

# Day Break

Tuesday, 26 July 2016

## Sector Update

### Fauji Fertilizer Co. Ltd.

<b>Recommendation</b>	<b>HOLD</b>		
Target Price	109		
Last Closing	114.4		
Upside	-5%		

#### Market Data

Bloomberg Tkr.	FFC PA		
Shares (mn)	1,272.2		
Market Cap (PKRbn   USDmn)	145.5	1,388.7	
Exchange	KSE 100		

<b>Price Info.</b>	90D	180D	365D
Abs. Return	7.3	1.6	(22.8)
Low	105.7	104.8	104.8
High	121.5	121.5	150.7

### Fauji Fertilizer Bin Qasim

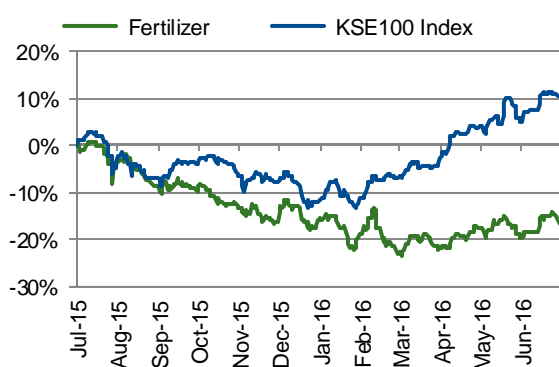
<b>Recommendation</b>	<b>HOLD</b>		
Target Price	59.0		
Last Closing	53.6		
Upside	10%		

#### Market Data

Bloomberg Tkr.	FFBL PA		
Shares (mn)	934.1		
Market Cap (PKRbn   USDmn)	50.1	478.0	
Exchange	KSE 100		

<b>Price Info.</b>	90D	180D	365D
Abs. Return	6.0	9.4	(12.5)
Low	51.7	46.2	46.2
High	57.3	57.3	66.1

### Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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## Fertilizer Sector

### Depressed Earnings Owing to Weak Prices

- Fauji Fertilizer Bin Qasim Limited's (FFBL) board meeting is scheduled on 26<sup>th</sup> Jul-16 to announce financial results for 2QCY16. We estimate company to post loss of PKR 546mn (LPS PKR 0.58) in 2QCY16. With our Dec-16 target price of PKR 59/share, the scrip is currently trading at CY16E P/E of 12x and provides 10% capital upside with 7% dividend yield. Hence we recommend 'Hold' call on the scrip.
- Fauji Fertilizer Company's (FFC) board meeting is scheduled on 27<sup>th</sup> Jul-16 to announce the result for 2QCY16. Company is anticipated to record waning earnings by 17%YoY to PKR 2bn (EPS PKR 1.54) as compared to PKR 2.4bn (EPS PKR 1.85) in 2QCY15. With our Dec 16 target price of PKR 109/share, the scrip is currently trading at CY16E P/E of 8.7x. We recommend 'Hold' call on the scrip.

### FFBL: PKR 0.58/share loss expected in 2QCY16

Fauji Fertilizer Bin Qasim Limited's (FFBL) board meeting is scheduled on 26<sup>th</sup> Jul-16 to announce financial results for 2QCY16. We estimate company to post loss of PKR 546mn (LPS PKR 0.58) in 2QCY16. Our estimates are based on a) 39%YoY decline in net sales due to 39% decline in DAP offtake to mere 95k tons, b) +15% increase in financial cost as a result of higher borrowing and c) +3% super tax to be charged on income adjusted for depreciation for the year 2016. It is pertinent to mention here that 1.28x increase in other income is on the back of PKR 500/bag subsidy on DAP which expired in May-16.

We expect company to post loss of PKR 1.1bn (LPS PKR 1.13) in 1HCY16 as compared to PKR 758mn (EPS PKR 1.13) profit reported in same period last year. This deteriorated performance is because of a) 29%YoY decline in DAP offtake, b) higher cost of production due to increase in gas cost in 1QCY16 (reverted back by government in 2QCY16).

