0.4	0.8	1.1
Total Assets	80.4	71.9	71.8	70.8
Total Equity	13.9	14.0	14.2	14.6

Key Financial Ratios

ROE (%)	10.6	3.5	6.8	9.5
P/E (x)	10.6	31.5	16.0	11.1
P/B (x)	1.1	1.1	1.1	1.0
DY (%)	6.1	2.5	4.9	6.8

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Fertilizers

FFBL: High finance and input cost to act as a drag earnings; 3q LPS: PKR 1.45/share

- Fauji Fertilizer Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 3QCY19 on 25th Oct-19 where we expect company to report a loss of PKR 1.36bn (LPS: PKR 1.45). Accordingly, cumulative loss for 9MCY19 is estimated to increase by 16xYoY to PKR 3.31bn (LPS: PKR 3.54)
- We attribute the loss for the quarter in review primarily to high finance cost, followed by weak margins and decline in total sales.
- We have a "BUY" call on FFBL, based on our Dec-20 target price of PKR 23.2/share, offering +43% upside from its last closing. The company is currently trading at CY19E P/E of 31.6x and offers a dividend yield of 2.5%.

3q 2019 loss of PKR 1.45/share expected for 3QCY19

Fauji Fertilizer Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 3QCY19 on 25th Oct-19 where we expect company to report a loss of PKR 1.36bn (LPS: PKR1.45). Accordingly, cumulative loss for 9MCY19 is estimated to increase by 16xYoY to PKR 3.31bn (LPS: PKR 3.54).

...attributable to high finance and input costs to drag earnings

We attribute the loss for the quarter in review primarily to high finance cost, followed by weak margins and decline in total sales. Top line is estimated to increase by +18%YoY on the back of increased fertilizer prices (15% on avg.), despite 10% drop in total sales. Furthermore, rise in input costs (28% PKR depreciation) and those associated with fixed costs of steam and power from Fauji Power may further lift manufacturing costs, keeping margins subdued. Major dent to income may come from increase in finance costs by 2.4xYoY (owing to increased borrowings and high interest rates) pushing profitability in the negative territory.

Exhibit: FFBL 3QCY19 Result Highlights

PKRmn (Dec)	3QCY19E	3QCY18	YoY	9MCY19E	9MCY18	YoY
Net Sales	21,990	18,645	18%	43,487	37,573	16%
Gross Profit	1,809	3,347	-46%	3,103	4,763	-35%
Gross Profit Margins	8.2%	18.0%		7.1%	12.7%	
Selling / Dist.	1,280	1,306	-2%	3,170	3,228	-2%
Other Op. Income	458	243	88%	2,389	1,463	63%
EBIT	385	1,738	-78%	77	1,393	-94%
EBIT Margins	1.8%	9.3%		0.2%	3.7%	
Finance Cost	1,439	606	2.4x	3,564	1,523	2.3x
Profit Before Tax	(1,053)	1,133	n.m.	(3,487)	(130)	n.m.
Taxation	(305)	342	n.m.	279	611	-54%
Effective Tax Rate	29%	30%		-8%	-470%	
Profit After Tax	(1,359)	790	n.m.	(3,310)	(203)	n.m.
EPS	(1.45)	0.85		(3.54)	(0.22)	
DPS	-	-		-	-	

Source: IGI Research, Company Financials, PSX

No. of shares: 934mn

Recommendation

We have a "BUY" call on FFBL, based on our Dec-20 target price of PKR 23.2/share, offering +43% upside from its last closing. The company is currently trading at CY19E P/E of 31.6x and offers a dividend yield of 2.5%.

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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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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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