

Flash Note

Tuesday, 31 July 2018

Fertilizer

FFBL: Loss reported at PKR 1.06/share as other income declined by 59%YoY for 1HCY18

- Fauji Fertilizer Bin Qasim Limited (FFBL) announced its financial results for 2QCY18 with unconsolidated loss clocking at PKR 0.55bn (LPS: PKR 0.58), up by 2.18xYoY as compared to loss of PKR 0.25bn (LPS: PKR 0.27) in the corresponding period last year. On a cumulative basis total loss for 1HCY18 stands at PKR 0.99bn (LPS: PKR 1.06) up by 2.58xYoY.
- Net sales jumped by +14%YoY to PKR 8.65bn during the year supported by high urea and DAP offtake.
- Gross margins during the quarter inched up by +60bpsYoY to 7.8% likely owing to low fixed cost stemming from smooth production of urea.
- Other income decreased by 28%YoY to PKR 0.86bn on account of discontinuation of subsidy in DAP and decrease in urea subsidy.
- In addition, the management has disclosed that a potential acquirer, Inner Mongolia Yili Industrial Group Company Limited, has expressed its intention to enter into negotiations or discussions with FFBL for the proposed acquisition of up to 51% of the voting shares and /or control in FFBL's subsidiary, Fauji Foods Limited, from FFBL and other shareholders.
- We have estimated impact (excluding tax considerations) on FFBL on different acquisition prices. In addition, we expect that the proceeds from this transaction will help the Company in repaying long-term debts.

Exhibit:

Impact on FFBL under different price scenarios

Prices (PKR/share)	Proceeds (bn)	Net impact (bn)	PKR/share
20	5,390	717	0.77
30	8,085	3,412	3.65
40	10,780	6,107	6.54
50	13,474	8,802	9.42
No. of shares FFL (mn)	528		
FFBL stake	51%		
Investment PKR (bn)	4673		

SOURCE: IGI Research, Company accounts, PSX notifications

Exhibit:

FFBL: 2QCY18 Result Highlights

Period End Dec- PKRmn	2QCY18	2QCY17	YoY	1HCY18	1HCY17	YoY
Net Sales	8,646	7,556	14%	18,928	15,555	22%
Gross Profit	670	543	24%	1,416	289	4.89x
Other Op. Income	860	1,201	-28%	1,220	2,946	-59%
EBIT	(114)	273	n.m	(345)	453	n.m
Finance Cost	498	445	12%	917	922	-1%
Pre-Tax Profits	(612)	(171)	3.57x	(1,262)	(469)	2.69x
Taxation	68	78	-13%	(133)	(85)	57%
Post-Tax Profits	(544)	(249)	2.18x	(994)	(384)	2.58x
EPS	(0.58)	(0.27)		(1.06)	(0.41)	
DPS	-	0.10		-	0.10	

Key Ratios

Gross Profit Margins	7.8%	7.2%	7.5%	1.9%
Effective Tax Rate	-11.1%	-45.6%	10.6%	18.1%

Source: IGI Research, Company Financials, PSX

No. of shares :934mn

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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 – 2018

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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