

Day Break

Wednesday, 24 April 2019

COMPANY UPDATE

Fauji Fertilizer Bin Qasim Limited

Fertilizer

Recommendation	BUY
Target Price:	31-Dec-19 42.2
Last Closing:	23-Apr-19 30.8
Upside:	37.2
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

Market Data

Bloomberg Tkr.	FFBL PA
Shares (mn)	934.1
Free Float Shares (mn)	326.9
Free Float Shares (%)	35.0%
Market Cap (PKRbn USDmm)	28.8 #DIV/0!
Exchange	KSE ALL
Price Info.	90D 06M 12M
Abs. Return	(27.0) (9.9) (22.9)
Lo	30.8 30.8 30.8
Hi	43.6 43.6 43.9

Key Company Financials

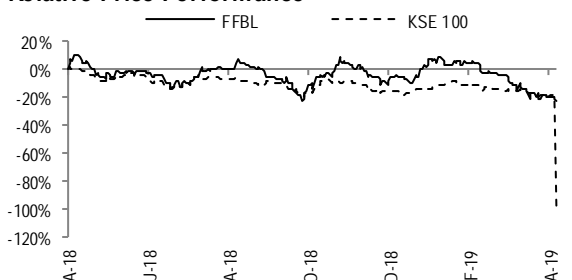
Period End: Dec

PKRbn	CY17A	CY18E	CY19F	CY20F
Total Revenue	52.7	61.5	63.7	70.6
Net Income	1.2	1.4	1.0	1.2
EPS (PKR)	1.3	1.5	1.1	1.3
DPS (PKR)	0.9	1.0	0.8	0.9
Total Assets	64	66	80	70
Total Equity	13	14	14	14

Key Financial Ratios

ROE (%)	9.0	10.3	7.1	8.2
P/E (x)	24.4	20.0	28.8	24.2
P/B (x)	1.3	2.2	2.1	2.0
DY (%)	2.8	3.2	2.6	2.9

Relative Price Performance



About the Company

The Company is a public limited company incorporated in Pakistan. The principal objective of the company is manufacturing, purchasing and marketing of fertilizers. The Company commenced its commercial production effective from January 01, 2000.

Source: Bloomberg, PSX & IGI Research

Analyst

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Fertilizer

FFBL & FFC : 1QCY19 Result Preview

- Fauji Fertilizers Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 1QCY19 on 24th April-19 where we expect company to report a loss of PKR 1.04bn (LPS: PKR 1.11), signaling a decrease of 2.3xYoY. We have a **“BUY”** call on FFBL, based on our Dec-19 target price of PKR 42.2/share, offering +37% upside from its last closing
- Fauji Fertilizers Company Limited (FFC) is scheduled to announce its financial result for 1QCY19 on 26th April-19 where we expect earnings to increase by +71%YoY to PKR 3.86bn (EPS: PKR 3.04). Increase in retention prices of urea and other income are the key factors for driving up the bottom-line. We have a **“HOLD”** call on FFC, based on our Dec-19 target price of PKR 109.9/share, offering +5% upside from its last closing

FFBL: Decline in sales and high input costs to dampen earnings; loss of PKR 1.59/share expected for 1QCY19

Fauji Fertilizer Bin Qasim Company Limited (FFBL) is scheduled to announce its financial result for 1QCY19 on 24th April-19 where we expect company to report a loss of PKR 1.49bn (LPS: PKR 1.59), signaling a decrease of 3.31xYoY. The substantial decline is linked to lower fertilizer sales, poor margins and increase in borrowing costs. Assuming, total sales of 116k tons (urea/DAP at 34/82k tons) down by 49%YoY top line is expected to decline by 37%YoY despite increase in fertilizer prices. Furthermore, rise in input costs (PKR depreciation) and those associated with steam and power supply from Fauji Power may further lift manufacturing costs, pushing margins in the negative territory. On the flip side, support from other income is expected to provide cushion (PKR 1.00/share dividend from AKBL and lower short term investments) to the earnings. However, higher (2.2xYoY) finance cost from increase in borrowings and interest rate hike may further erode earnings in our view.

Exhibit:

FFBL: 1QCY19 Result Highlights

Period End Dec- PKRmn	1QCY19	1QCY18	YoY	4QCY18	QoQ
Net Sales	6,695	10,283	-35%	23,938	-72%
Gross Profit	(974)	746	n.m	3,420	n.m
Selling / Dist.	469	936	-50%	1,297	-64%
Other Op. Income	491	360	36%	1,718	-71%
EBIT	(1,218)	(231)	5.27x	2,639	n.m
Finance Cost	941	419	2.24x	700	34%
Pre-Tax Profits	(2,160)	(650)	2.32x	1,939	n.m
Taxation	(671)	201	n.m	299	n.m
Post-Tax Profits	(1,488)	(449)	2.31x	1,640	n.m
EPS	(1.59)	(0.48)		1.76	
DPS	-	-		1.00	

Key Ratios

Gross Profit Margins	-14.5%	7.3%	14.3%
Ebit Margins	-18.2%	-2.2%	11.0%
Effective Tax Rate	31.1%	-30.9%	15.4%

Source: IGI Research, Company Financials, PSX

No. of shares: 934mn

Recommendation

We have a **“BUY”** call on FFBL, based on our Dec-19 target price of PKR 42.2/share, offering +37% upside from its last closing. The company is currently trading at CY19E P/E of 28.8x and offers a dividend yield of 2.6%.

