

January 21, 2010

Pakistan Market**FFBL: 2009 EPS expected at Rs3.4/‘Hold’****MORNING BRIEFING**

KSE100 Index: Closing 9904.74 ↓ (-49.67)

After a dismal year in terms of DAP offtake (due to high prices), FFBL has bounced back in 2009 with a record offtake estimated at 700k tons. This we believe will propel the company's earnings of Rs3.2bn (EPS of Rs3.4), a growth of 11%YoY. The board meeting to announce the full year results is scheduled on 26th Jan 2010. Along with the results, we expect FFBL to announce a final cash dividend of Rs1.25 per share, taking the cumulative dividend to Rs3 per share.

Robust DAP offtake to propel revenues

We anticipate FFBL will record revenues of Rs36bn with Rs27bn being contributed by DAP sales. Higher DAP sale in 2009 is attributable to lower domestic DAP prices (down 36%YoY) and high DAP inventories carried forward from last year. We project a full year DAP offtake of 700k tons for FFBL, during the year. However, end of 10 year special subsidy on feedstock gas in 2009 and lower margins on DAP, has increased the unit cost of manufacturing due to which gross margins are likely to fall by 244bps to 28%. Nonetheless, we expect FFBL to post earnings of Rs3.4 per share in 2009 versus Rs3.1 per share in 2008, a growth of 11%YoY.

In the fourth quarter alone, we expect revenues to reach Rs8.9bn on the back of high urea prices and reasonably strong DAP offtake of 164k tons. In spite of this, due to lower DAP inventories; offtake would be 36% lower than the previous quarter.

PMP loss & end of GOP compensation to hit profits

The company has already recognized Rs600mn for its share of loss in its Moroccan based associate (Pak Morroc Phosphate). The loss suffered by PMP was due to a combination of inventory write downs, the plant's shut down for a few months and certain imbalances issues between input and output prices. Given no abrupt improvement in the situation in the last quarter, we project a further Rs230mn loss to be recognized by FFBL in the fourth quarter. Moreover, with the end of the govt.'s compensation in lieu of the non

implementation of the Fertilization Policy in 2008, will also hurt the bottom-line in 2009.

Outlook: ‘Hold’ maintained

Given the recent hike in international DAP prices, FFBL has increased DAP prices to around Rs2,200 per bag. According to our estimates, this change will have limited incremental impact of Rs0.5 per share on 2010 earnings, as phosacid prices are also on the rise in international markets. Further, owing to lower inventory levels, FFBL would have a significantly lower DAP offtake in 2010.

The scrip is trading at a 2010E and 2011F PE of 8.3x and 7.8x, with a dividend yield of 10.8% and 11.0% respectively. Hence, we maintain our ‘Hold’ stance on the scrip at current levels.

Table: FFBL 2009 earnings estimates

(Rs mn)	2008A	2009E	Δ%
Sales	26,821	35,923	34%
Cost of good sold	18,595	25,783	39%
Gross profit	8,226	10,140	23%
<i>Gross margins</i>	31%	28%	
Operating Expenses	1,984	2,501	26%
Operating profit	6,242	7,639	22%
Other Income	1,520	27	-98%
Other charges	565	742	31%
EBIT	7,197	6,924	-4%
Interest Expenses	2,792	1,373	-51%
EBT	4,405	5,551	26%
Taxes	1,505	2,333	55%
PAT	2,900	3,219	11%
EPS	3.1	3.4	11%

Source: JS Research & Company accounts

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Also in focus**US\$350mn CSF inflow to boost reserves**

According to the Finance Minister Shaukat Tarin, Pakistan is soon expected to receive the first installment worth US\$350mn of the long over due US\$1.5bn Coalition Support Fund (CSF) billing. Moreover, US\$130mn in support of the IDPs is expected in the coming days. These disbursements would push the reserves up from US\$15.2bn (as at 9th Jan'10) to US\$15.6bn in the ensuing weeks.

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