### Recommendation

With our Dec-16 target price of PKR 59/share, the scrip is currently trading at CY16E P/E of 12x and provides 10% capital upside with 7% dividend yield. Hence we recommend 'Hold' call on the scrip.

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**Exhibit: FFBL Financial Highlights**

PKR mn	2QCY16E	2QCY15	YoY	1HCY16E	1HCY15	QoQ
Net Sales	7,490	12,195	-39%	11,904	17,994	-37%
Cost	6,861	10,002	-31%	11,972	15,091	-43%
Gross Profit	629	2,193	-71%	(68)	2,903	-1025%
Dist. Expense	749	954	-22%	1,426	1,446	-47%
Admin. Expense	225	375	-40%	572	650	-61%
Oth. Income	402	176	128%	1,655	746	-76%
EBIT	56	1,035	-95%	(388)	1,503	-114%
Finance Cost	481	419	15%	887	840	-46%
EBT	(425)	616	-169%	(1,275)	663	-67%
Tax	146	85	72%	(215)	96	-168%
Net Profit /(Loss)	(546)	660	-183%	(1,060)	758	-48%
EPS	(0.58)	0.71		(1.13)	0.81	
DPS	-	0.75		-	0.75	
<i>Key Ratios</i>						
Gross Margin	8%	18%		-1%	16%	
Net Margin	-7%	5%		-9%	4%	
Effective Tax Rate	-34%	14%		17%	14%	

Source: IGI Research, Company Financials

**FFC: PKR 1.54/share earnings in 2QCY16**

Fauji Fertilizer Company's (FFC) board meeting is scheduled on 27<sup>th</sup> Jul-16 to announce the result for 2QCY16. Company is anticipated to record waning earnings by 17%YoY to PKR 2bn (EPS PKR 1.54) as compared to PKR 2.4bn (EPS PKR 1.85) in 2QCY15. We foresee company to declare cash dividend of PKR 1.3/share along with the results, taking cumulative dividend for 1HCY16 to PKR 3.15/share. This bleak performance is primarily owing to a) 3% decline in urea offtake, b) 39% decline in other income due to lower cash balances, and c) 1.1x increase in interest expense due to additional gearing.

For 1HCY16, profitability is expected to go down by 43%YoY to PKR 4.7bn (EPS PKR 3.68) due to 23%YoY drop in offtake along with weak fertilizer prices, increase in cost of feed/fuel gas during 1QCY16 and higher interest expense.

**Recommendation:**

With our Dec 16 target price of PKR 109/share, the scrip is currently trading at CY16E P/E of 8.7x. We recommend 'Hold' call on the scrip.

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**Exhibit: FFC Financial Highlights**

PKR mn	2QCY16E	2QCY16	YoY	1HCY16E	1HCY15	YoY
Net Sales	17,771	18,778	-5%	29,417	39,186	-25%
Cost	12,121	12,399	-2%	20,715	24,504	-15%
Gross Profit	5,649	6,379	-11%	8,702	14,682	-41%
Dist. Expense	1,616	1,588	2%	3,133	3,169	-1%
Opt. income	297	488	-39%	3,035	2,933	3%
Other Expenses	378	447	-15%	751	1,181	-36%
EBIT	3,953	4,831	-18%	7,853	13,265	-41%
Interest Expense	529	248	114%	1,090	443	146%
PBT	3,424	4,584	-25%	6,762	12,822	-47%
Tax	1,469	2,225	-34%	2,080	4,556	-54%
PAT	1,955	2,359	-17%	4,683	8,266	-43%
EPS	1.54	1.85		3.68	6.50	
DPS	1.30	1.75		3.15	5.69	
<i>Key Ratios</i>						
Gross Margin	32%	34%		30%	37%	
Net Margin	11%	13%		16%	21%	
Effective Tax Rate	43%	49%		31%	36%	

Source: IGI Research, Company Financials

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

#### Time Horizon

- Dec - 2016

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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