

# Flash Note

Tuesday, 26 July 2016

## Fertilizers

### FFBL: Another step in the negative territory

- Fauji Fertilizer Bin Qasim (FFBL) reported net loss of PKR 381mn (LPS PKR 0.41) in 2QCY16, taking 1HCY16 loss to PKR 895mn (LPS PKR 0.96). This is the highest loss reported by FFBL in last decade.
- Revenue declined by 39%YoY to PKR 7.5bn in 2QCY16 which in our view is on the back of steep discounts on DAP (~20-25% discounts). For the 1HCY16, revenue dropped by 34%YoY to PKR 11.9bn.
- Gross Margin for 2QCY16 has dropped massively by 1,316bps to 5% whereas for 1HCY16, company recorded a gross loss of PKR 337mn.
- Other income leaped up by a massive ~+6xYoY to PKR 1.2bn in 2QCY16, which we believe is due to PKR 500/bag DAP subsidy (expired in May-16).
- Company's debt has increased by a huge +40%QoQ from 29bn to 40bn, which is largely due to PKR 30bn short term borrowing by the end of 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.

#### Exhibit: Financial Highlights

PKR mn	2QCY16	2QCY15	YoY	1HCY16	1HCY15	QoQ
Net Sales	7,459	12,195	-39%	11,873	17,994	-34%
Cost	7,099	10,002	-29%	12,210	15,091	-19%
Gross Profit	360	2,193	-84%	(337)	2,903	-112%
Dist. Expense	933	954	-2%	1,610	1,446	11%
Admin. Expense	367	375	-2%	714	650	10%
Oth. Income	1,216	176	591%	2,469	746	231%
EBIT	275	1,035	-73%	(194)	1,503	-113%
Finance Cost	546	419	30%	952	840	13%
EBT	(271)	616	-144%	(1,146)	663	-273%
Tax	110	85	30%	(251)	96	-362%
Net Profit/(Loss)	(381)	660	-158%	(895)	758	-218%
EPS	(0.41)	0.71		(0.96)	0.81	
DPS	-	0.75		-	0.75	
<i>Key Ratios</i>						
Gross Margin	5%	18%		-3%	16%	
Net Margin	-5%	5%		-8%	4%	
Effective Tax Rate	-41%	14%		22%	14%	

Source: IGI Research, Company Financials

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### Analyst Certification

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
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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