

Day Break

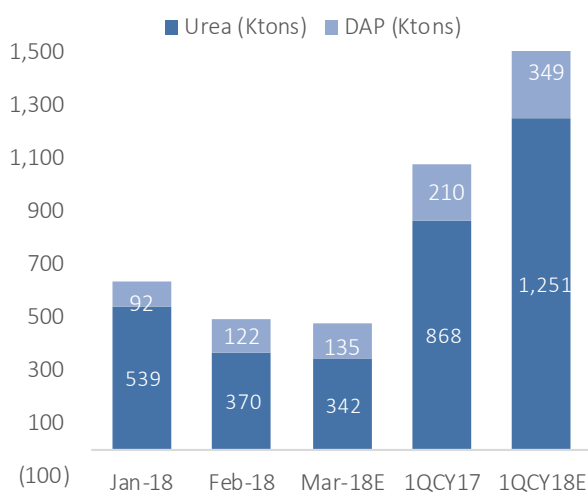
Monday, 23 April 2018



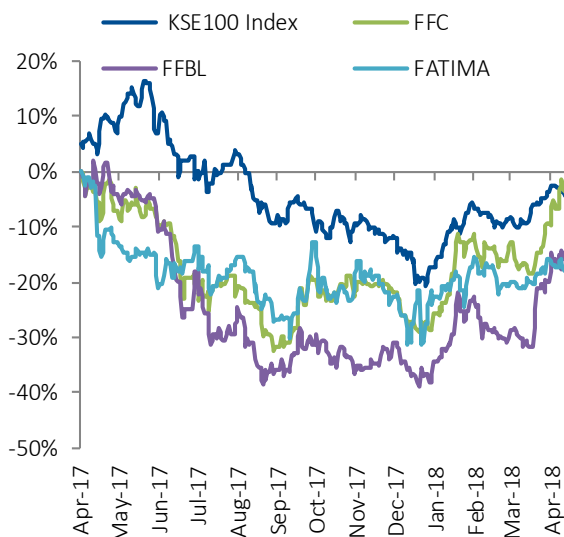
Sector Update

Sym.	Target Price	P/E 2018	D/Y 2018	Recom
FFC	98.8	11.1	8.1%	HOLD
FFBL	38.5	14.6	5.5%	HOLD
FATIMA	38.3	6.3	11.1%	BUY

Industry Offtake: Urea (ktons) and DAP (ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

FFC, FFBL & Fatima Result Previews for 1QCY18

- Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial result for 1QCY18 on 25th Apr-18, wherein we expect the company to post earnings of PKR 2.5bn (EPS: PKR 1.93), up by +12%YoY.
- Fauji Fertilizer Bin Qasim Limited (FFBL) is scheduled to announce its financial results for 1QCY18 on 24thApr-18. We expect the company to report loss (unconsolidated) of PKR 0.51bn (LPS: 0.55) compared to loss of PKR 0.14bn (LPS: PKR 0.14)
- Fatima Fertilizers Company Limited is scheduled to announce its financial result for 1QCY18 on 26thApr-18. We expect the company to report a profit (unconsolidated) of PKR 3.1bn (EPS: PKR 1.46), up by +35%YoY.
- We have a 'HOLD' call on FFBL and FFC based on a Dec-18 target prices of PKR 38.5/share and 98.8/share, respectively while we maintain a "BUY" call on FATIMA based on Dec-18 target price of PKR 38.3/share offering +20% upside from its last closing.

FFC: Strong pricing dynamics and increase in offtake to lift earnings by +12%YoY to PKR 2.5bn (EPS: PKR 1.93) for 1QCY18

Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial result for 1QCY18 on 25thApr-18 wherein we expect the company to post profit (unconsolidated) of PKR 2.5bn (EPS: PKR 1.93) up by +12%YoY. Major accretion to earnings stems from increase in total offtake up by +41%YoY to the tune of ~592k tons, within which offtakes for urea and DAP are ~514k tons and ~79K tons respectively. In addition to this high pricing power and lack of discounts, have improved retention prices of urea (+6%YoY). Accordingly, we expect net sales for the quarter to clock in at PKR 17.7bn, up by +58%YoY. However, other income will decrease by 29%YoY to PKR ~2bn primarily on the back of low dividend income wherein only FFBL contributed (PKR 0.35bn) to the income stream. We expect company to declare cash dividend of PKR 1.50/share.

