

Day Break

Monday, 27 January 2020

COMPANY UPDATE

Fauji Fertilizer Bin Qasim Limited

Fertilizer

Recommendation	BUY
Target Price: Dec/20	24.7
Last Closing: 23-Jan-20	20.8
Upside:	19.0
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 11M

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)	19.4	125.5
Exchange		KSE 100
Price Info.	90D	06M
Abs. Return	28.6	16.6
Lo	16.1	14.4
Hi	24.5	24.5

Key Company Financials

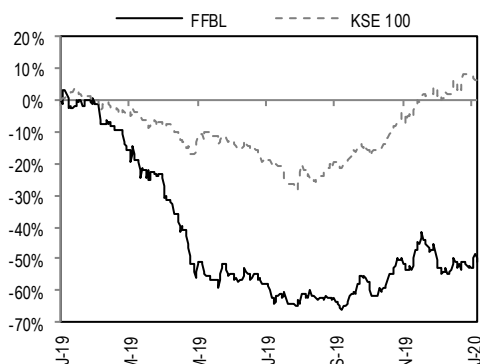
Period End: Dec

PKRbn	CY18a	CY19e	CY20f	CY21f
Total Revenue	61.5	67.2	63.2	63.5
Net Income	1.4	(1.5)	0.7	1.2
EPS (PKR)	1.5	(1.6)	0.7	1.3
DPS (PKR)	1.0	0.6	0.6	0.9
Total Assets	80.4	72.1	71.8	70.8
Total Equity	13.9	12.2	12.3	12.6

Key Financial Ratios

ROE (%)	10.6	(11.6)	5.6	9.4
P/E (x)	13.5	12.9	28.5	16.5
P/B (x)	1.4	1.6	1.6	1.5
DY (%)	4.8	2.9	2.9	4.3

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Fertilizer

FFBL & FFC 4QCY19 Earnings Preview

- ✓ Fauji Fertilizer Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 4QCY19 on 28th Jan-20 where we expect company to report a profit of PKR 907mn (EPS: PKR0.97).
- ✓ Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial result for 4QCY19 on 30th Jan-20 where we expect company to report a profit of PKR 5.5bn (EPS: PKR4.38).

FFBL: Earnings of PKR 0.97/share expected for 4QCY19

Fauji Fertilizer Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 4QCY19 on 28th Jan-20 where we expect company to report a profit of PKR 907mn (EPS: PKR0.97), down 45%y/y. This takes total loss to PKR 2.5bn (LPS: PKR 1.62) for CY19 compared to profitability of PKR 1.4bn (EPS: PKR 1.54) witnessed last year. We expect company to announce a cash dividend of PKR 0.6/share for the whole year.

Higher finance cost and decline in other income support to act as a drag

We attribute the drop in earnings for the quarter in review primarily to high finance cost, decline in other income and dip in DAP sales. Top line is estimated to inch down by 2%y/y on the back of 13%y/y drop in DAP sales. Moreover, other income is estimated to slide down by 72%y/y owing to nil dividends from subsidiaries, we think. Major drag to income may come from increase in finance costs (owing to increased borrowings and high interest rates) pushing profitability down by 2.4xy/y.

Exhibit FFBL: 4QCY19 Result Highlights

Period End Dec- PKRmn	4QCY19	4QCY18	Y/Y	CY19	CY18	Y/Y
Net Sales	23,578	23,938	-2%	67,221	61,511	9%
Gross Profit	4,354	3,420	27%	7,924	8,183	-3%
Selling / Dist.	1,654	1,297	28%	5,350	4,525	18%
Other Op. Income	480	1,718	-72%	4,465	3,182	40%
EBIT	2,753	2,639	4%	5,007	4,032	24%
Finance Cost	1,475	700	2.1x	5,034	2,223	2.3x
Pre-Tax Profits	1,278	1,939	-34%	(27)	1,809	n.m
Taxation	371	299	24%	2,550	910	2.8x
Post-Tax Profits	907	1,640	-45%	(1,511)	1,437	n.m
EPS	0.97	1.76		(1.62)	1.54	
DPS	0.60	1.00		0.60	1.00	
Key Ratios						
Gross Profit Margins	18.5%	14.3%		11.8%	13.3%	
Ebit Margins	11.7%	11.0%		7.4%	6.6%	
Effective Tax Rate	29.0%	15.4%		n.m	50.3%	

Source: IGI Research, Company Financials, PSX

No. of shares: 934mn

Recommendation

We have a "BUY" call on the scrip based on our Dec-20 target price of PKR 25/share offering +19% upside from its last closing. The company is currently trading at CY20 P/E of 28x, offering a dividend yield of 3%.

