KSE100 Closing 12265.53 (-98.53 points)

July 28, 2011
Pakistan Research
Fertilizer | Review

FFBL Review and Favourable catalysts… TP Rs64.7/sh

Analyst:
Ms. Gulshan D. Ferozepurwalla*
research@scstrade.com

Fauji Fertilizer Bin Qasim (FFBL) has yielded Rs3.76/sh EPS for 1HCY11 as against Rs1.84/sh EPS of 1HCY10. The sales increased by 51% with GP margins displaying an increase of 81% as compared to same period last year ostensibly owing to the augmenting Urea and DAP prices. The PBIT margin stands at 31% as against 21% last year with net margins showing a major rise of 104% mainly due to reduced selling and distribution costs (-4%) and increase in other operating income by 50%. FFBL has also quite maintained its dividend stream, declaring Rs2.25/sh dividend i.e. 22.5%.

Profit & loss account	3Q CY11	3Q CY10	%change	1H CY11	1H CY10	%change
Sales	9,962,961	5,353,206	86%	18,017,440	11,919,342	51%
COS	(5,781,270)	(3,326,409)	74%	(11,087,967)	(8,082,756)	37%
GP	4,181,691	2,026,797	106%	6,929,473	3,836,586	81%
Selling & distribution exps.	(682,898)	(672,103)	2%	(1,047,891)	(1,090,554)	-4%
Administration exps	(181,683)	(112,728)	61%	(296,252)	(208,207)	42%
PBIT	3,317,110	1,241,966	167%	5,585,330	2,537,825	120%
Finance costs	(265,982)	(233,108)	14%	(373,329)	(331,845)	13%
Other operating exps	(235,000)	(93,522)	151%	(406,035)	(188,248)	116%
Other operating income	409,352	358,571	14%	741,361	493,227	50%
PBT	3,225,480	1,273,907	153%	5,547,327	2,510,959	121%
Taxation	(1,269,608)	(360,537)	252%	(2,033,699)	(788,950)	158%
PAT	1,955,872	913,370	114%	3,513,628	1,722,009	104%

Source: KSE announcement

FFBL closing	Rs 46.80
Chg	-0.28%
52 week high	48.05
52 week low	26.59
Beta	0.91
No of shares	934.11mn
Free float	326.94mn
CY10 PE	6.71x
CY11E PE	5.43x

The fertilizer sector is facing gas curtailments as a result of which Engro Fertilizer recently increased its urea prices by Rs125/bag excluding GST) to counter the effect of losses caused by gas curtailments, in turn benefiting Fauji Fertilizer Company (FFC). Moreover, as per a newspaper the fertilizer sector will receive gas only for 15 days a month with effect from August 1, 2011, for about three months. This will further affect Engro Fertilizer whose new plant Enven is already operating below capacity i.e. around an average capacity of 80% and also hamper the operations of its existing plant. However we do not expect FFBL and FFC to be affected enormously by the curtailments as they have always been given priority over other fertilizer companies. Hence we expect FFBL to rule the fertilizer industry in the current scenario and take advantage of the rising Urea and DAP prices (DAP reaching Rs4200/50kg bag), especially when FFBL is the sole manufacturer of Di-ammonium phosphate, an alternative whose use is gradually increasing in the agricultural ground.

Per ton information	CY09	CY10	CYE11	CYE12
Sales per ton	27,488.7	36,627.2	56,451.5	51,208.1
Cost per ton	20,254.2	25,227.4	40,353.8	36,201.9
Net margin per ton	7,234.5	11,399.8	16,097.8	15,006.2

Source: Standard Capital Research

*ACCA (affiliate)

We expect FFBL to yield an EPS of Rs8.11/sh for CY11 with potential PE of 5.43x and DCF fair value Rs64.7/sh. We expect total dividend per share to reach Rs7.7/sh for CY11.