Exhibit:

FFC: 1QCY18 result highlights (unconsolidated)

Period End	Dec- PKRmn	1QCY18E	1QCY17	YoY	4QCY17	QoQ
Net Sales		17,732	11,190	58%	32,964	-46%
Gross Profit		3,390	2,601	30%	6,530	-48%
Selling / Dist.		1,154	1,676	-31%	2,039	-43%
Other Op. Income		1,962	2,779	-29%	3,208	-39%
EBIT		3,874	3,396	14%	7,106	-45%
Finance Cost		455	536	-15%	553	-18%
Pre-Tax Profits		3,419	2,860	20%	6,553	-48%
Taxation		964	668	44%	1,775	-46%
Post-Tax Profits		2,454	2,192	12%	4,778	-49%
EPS		1.93	1.72		3.76	
DPS		1.50	1.50		3.00	

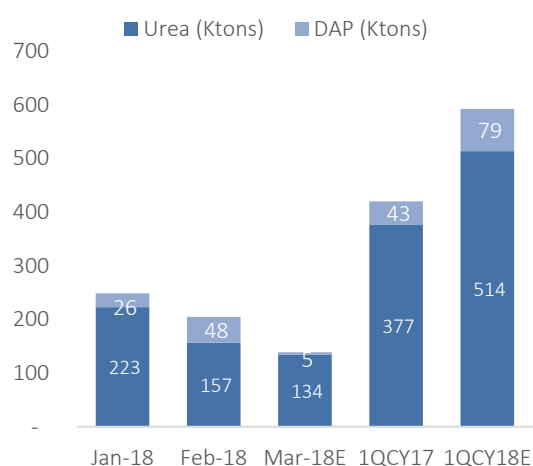
Key Ratios

Gross Profit Margins	19%	23%	20%
EBIT Margins	22%	30%	22%
Effective Tax Rate	28%	23%	27%

Source: IGI Research, Company Financials, PSX

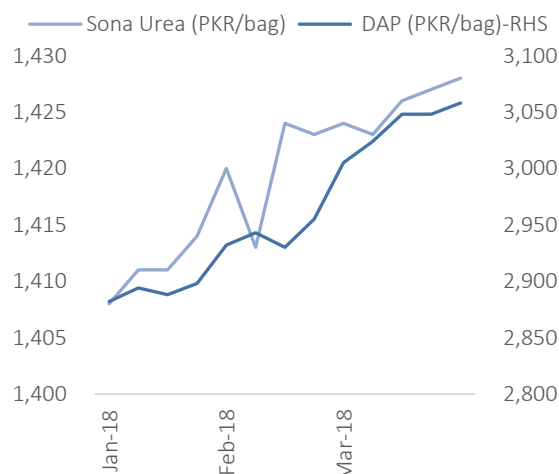
No. of shares :1272mn

Exhibit:
FFC: Urea and DAP offtake (Ktons)



Source: IGI Research, Company financials

Exhibit:
Sona urea (PKR/bag) and DAP prices (PKR/bag)



FFBL: Despite improvement in margins, company to report a loss of PKR 0.51bn (LPS: PKR 0.55) for 1QCY18

Fauji Fertilizer Bin Qasim Limited (FFBL) is scheduled to announce its financial results for 1QCY18 on 24thApr-18 wherein we expect the company to report a loss (unconsolidated) of PKR 0.51bn (LPS: 0.55) compared to a loss of PKR 0.14bn (LPS: PKR 0.14) in the corresponding period last year. We expect offtake for the quarter to clock in at ~88k tons (+2.5x YoY) and ~127k tons (+80%YoY) for urea and DAP, resulting in net sales of PKR 9.3bn (+16%YoY). Moreover, gross margins may improve on the back of a) increased retention prices (removal of price cap in DAP), b) decrease in phosphoric acid prices (5%YoY) and c) reduced fixed cost/bag (smooth urea production as a result of consistent supply of steam from Fauji Power Company Limited). However, major dent to earnings may come from decrease in other income (ignoring the impact of removal of DAP subsidy) whereby dividend income from other businesses stands nil compared to PKR 0.41bn in the corresponding period last year.

Exhibit:

FFBL: 1QCY18 result highlights (unconsolidated)

Period	End Dec- PKRmn	1QCY18E	1QCY17	YoY	4QCY17	QoQ
Net Sales		9,307	7,999	16%	25,577	-64%
Gross Profit		808	(254)	-418%	3,945	-80%
Selling / Dist.		970	917	6%	1,552	-37%
Other Op. Income		266	1,745	-85%	888	-70%
EBIT		(267)	180	-248%	2,249	-112%
Finance Cost		466	477	-2%	469	-1%
Pre-Tax Profits		(733)	(298)	146%	1,780	-141%
Taxation		(220)	(163)	35%	498	-144%
Post-Tax Profits		(513)	(135)	281%	1,282	-140%
EPS		(0.55)	(0.14)		1.37	
DPS		-	-		0.75	

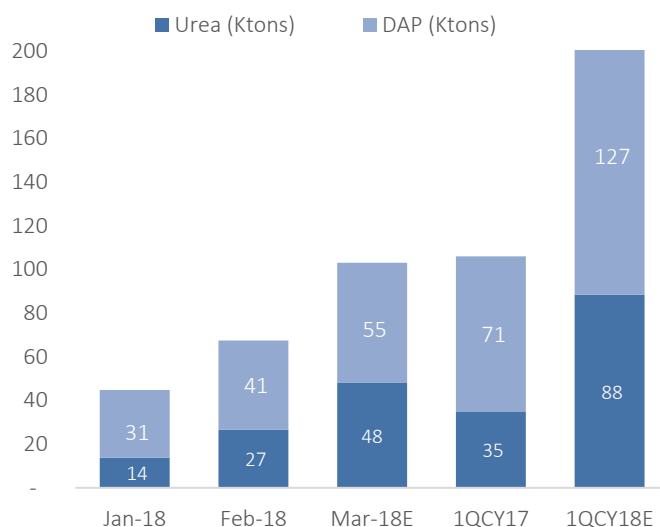
Key Ratios

Gross Profit Margins	9%	-3%	15%
Ebit Margins	-3%	2%	9%
Effective Tax Rate	30%	55%	28%