COMPANY UPDATE

Fauji Fertilizer Company Limited

Fertilizer

Recommendation **NEUTRAL**

Target Price: Dec/20 110.3

Last Closing: 23-Jan-20 103.1

Upside: 7.1

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 11M

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) 131.1 | 847.5

Exchange KSE 100

Price Info. 90D 06M 12M

Abs. Return 9.4 9.8 0.6

Lo 94.6 88.3 84.9

Hi 106.8 106.8 109.1

Key Company Financials

Period End: Dec

PKRbn **CY18a** **CY19e** **CY20f** **CY21f**

Total Revenue 106.0 105.5 114.1 118.1

Net Income 14.4 18.0 17.4 17.8

EPS (PKR) 11.3 14.2 13.7 14.0

DPS (PKR) 8.9 11.1 11.0 11.2

Total Assets 146.5 143.1 146.7 150.2

Total Equity 33.4 34.2 37.6 41.2

Key Financial Ratios

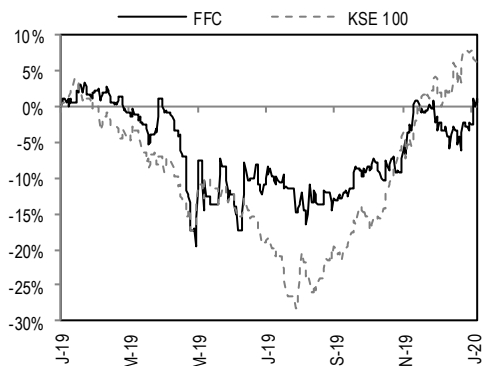
ROE (%) 46.0 53.4 48.6 45.2

P/E (x) 9.1 7.3 7.5 7.4

P/B (x) 3.9 3.8 3.5 3.2

DY (%) 8.6 10.7 10.7 10.9

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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FFC: Earnings of PKR 4.38/share expected for 4QCY19

Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial result for 4QCY19 on 30th Jan-20 where we expect company to report a profit of PKR 5.5bn (EPS: PKR4.38), down 6%y/y. Accordingly, for the whole year CY19, earnings may increase by +25%y/y to PKR 18bn (EPS: PKR14.2). We expect company to announce a cash dividend of PKR 3.50/share during the quarter, taking total pay out to PKR 11.05/share for CY19.

Drop in DAP sales and other income to decrease earnings during the quarter

We attribute 6%y/y drop in earnings for the quarter in review primarily to high finance cost, decline in other income and significant dip in DAP sales. Top line is estimated to inch down by 8%y/y on the back of 61%y/y drop in DAP sales. However, gross profit may increase +9%y/y led by improved margins and better pricing power. On the flip side, we expect other income to fall down by 26%y/y with income from short term investments being the only support as against dividend income received from subsidiaries during the same period last year. Moreover, increase in borrowings (2.0xy/y) may also lead to higher finance cost further dragging earnings by 27%y/y during the 4QCY19, we think.

Exhibit FFC: 4QCY19 Result Highlights

Period End Dec- PKRmn	4QCY19	4QCY18	Y/Y	CY19	CY18	Y/Y
Net Sales	32,496	35,287	-8%	105,518	105,964	0%
Gross Profit	10,430	9,866	6%	32,062	27,979	15%
Selling / Dist.	2,283	2,122	8%	8,118	8,833	-8%
Other Op. Income	1,014	1,375	-26%	6,535	6,283	4%
EBIT	8,428	8,418	0%	27,415	23,320	18%
Finance Cost	576	454	27%	2,231	1,637	36.3%
Pre-Tax Profits	7,852	7,965	-1%	25,184	21,683	16%
Taxation	2,277	2,051	11%	7,141	7,244	-1%
Post-Tax Profits	5,575	5,914	-6%	18,043	14,439	25%
EPS	4.38	4.65		14.18	11.35	
DPS	3.50	3.90		11.05	8.85	

Key Ratios

Gross Profit Margins	32.1%	28.0%	30.4%	26.4%
Ebit Margins	25.9%	23.9%	26.0%	22.0%
Effective Tax Rate	29.0%	25.8%	28.4%	33.4%

Source: IGI Research, Company Financials, PSX

No. of shares: 1272mn

Recommendation

We have a **"HOLD"** call on the scrip based on our Dec-20 target price of PKR 111/share offering +7% upside from its last closing. The company is currently trading at CY20 P/E of 7.5x, offering a dividend yield of 10.7%.

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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 – 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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