

Day Break

Friday, 27 January 2017

COMPANY UPDATE

FAUJI FERTILIZER BIN QASIM LIMITED FERTILIZER

Recommendation	NEUTRAL
Target Price	59.2
Last Closing 26-Jan-17	55.0
Upside	7.8

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)	51.3 489.6
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	18.2 (1.2) 12.1
Low	46.5 46.4 46.2
High	56.4 56.4 57.3

Key Company Financials

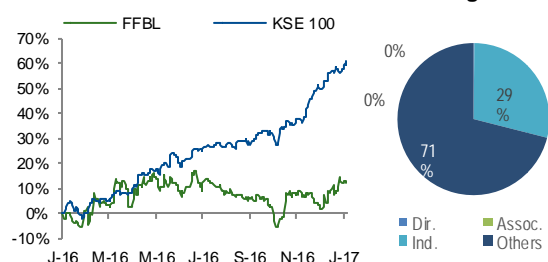
Period End: Dec

PKRbn	CY15A	CY16E	CY17F	CY18F
Total Revenue	52.2	45.5	48.7	54.2
Net Income	4.06	1.3	3.1	4.3
EPS (PKR)	4.3	1.4	3.4	4.6
DPS (PKR)	3.8	1.2	1.9	3.8
Total Assets	59.4	65.9	59.0	52.2
Total Equity	14.3	14.5	15.1	15.9

Key Financial Ratios

ROE (%)	28.4	9.1	20.8	27.1
P/E (x)	12.6	39.1	16.4	11.9
P/B (x)	3.6	3.5	3.4	3.2
DY (%)	6.9	2.1	3.5	6.8

Relative Price Performance & Shareholding



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, KSE 100 & IGI Research

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Fertilizer

FFBL: Earning Expected at PKR 2.54/share for 4QCY16

- Fauji Fertilizer Bin Qasim Limited's (FFBL) board meeting is scheduled on 30th Jan-17 to announce financial result for CY16. We expect the company to report earnings of PKR 2.3bn (EPS PKR 2.54) down by 29%YoY in 4QCY16.
- FFBL's coal based power plant is expected to come online in 1QCY17. We estimate this project will add PKR 1.35/share to company's earnings in CY17 (cost saving by replacing company's fuel requirement from gas to coal and sale of electricity to KEL).
- We maintain our "HOLD" call on FFBL with our Dec-17 target price of PKR 59/share, offering +8% upside from its last closing. The company is currently trading at a CY17E P/E of 16.4x and dividend yield of 3.47%.

Earnings to clock in at PKR 2.54/share in 4QCY16

Fauji Fertilizer Bin Qasim Limited's (FFBL) board meeting is scheduled on 30th Jan-17 to announce financial result for CY16. We expect the company to report earnings of PKR 2.3bn (EPS PKR 2.54) down by 29%YoY in 4QCY16. We attribute this drop in earnings to a) 14%YoY decline in net sales due to lower urea/DAP prices, b) decline in other income by 25%YoY on the back of reduction in DAP subsidy from PKR 500/bag to PKR 300/bag and c) +54%YoY increase in financial charges as company has increased its long and short term borrowing due to delay in subsidy receivables. The company is expected to announce cash dividend of PKR 1.15/share as compared to PKR 3.05/share in the same period last year.

We expect company to post profit of PKR 1.3bn (EPS PKR 1.41) for the CY16, depicting a decline of 68%YoY as compared to PKR 4.06bn (EPS PKR 3.8) reported in the same period last year. This deteriorated performance is because of a) 15%YoY decline in DAP sales due to lower retention prices of DAP. However, urea sales elevated by 31%YoY supported the downward movements in topline.

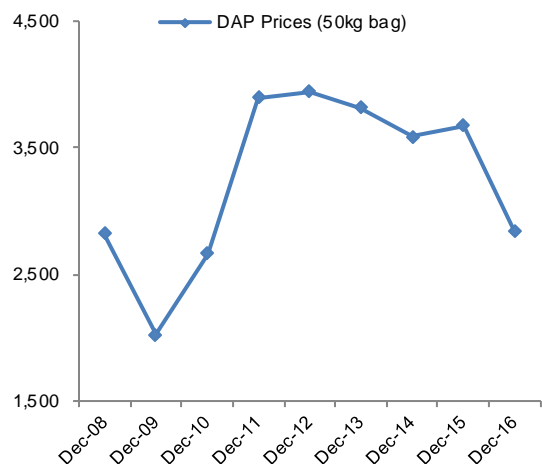
2017 – Going to be Good Year for FFBL

FFBL's coal based power plant is expected to come online in 1QCY17. We estimate this project will add PKR 1.35/share to company's earnings in CY17 (cost saving by replacing company's fuel requirement from gas to coal and sale of electricity to KEL). Going forward, we believe company's market share in urea is most likely to be increased to ~10% in CY17 (8% in CY16) as the company will increase urea production by reallocating excess natural gas to urea plant.

Recommendation

We maintain our "HOLD" call on FFBL with our Dec-17 target price of PKR 59/share, offering +8% upside from its last closing. The company is currently trading at a CY17E P/E of 16.4x and dividend yield of 3.47%.

DAP Local Price (PKR/bag)



DAP Offtake (ktons)

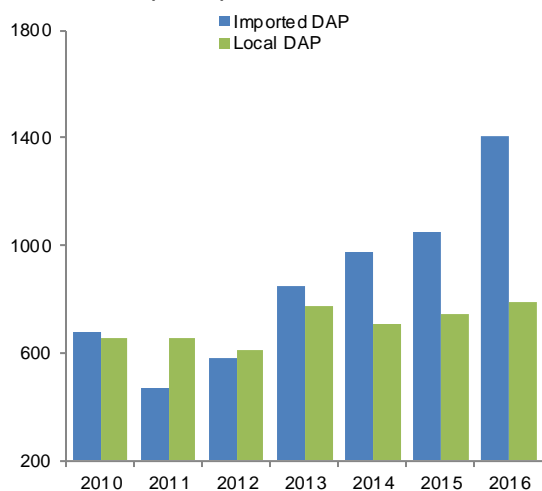


Exhibit:

Financial Highlights

PKR'mn	4QCY16E	4QCY15	YoY	CY16E	CY15	YoY
Net Sales	23,444	27,131	-14%	45,545	52,182	-13%
Gross Profit	2,725	2,726	0%	3,063	7,214	-58%
Admin. Exp	586	511	15%	1,612	1,427	13%
Distribution. Exp	1,172	1,467	-20%	4,160	3,820	9%
Other Income	3,439	4,562	-25%	7,316	5,683	29%
Other Operating Exp	287	334	-14%	288	399	-28%
EBIT	4,118	4,976	-17%	4,319	7,252	-40%
Finance Cost	691	447	54%	2,265	1,868	21%
PBT	3,427	4,528	-24%	2,055	5,384	-62%
PAT	2,368	3,314	-29%	1,314	4,062	-68%
EPS	2.54	3.55		1.41	4.35	
DPS	1.15	3.05		1.15	3.80	
<i>Key Ratios</i>						
Gross Margin	12%	10%		7%	14%	
Net Margin	10%	12%		3%	8%	
Effective Tax Rate	31%	27%		36%	25%	

Source: IGI Research, Company Financials

Source: NFDC & IGI Research

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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 - 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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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