Source: IGI Research, Company Financials, PSX

No. of shares :934mn

Exhibit:

FFBL: Urea and DAP Offtake (Ktons)

Source: Company Financials, IGI Research

FATIMA: Low Finance cost and modest growth in offtake expected to increase earnings by +35%YoY to PKR 3.1bn (EPS: PKR 1.46) for 1QCY18

Fatima Fertilizers Company Limited (FATIMA) is scheduled to announce its financial result for 1QCY18 on 26thApr-18, wherein we expect the company to report a profit (unconsolidated) of PKR 3.1bn (EPS: PKR 1.46), up by +35%YoY. We expect total offtake for the period to increase by +5%YoY to ~345k tons wherein CAN offtakes will surge by +25%YoY to ~159k tons while urea and NP offtakes may witness decline of 14%/2% YoY to ~85/101k tons. Moreover, with improved retention prices due to strong pricing power we expect net sales to increase by +20%YoY to PKR 9.9bn which corroborated by decrease in phosphate rock prices (12%YoY) will lift gross margins by +600bps YoY. Additionally, we expect finance cost to ease down by 52%YoY owing to debt repayments and decrease in short term financing.

Exhibit:

FATIMA: 1QCY18 result highlights (unconsolidated)

Period End	Dec- PKRmn	1QCY18E	1QCY17	YoY	4QCY17	QoQ
Net Sales		9,887	8,259	20%	11,533	-14%
Gross Profit		5,984	4,509	33%	6,787	-12%
Selling / Dist.		890	720	24%	1,084	-18%
Other Op. Income		167	174	-4%	155	7%
EBIT		4,628	3,404	36%	5,098	-9%
Finance Cost		239	497	-52%	591	-59%
Pre-Tax Profits		4,389	2,906	51%	4,508	-3%
Taxation		1,317	632	108%	607	117%
Post-Tax Profits		3,072	2,274	35%	3,901	-21%
EPS		1.46	1.08		1.86	
DPS		-	-		3.60	
Key Ratios						
Gross Profit Margins		61%	55%		59%	
Ebit Margins		47%	41%		44%	
Effective Tax Rate		30%	22%		13%	

Source: IGI Research, Company Financials, PSX

No. of shares :2100mn

Exhibit:
FATIMA: Urea, CAN and NP offtake (Ktons)

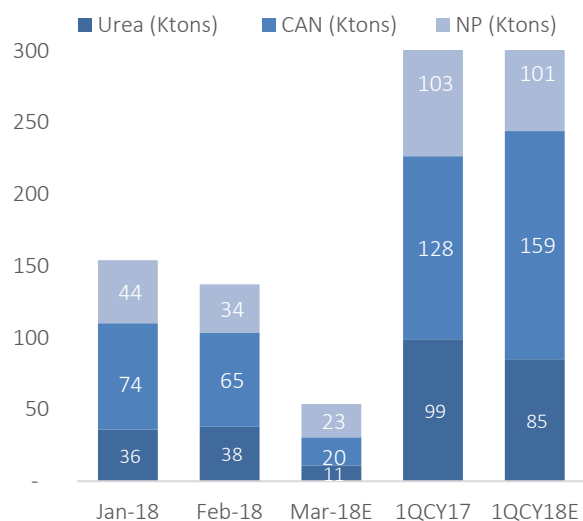
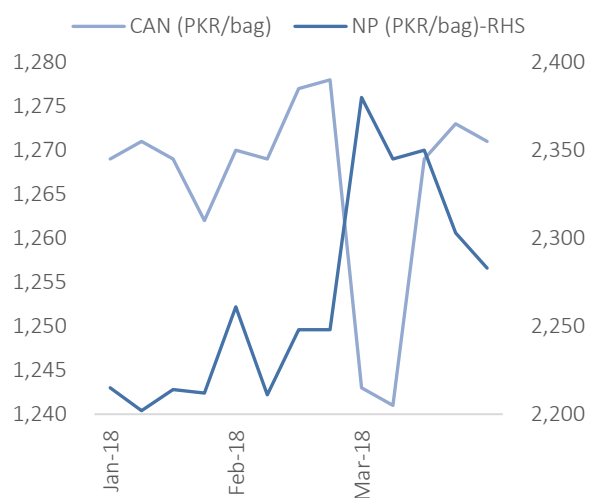


Exhibit:
CAN (PKR/bag) and NP prices (PKR/bag)



Source: IGI Research, Company financials

Recommendation

We have a **'HOLD'** call on FFBL and FFC based on Dec-18 target prices of PKR 38.5/share and 98.8/share respectively while we maintain a **"BUY"** call on FATIMA based on Dec-18 target price of PKR 38.3/share offering +20% upside from it's last closing.

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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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