

Day Break

Monday, 24 October 2016

Company Update

Fauji Fertilizer Co. Ltd.

Fertilizer

Recommendation	HOLD
Target Price	106.5
Last Closing	104.6
Upside	2%

Market Data

Bloomberg Tkr.		FFC PA
Shares (mn)		1,272.2
Market Cap (PKRbn USDmn)	133.0	1,269.6
Exchange		KSE 100

Price Info.

	90D	180D	365D
Abs. Return	(9.5)	(3.7)	(16.9)
Low	102.7	102.7	102.7
High	115.5	121.5	126.4

Key Company Financials

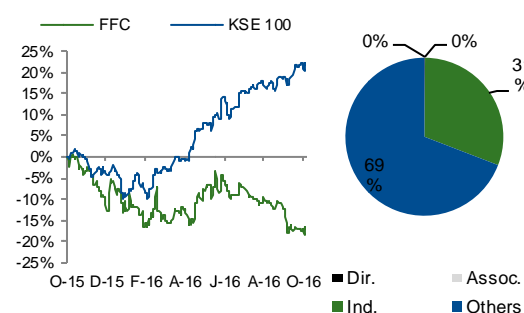
Period End: Dec

PKRbn	CY15A	CY16E	CY17F	CY18F
Total Revenue	63.8	72.4	76.3	78.6
Net Income	12.0	12.3	11.2	11.4
EPS (PKR)	9.4	9.7	8.8	9.0
DPS (PKR)	8.5	9.2	8.3	8.6
Total Assets	73.7	71.9	72.7	71.5
Total Equity	28.5	29.1	29.7	30.3

Key Financial Ratios

	CY15A	CY16E	CY17F	CY18F
ROE (%)	42%	42%	38%	38%
P/E (x)	11.1	10.8	11.9	11.6
P/B (x)	4.7	4.6	4.5	4.4
DY (%)	8.1	8.8	8.0	8.2

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

Analyst

Rashmina Lalani / Anjali Kukreja
 rashmina.lalani@igi.com.pk / anjali.kukreja@igi.com.pk
 Tel: (+92-21) 111-234-234 Ext.: 826

Fauji Fertilizer Company Limited Urea Subsidy Supporting Bottom Line

- Fauji Fertilizer Company's (FFC) board meeting is scheduled on 26th Oct-16 to announce financial results for 3QCY16. We expect company to post earnings of PKR 3.73bn (EPS PKR 2.93) in 3QCY16 up merely by +1%YoY.
- International urea prices have swelled up by +9%YoY to USD 212/ton (Urea Middle East) in Oct-16, following the reversal witnessed in international coal prices. We think further surge in urea prices would provide room to local manufacturers to pump up domestic urea prices and export on higher rates as well.
- FFC scrip is currently trading at CY16E/17E P/E of 10.8x/11.9x. With our to Jun-17 target price of PKR107/share, the scrip offers meager +2% upside along with CY16E 8.8% dividend yield. Hence we recommend 'HOLD' stance on the stock.

+61%YoY upswing in Urea offtake to back the Top-Line

Fauji Fertilizer Company's (FFC) board meeting is scheduled on 26th Oct-16 to announce financial results for 3QCY16. We expect company to post earnings of PKR 3.73bn (EPS PKR 2.93) in 3QCY16 up merely by +1%YoY. We base our estimates on a) +34%YoY increase in sales revenue to PKR 20.2bn, largely due to +61%YoY rise in urea sales to 757k tons, b) 17% reduction in urea prices to PKR 1,600/bag as compared to PKR 1,917/bag in same period last year, c) 13%YoY contraction in gross margin owing to increase in feed gas prices to PKR 600/mmbtu from 1st Sept-15 as compared to PKR 488/mmbtu, d) +83%YoY appreciation in other income primarily on account of PKR 2.3bn and PKR 108mn subsidy on urea (PKR 150/bag) and DAP (PKR 300/bag), respectively, and e) 3%YoY fall in finance cost on the back of 19%YoY expected drop in debt position to PKR 28.5bn as compared to PKR 35bn in same period last year. In our view, FFC will likely payout PKR 2.67/share for the period 3QCY16 taking total payout to PKR 6.1/share for 9MCY16.

Earnings dented by 28%YoY to PKR 6.8/share in 9MCY16

For the 9MCY16, company's earnings are probable to dilute by 28%YoY to PKR 8.6bn (EPS PKR 6.8) primarily due to 8%YoY decline in average urea prices to PKR1,748/bag from PKR1,905/bag and +75%YoY higher financial cost on account of higher borrowing.

Exhibit: Financial Highlights

PKR mn	3QCY16E	3QCY15	YoY	9MCY16E	9MCY15	YoY
Net Sales	20,199	15,108	34%	48,521	54,294	-11%
Cost	15,004	9,156	64%	34,999	33,660	4%
Gross Profit	5,195	5,952	-13%	13,522	20,634	-34%
Dist. Expense	1,414	1,809	-22%	4,518	4,978	-9%
Opt. income	2,627	1,435	83%	6,926	4,368	59%
Other Expenses	539	460	17%	1,353	1,641	-18%
EBIT	5,869	5,118	15%	14,577	18,383	-21%
Interest Expense	504	520	-3%	1,683	963	75%
PBT	5,365	4,598	17%	12,894	17,420	-26%
Tax	1,636	918	78%	4,273	5,474	-22%
PAT	3,728	3,680	1%	8,621	11,946	-28%
EPS	2.93	2.89		6.78	9.39	
DPS	2.67	1.75		6.07	8.44	
<i>Key Ratios</i>						
Gross Margin	26%	39%		28%	38%	
Net Margin	18%	24%		18%	22%	
Effective Tax Rate	31%	20%		33%	31%	

Source: IGI Research, Company Financials

Outlook:

With GoP providing agri-incentives to farmers and manufacturers in budget FY16-17 in form of subsidy on Urea, we believe FFC's inventory level to decline from 292.3k tons reported by NFDC for the month of Aug-16. Moreover, with urea exports discussion on the table with government, any favorable decision will also lead to improved cashflows and profitability for the company. International urea prices have also swelled up by +9%YoY to USD 212/ton (Urea Middle East) in Oct-16, following the reversal witnessed in international coal prices. We think further surge in urea prices would provide room to local manufacturers to pump up domestic urea prices and export on higher rates as well.

Recommendation:

The scrip is currently trading at CY16E/17E P/E of 10.8x/11.9x. With our to Jun-17 target price of PKR107/share, the scrip offers meager +2% upside along with CY16E 8.8% dividend yield. Hence we recommend '**HOLD**' stance on the stock.

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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 more than -10%, from its last closing price(s)

Time Horizon: Jun - 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)

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbotabad)	Tel: (92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651