Wednesday, 24 April 2019

COMPANY UPDATE

Fauji Fertilizer Company Limited

Fertilizer

Recommendation **NEUTRAL**

Target Price: 31-Dec-19 109.9

Last Closing: 23-Apr-19 105.0

Upside: 4.6

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 8M

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) 133.5 | #DIV/0!

Exchange KSE ALL

Price Info. 90D 06M 12M

Abs. Return (0.5) 18.8 11.0

Lo 100.0 88.4 87.0

Hi 109.1 109.1 109.1

Key Company Financials

Period End: Dec

PKRbn **CY17A** **CY18E** **CY19F** **CY20F**

Total Revenue 90.7 106.0 108.3 114.8

Net Income 10.7 14.4 15.2 16.6

EPS (PKR) 8.4 11.3 11.9 13.1

DPS (PKR) 7.0 8.9 9.5 10.5

Total Assets 91 109 146 155

Total Equity 29 33 34 37

Key Financial Ratios

ROE (%) 36.5 43.3 44.4 44.4

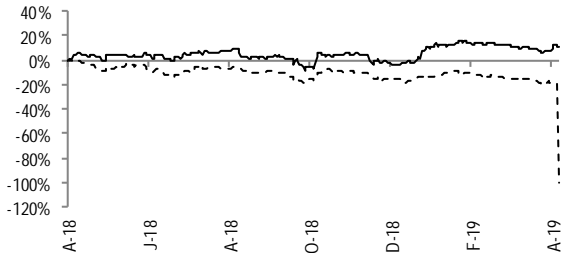
P/E (x) 12.5 9.2 8.8 8.0

P/B (x) 2.0 4.5 4.0 3.9

DY (%) 6.7 8.4 9.1 10.0

Relative Price Performance

—— FFC - - - - KSE 100



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, PSX & IGI Research

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FFC: Expecting a healthy start; earning to increase by +71%YoY to PKR 3.04/share

Fauji Fertilizers Company Limited (FFC) is scheduled to announce its financial result for 1QCY19 on 26th April-19 where we expect earnings to increase by +71%YoY to PKR 3.86bn (EPS: PKR 3.04). Increase in retention prices of urea and other income are the key factors for driving up the bottom-line. Topline is expected to inch down by 2%YoY on the back of ~18%YoY decline in total fertilizer sales (urea/DAP sales down by 7%/77% YoY). Gross margins are expected to remain strong supported by increase in retail prices (+28%/21%YoY) of urea and DAP. Moreover, we expect other income to remain relatively flat at PKR 2.06mn (dividend contribution from AKBL/ FFBL and interest income on short-term investments). However, increase in finance cost (2.72xYoY) may act as a drag to the profitability, in our view. We expect company to declare a cash dividend of PKR 2.40/share for the 1QCY19.

Exhibit:

FFC: 1QCY19 Result Highlights

Period End Dec- PKRmn	1QCY19	1QCY18	YoY	4QCY18	QoQ
Net Sales	20,070	20,558	-2%	35,287	-43%
Gross Profit	6,382	4,093	56%	9,866	-35%
Selling / Dist.	1,669	1,925	-13%	2,122	-21%
Other Op. Income	2,063	2,086	-1%	1,375	50%
EBIT	6,234	3,871	61%	8,418	-26%
Finance Cost	1,027	377	2.72x	454	126%
Pre-Tax Profits	5,207	3,494	49%	7,965	-35%
Taxation	1,343	1,229	9%	2,051	-35%
Post-Tax Profits	3,863	2,265	71%	5,914	-35%
EPS	3.04	1.78		4.65	
DPS	2.43	1.75		3.90	

Key Ratios

Gross Profit Margins	31.8%	19.9%	28.0%
Ebit Margins	31.1%	18.8%	23.9%
Effective Tax Rate	25.8%	35.2%	25.8%

Source: IGI Research, Company Financials, PSX

No. of shares: 1272mn

Recommendation

We have a **"HOLD"** call on FFC, based on our Dec-19 target price of PKR 109.85/share, offering +5% upside from its last closing. The company is currently trading at CY19E P/E of 8.81x and offers a dividend yield of 9.1%.

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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)
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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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