

Flash Note

Tuesday, 26 April 2016

Fertilizers

FFC: Profitability slipped by 54%YoY to PKR 2.14/share in 1QCY16

- Fauji Fertilizer Company's (FFC) profitability took a hit of 54%YoY to PKR 2.7bn (EPS PKR 2.14) in 1QCY16. Company announced a cash dividend of PKR 1.85/share.
- Revenue dipped by 43%YoY to PKR 11.6bn in 1QCY16, which we believe is on the back of 44%YoY decline in urea offtake to 348k tons, 38%YoY fall in DAP offtake and continued discounts on Urea and DAP.
- Gross margins shrunk by 1,450bpsYoY to 26% in 1QCY16, primarily due to gas price hike which took place in Sept-15.
- Other income leaped up by +12%YoY to PKR 2.7bn in 1QCY16 on the back higher dividends from investment income
- Finance cost increased by +187%YoY to PKR 561mn in 1QCY16 owing to higher borrowings post payment of GIDC.

Recommendation

The scrip is currently trading at CY16E P/E of 10.3x and offers +1% upside from last close along with +9% dividend yield. With our Dec-16 TP of PKR 109/share, we recommend 'Hold' call on the scrip.

Exhibit: Financial Highlights

PKR mn	1QCY16	1QCY15	YoY	4QCY15	QoQ
Net Sales	11,646	20,409	-43%	30,537	-62%
Cost	8,594	12,105	-29%	22,290	-61%
Gross Profit	3,052	8,304	-63%	8,248	-63%
Dist. Expense	1,517	1,581	-4%	1,835	-17%
Opt. income	2,738	2,445	12%	1,826	50%
Other Expenses	373	734	-49%	643	-42%
EBIT	3,900	8,434	-54%	7,595	-49%
Interest Expense	561	196	187%	512	10%
PBT	3,339	8,238	-59%	7,083	-53%
Tax	611	2,331	-74%	2,263	-73%
PAT	2,728	5,907	-54%	4,820	-43%
EPS	2.14	4.64		3.79	
DPS	1.85	3.94		3.42	
<i>Key Ratios</i>					
Gross Margin	26%	41%		27%	
Net Margin	23%	29%		16%	
Effective Tax Rate	18%	28%		32%	

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[^] 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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