

July 23, 2009

## Pakistan Market

# FFBL: 1H2009 profits down 31%YoY/Hold maintained

KSE100 Index: Closing 7802.81 ↑ (+20.58)

## MORNING BRIEFING



Fauji Fertilizer Bin Qasim (FFBL) yesterday released its 1H2009 results posting a net profit of Rs498mn (EPS Rs0.53), a decline of 31% YoY. The decline was mainly led by a sharp increase in interest expense, along with recognition of loss on share in joint venture. Along with the results, FFBL also announced a first interim dividend payout of 5%. Trading at a 2009E PE of 9.8x and dividend yield of 10.1%, we maintain our 'Hold' stance on the scrip.

## Revenues surge 164% on higher DAP offtake

FFBL's revenues rose by a massive 164% to Rs15.0bn versus Rs5.7bn in 1H2008 primarily driven by sharp surge in DAP offtake. DAP sales arrived at 279k tons versus a meagre 37k tons in corresponding period last year. Higher DAP prices and uncertainty over subsidy from GoP were major reasons for dismal DAP offtake last year, none of which were present in 1H2009. However, due to lower primary margins on DAP and higher feed stock prices, gross margins fell by 715bps to 20% versus 27% in 1H2009, though in absolute term gross profits were almost twice the level recorded in 1H2008. On a QoQ basis as well, sales were very impressive arriving at 174k tons in 2Q2009 versus 105k tons in 1Q2009. Given lower DAP prices (Rs1,600 per bag ex factory) we expect DAP offtake to remain robust in 2H2009 with our full year estimate of 1.1mn tons for the industry & 500k tons for FFBL.

## Higher finance cost & loss of JV marred profits

Despite handsome growth in the top line, FFBL's earnings were dragged down by a surge in financial charges as delay in receipt of subsidy payment on DAP from GoP pushed interest expenses to Rs 998mn up 72%YoY. FFBL had to resort to short term borrowing in order to finance working capital needs in the absence of GoP payments. Encouragingly, most of the outstanding subsidy has been received with only Rs2bn receivable as of June 30, 2009 and likely to be cleared in 3Q2009. As a result, finance cost fell by 41% QoQ to Rs370mn in 2Q2009, and is likely to continue its downward trend in 2H2009. In addition to higher financial

charges, another reason for rather subdued earnings was the Rs316mn net share of loss on 25% JV stake in PMP (Morocco), which was significantly higher than estimates. PMP which is in the business of manufacturing and marketing phosphoric acid and fertilizers is likely to have suffered from a combination of plant shutdown and declining phos acid prices, however, actual details are not yet available.

## Recommendation: 'Hold' maintained

FFBL's share price has rallied recently on the back of higher earnings & dividend expectations due to robust DAP offtake. We however believe, the scrip is trading at peak levels and does not offer any major valuation upside to investors at current levels. Trading at 2009E PE and dividend yield of 9.8x and 10.1% respectively, we maintain our 'Hold' stance on the scrip at current levels.

**Table: 1H2009 result snapshot**

(Rs in mn)	1H2009	1H2008	Δ%
Net Sales	14,998	5,674	164%
Cost of Goods Sold	12,049	4,153	190%
Gross Profit	2,949	1,522	94%
Gross Margin	20%	27%	
Administration & Distribution exp	1,078	803	34%
Operating Profit	1,872	719	160%
	12%	13%	
Finance Cost	998	581	72%
Other Expenses	77	46	69%
Other Operating Income	96	953	-90%
Profit Before Taxation	893	1,046	-15%
Taxation	395	328	20%
Profit After Taxation	498	718	-31%
Earnings per share (Rs)	0.53	0.77	-31%

Source: Company Announcement

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Fauji Fertilizer Bin Qasim	
<b>Market Price:</b> Rs19.41	<b>Kats Code:</b> FFBL
<b>Market Cap:</b> Rs18.1bn (US\$221mn)	<b>Bloomberg Code:</b> FFBL PA
<b>1-yrs Avg. Daily Volume:</b> 3.6mn shares, Rs64.4mn (US\$0.8mn)	<b>Reuters Code:</b> JORD.KA
<b>1-year High/Low:</b> Rs29.49/12.48	

## Also in focus

### SECP approves 18 Securities for deliverable futures

According to notice issued at KSE, SECP has approved trading in deliverable futures contract market for 18 securities. In addition to ten securities already expected, further eight securities have been added into the futures category including Lucky, DGKC, PTC, NML, AICL, FFBL, ANL and BAFL. This move is expected to reignite investor confidence and improve volumes.

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