

February 02, 2010

Pakistan Market**Fertilizer: Sector profitability up 14%YoY****MORNING BRIEFING**

KSE100 Index: Closing 9591.51 ↓ (-22.68)

With the announcement of FFC's full year 2009 results, the corporate result season for the Fertilizer sector comprising of FFC, ENGRO, FFBL and Dawood Hercules is now over. The sector performed admirably during the year on the back of high fertilizer offtake and high urea prices. However, a one time impairment loss booked by Dawood Hercules (Rs3.8bn) dragged the sector's earnings down by 8% in 2009. If we omit this one time impairment loss, the sector reported profit after tax of Rs19.2bn versus profit of Rs16.8bn in 2008, up 14%. We maintain our 'Over-weight' stance on the sector with Engro being our top pick at current levels.

Sector profitability up by 14% in 2009

In 2009, the listed Fertilizer sector posted net profit of Rs19.2bn (excluding impairment loss from Dawood Hercules) versus profit of Rs16.8bn in the same period last year, a growth of 14%. In terms of earnings growth, FFC led the way, registering a growth of 35%YoY due to record urea offtake amid high prices during the year, while FFBL grew by 31% on the back of record DAP offtake of 709k tons. Engro on the other hand, reported a decline of 7% in profit after tax primarily on account of lower quantum of dividend income from Engro Eximp during the period under review, even though its revenue soared by 29%YoY.

Revenues soared by 29%YoY amid record offtakes

The sector registered a 29% top line growth mainly owing to rising urea prices and record DAP offtakes.

DAP offtake was reported at record levels of 1.7mn tons, up a massive 118%YoY, out of which FFBL recorded 709k tons (up 131%YoY), while Engro managed to sell 305k tons (up 181%YoY). FFC also managed to sell 40k tons of DAP that it imported during the last quarter of the year. DAP prices have recently been increased to Rs2,450 per bag which can hamper DAP sales, going forward.

Though urea offtake increased by 18% during the year the

growth was largely confined to non listed companies and importers with FFC being the only listed player reporting a 5%YoY growth. The rather flat to declining urea offtake for other listed companies was more than compensated by high urea prices during the year (average weighted price of Rs704 per bag, up 21%YoY).

Table: Sector Profitability

(Rs mn)	2009	2008	% Δ
Net Sales	114,100	88,160	29%
Cost of Sales	77,895	58,263	34%
Gross Profit	36,205	29,897	21%
Gross Margin	32%	34%	
Selling & Distribution Costs	8,477	6,700	27%
Operating Profit	27,727	23,196	20%
	24%	26%	
Finance & Other Costs	5,134	6,477	-21%
Other Expenses *	1,875	1,644	14%
Other Income	6,939	8,576	-19%
Profit Before Taxation	27,658	23,651	17%
Taxation	8,441	6,823	24%
Profit After Taxation	19,218	16,828	14%

Source: Company announcement

* excl. impairment loss from Dawood Hercules

Outlook: 'Over-weight' maintained

After a strong 2009, the fertilizer sector continued its momentum in the New Year with initial impressions of January fertilizer offtake being positive. That said, the recent rise in international DAP prices have put pressure on Local DAP prices and could affect DAP offtake going forward. On the other hand, being a urea deficit country, demand for urea is likely to remain robust during the current year. However, after full commissioning of the additional plants (Engro and Fatima Fertilizer) beyond 2010, we can see some pressure on the urea prices because of an oversupply situation in the country. Nonetheless, this concern about an oversupply situation can be met in form of exports through an understanding with the government. On the whole, we project

a decent offtake in 2010 as well provided, there is no hindrance in agri growth. We maintain our 'Over-weight' stance on the sector, with Engro being preferred pick at current levels.

bilal.qamar@js.com

92 (21) 111-574-111 (ext. 3099)

Also in focus**FFBL's Analyst Briefing Key Takeaways**

FFBL held its analyst briefing yesterday to discuss its full year 2009 results. The company posted a PAT of Rs3.8bn as against a PAT of Rs2.9mn in 2008, an increase of 31%. Higher DAP offtake and high urea prices during the year contributed to net revenues which soared by 37% to Rs36.8bn in 2009. Moreover, the company is expecting decent DAP offtake during the 1Q2010 due to higher sales in January in anticipation of rising DAP prices in the future. Further, one other surprise in the growth was lower than expected losses from its JV PMP (Pak Morroc Phosphor). According to the management, PMP is expected to start generating profits in the 2Q2010.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 32799005

Fax: +92 (21) 32800163

js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44

Fax: +92 (21) 32800165

tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513

Fax: +92 (21) 32800166

junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005

Fax: +92 (21) 22800163

azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS