

Flash Note

Tuesday, 04 April 2017

Fertilizer

Local DAP prices increased by PKR 100/bag

- As per our discussion with company's management, FFBL and DAP importers have increased DAP market retail prices (MRP) by PKR 100/bag to PKR 2,620/bag and PKR 2,580/bag. Although we await official price notification, the new prices will be effective from the month of Apr-17 onwards.
- We believe, this is due to the recent increase in international prices of DAP, to USD 375/ton up by +17% from a low of USD 320/ton recorded in Dec-16 due to tight supply of DAP in international market.
- Given the rising trend in international DAP prices, we expect further round of domestic price increase could follow suit.

Comments

- We believe FFBL will stand out as a major beneficiary of this price hike, as it is only sole producer of DAP. As per our estimations, this increase in DAP prices will improve FFBL's estimated primary margins to 32% from 30% in 1QCY17E (4QCY16 primary margin for FFBL clocked in at 30%). Based on increase in DAP prices, FFBL's earning would accrete by PKR 0.77/share while PKR 0.29/share for EFERT.

Exhibit:

Earnings impact on FFBL, EFERT

	CHANGE IN DAP PRICE		EPS-CY17E		CHANGE IN EPS
	OLD PRICES	NEW PRICES	PRE	POST	%
FFBL	2,520	2,620	3.65	4.42	21.1%
EFERT	2,480	2,580	8.07	8.36	3.6%

Source: IGI Research

Recommendation

We recommend "BUY" call on EFERT and FFBL with our Dec-17 target price of PKR 86/share and 59/share, offering +37% and +14% upside from its last closing, respectively. EFERT/FFBL are currently trading at FY17E P/E of 7.5x/12.5x, offering healthy dividend yield of 11%/5.8%.

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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)

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