



## FFBL moving forward in the race

FFBL's analyst briefing through light on many areas especially the ones related to prices and imports.

Attention was drawn to the increase in DAP and urea prices which has been pressurizing the farming industry and causing upheaval in the agriculture sector.

We were told that dealers sold DAP at discount prices as against urea which is sold at premium; as the high prices of DAP cannot be supported by the weak financial status of the farmers.

As compared with the prior year DAP prices have increased from Rs575 to Rs630 per 50kg bag. However, M-o-M prices of Di-ammonium phosphate have decreased to Rs630 from Rs660 per 50kg bag.

### Raw material price hikes

The main reason behind the increase in DAP prices is the rise in international prices of the fertiliser owing to high raw material cost; including cost of *Phosphoric rock* which was worth US\$138/ton in October 2010 and US\$205/ton in October 2011.

Another raw material *phosphorous acid* has also witnessed a hike in prices from US\$700/ton to US\$1080/ton in October 2011.

### Current Price Scenario

For now DAP is being sold at Rs4070/50kg bag with industry production at 486,000tons in 9MCY11, sales 642000tons and inventory at 233000tons. These prices may increase if international DAP prices climb as India, the largest consumer of DAP, is facing acute shortages of the fertiliser; moreover Phosphoric acid cost is also expected to increase in the 1Q CY12 subsequently increasing DAP prices.

### FFBL and DAP

The one company that has contributed greatly to the DAP production and benefited from the increase in prices is Fauji Fertiliser Bin Qasim (FFBL); the sole producer of DAP in Pakistan having a 66% market share with Engro following at 29% market share.

Therefore, the 9MCY11 production of 486000tons was all contributed by FFBL, and constituted 425,000tons of the 642000tons sales in 9MCY11.

In the CY11 FFBL is expected to produce a total of 672,000tons, with an import of 400,000tons by Engro. The total industry availability of DAP is expected to be 1491,000 with sales amounting to 1,200,000tons and thus inventory remaining of 291,000tons. However, the company scribe mentioned that FFBL would not carry any inventory.

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FFBL closing	60.52
Chg	0.08
52 week hi	64.30
52 week low	31.25
Beta	0.98
Free float	326.93mn
Total # of sh	934.11mn

\*ACCA (affiliate)

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### Tight DAP margins

Owing to the increasing prices of raw materials, international DAP margins have been tight, thereby signalling further increase in prices. However, FFBL's margins have not been deeply affected as it has strategic investment in PMP the main supplier of phosphorous rock and phosphoric acid. Therefore, its earnings are not largely dampened by the increase in raw material prices.

Moreover, **DAP is a deregulated** market as a result of which its prices are mainly determined by demand/supply factors and price hikes are not controllable by the government. In Pakistan the DAP prices are chiefly set by the importers; a major factor affecting demand and supply.

### UREA

Moving on to the nitrogenous fertiliser urea FFBL's production in the 3QCY11 was 119,000tons with sales of 339,000tons in 9MCY11.

The fertiliser prices have been increasing since quite some time, thereby burdening farmers. The main reason behind the hike in urea prices in 9MCY11 was the lack of initiative by the government to take steps to import urea on time, importing 0.535mntons in 9MCY11 when a larger amount was required, subsequently causing shortages in the fertiliser, with dealers taking advantage of the scarcity and selling urea at a premium.

### Wind power project

The company officials also threw light on the wind power project of FFBL stating that ECP has finalized the contract as well as the tariff, and that the **project will come online in 1QCY13**.

### Outlook on Fertilizer production and off take

The company expects that 2011 would be a prosperous but challenging year for the fertiliser industry. If imports are made on time and production is not hindered by gas shortages, the total industry production for CY11 would be 5.060mntons with availability of 6.54mntons, imports of 0.70mntons and sales of 6.3mntons.

*We expect FFBL to enjoy high revenues in CY11 based on the comparatively high margins it enjoys on DAP, the hiking urea prices and the expected increase in DAP production to 672,000tons.*

We anticipate FFBL to yield an EPS CYE11 of Rs11.95/sh with a DCF fair value in the range of Rs76/sh-78/sh, with 4Q dividend of Rs3.5/sh, totally a dividend of Rs10/sh in CY11.

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