

April 15, 2010

Pakistan Market**FFBL: 1Q2010 EPS expected at Rs0.85/share****MORNING BRIEFING**

KSE100 Index: Closing 10570.88 ↑ (+64.68)

Despite the annual turnaround period of 26 days in February, we expect Fauji Fertilizer Bin Qasim (FFBL) to post earnings of Rs790mn (EPS: Rs0.85) compared to profits of Rs13mn (EPS: Rs0.01). Though urea and DAP offtake is expected to register a YoY decline of 19% and 5% respectively, a gradual increase in their respective prices (DAP: up ~20%YTD & urea: up ~7%YTD) will help the company to post revenue growth of 3% to Rs6.0bn. We do not expect any pay outs with the result.

Higher prices propel 3% revenue growth

Amid rising international DAP prices, local manufacturers have increased DAP prices by ~20% since the start of the year which will result in a revenue growth of 3%YoY to Rs6.0bn. Consequently, primary margins are also expected to improve to US\$245 per ton as compared to US\$150 in the corresponding period last year. Moreover, urea prices have surged by ~7%YTD to stand at Rs780 per bag (ex-factory price). Therefore, we expect gross margins to improve massively to 26% from 14% in 1Q2009.

Supporting other income to stem bottom line

With almost Rs14bn in short term investments & cash/bank balances, we expect other income to increase by 22% to Rs301mn, further supporting the bottom line. Moreover, with the international DAP prices picking up pace since the start of the year, we expect the price disequilibria between the phos acid and DAP prices to have cease to exist. Hence, we are expecting losses from its JV PMP (Pak Morroc Phosphore) to subdue during this quarter and anticipate a better future moving ahead.

Recommendation: Accumulate

Expected bullish trend in the DAP offtake (at least for 1H2010) coupled with higher urea prices are likely to be primary drivers for FFBL's earnings going forward. We expect the company to post earnings of Rs4.16 per share for the full year 2010. Moreover, the company's decision to invest Rs5bn

in the power sector is expected to bode well for the company going forward. Currently, the stock is trading at 2010E PE and dividend yield of 7.8x and 12% respectively, and we have an 'Accumulate' stance on the scrip.

1Q2010 result snapshot

(Rs mn)	1Q2010E	1Q2009A	Δ%
Net Sales	6,005	5,856	3%
Cost of Goods Sold	4,425	5,037	-12%
Gross Profit	1,580	819	93%
Gross Margin	26%	14%	
Admin, Selling & distribution exp	466	429	9%
Operating Profit	1,114	391	185%
	19%	7%	
Finance Cost	415	628	-34%
Other Income	301	247	22%
Profit Before Taxation	1,000	9	NM
Taxation	210	(3)	NM
Profit After Taxation	790	13	NM
Basic Earnings per share	0.85	0.01	NM

Source: Company Announcement & JS Research

Also in focus**IMF assures next tranche in May**

The IMF has assured Pakistan that it will approve the release of the 5th tranche, amounting to US\$1.2bn, in its board meeting scheduled on May 3, 2010. According to reports, the government has further sought waiver of non observance of budget deficit and net government borrowing targets for March. According to the preliminary data, fiscal deficit target has been missed by 40bps on account of lower revenue and higher security expenditure; while net government borrowing from the central bank has exceeded the target by 0.2per cent because of a delay in disbursement of external financing to the budget.

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