October 16, 2009

Pakistan Market

MORNING BRIEFING

FFBL: EPS of Rs2.12 likely in 9M2009, up 264%YoY

KSE100 Index: Closing 9845.74 ↑ (+41.13)

After two quarters of relatively weak performance, on account of low DAP offtake, higher phosacid prices and losses of Pak Moroc Phosphore (PMP), FFBL is expected to post an earnings turnaround in 3Q2009. Handsome DAP offtake and higher than anticipated prices of DAP (average ex factory price of Rs1,830/bag) are likely to propel an earnings of Rs1.5bn (EPS Rs1.59) in 3Q2009 as against loss of Rs174mn (LPS Rs0.19) recorded in 3Q2008.

As a result of strong 3Q2009 numbers, FFBL is expected to post earnings of Rs2.0bn (EPS of Rs2.12) in 9M (Jan-Jun) 2009 up 264%YoY. Along with the results, we expect company to announce a first interim cash dividend of Rs1.25 per share.

Higher DAP offtake propel 191% revenue growth

We expect FFBL to record revenues of Rs26.4bn in 9M2009 versus Rs9.1bn in 9M2008 an increase of 191%YoY. The sharp jump in revenues is driven primarily by a surge in DAP offtake which is expected to arrive at 543k tons up a massive 836% versus only 58k tons in 9M2008. Lower DAP prices have boosted demand in the current year as average DAP prices stood at Rs1,900 per bag after touching a high of Rs5,100/bag last year. However, end of 10 year special subsidy on feed stock gas in 2009 has increased the unit cost of manufacturing due to which gross margins are likely to fall to 25% from 31% in 9M2008.

Alone in the 3Q2009, DAP offtake is expected to arrive at 265k tons versus only 21ktons in 3Q2008 as higher prices and uncertainty over GOP subsidy kept farmers away from buying DAP. Moreover, higher urea prices and better offtake are also expected to boost the topline in the quarter. The DAP price trend in particular has been a surprise as after falling to Rs1,750/bag in July, the prices have rebounded to Rs1,910/bag in Sep 2009. Rebound in international prices has been the catalyst for the upward revision in local prices.

PMP: a key uncertainty to FFBL's earnings

The earnings of FFBL in 1H2009 had suffered from losses incurred by its associate PMP. The company booked a loss of Rs327mn in 1H2009, for its share of loss in PMP given the requirement of associate accounting. The loss suffered by PMP was due to a combination of inventory write downs and plant shutdown for a few months. Going forward, better earnings numbers are expected given relative stability in phosacid prices and the fact that the plant has been operational since the last few months.

Recommendation: 'Hold' reiterated

The stock has rallied in recent weeks at the back of handsome DAP offtake and increase in local DAP prices. However, trading at 2009E PE and dividend yield of 9.3x and 9.9% respectively, we believe the stock is now fairly valued and does not offer any upside to investors at current levels. We therefore reiterate our 'Hold' stance on FFBL.

(Rs mn)	9M2009	9M2008	Δ%
Net Sales	26,461	9,079	191%
Cost of Goods Sold	19,945	6,229	220%
Gross Profit	6,516	2,849	129%
Gross Margin	*25%*	*31%*	
Admin, Selling & distirbution exp	1,898	1,233	54%
Operating Profit	4,618	1,616	186%
	17%	*18%*	
Finance Cost	1,398	1,905	-27%
Other Expenses	202	26	690%
Other Income	271	1,084	-75%
Profit Before Taxation	3,289	770	327%
Taxation	1,306	225	480%
Profit After Taxation	1,983	544	264%
Basic Earnings per share	2.1	0.6	264%

Source: Company Annoucement

farhan.rizvi@js.com
92 (21) 111-574-111 (ext. 3096)

Fauji Fertilizer Bin Qasim Limited

Market Price: Rs26.97	**Kats Code:** FFBL
Market Cap: Rs25.2bn (US$303mn)	**Bloomberg Code:** FFBL PA
1-yrs Avg. Daily Volume: 4.1mn shares, Rs76.7mn (US$0.9mn)	**Reuters Code:** JORD.KA
1-year High/Low: Rs26.97/12.48	

Also in focus

FDI falls by 58% in1QFY10

According to the figures released by State Bank of Pakistan, Foreign Direct Investment (FDI) for the 1QFY10 showed a significant decline of 58% and was recorded at US$463mn compared to US$1,116mn in the corresponding period last year. The fall is magnified due to the inflow of investment in MCB Bank by Maybank in Aug 2008. Interestingly, Portfolio investment figures showed a huge rise as an inflow of US$208mn was directed in the 1QFY10 on account of rising interest in the equity markets compared to an outflow of US$173mn in the same period last year.

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

Equity Sales:
Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Fixed Income Sales:
Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800165
tariq.usman@js.com

Corporate Finance:
Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com