

August 26, 2010

## Pakistan Market

## FFBL: 1H2010 detailed accounts review

MORNING BRIEFING



KSE100 Index: Closing 9,553.81 ↓ (-83.36)

Despite gas curtailment by the government (since April 2010), Fauji Fertilizer Bin Qasim Limited (FFBL) reported earnings of Rs1.7bn (EPS: Rs1.84) in 1H2010, an impressive growth of 246%YoY. Improved margins on account of higher urea prices and lower finance cost along with high Other income were primary reasons for growth in the bottom line.

FFBL also surprised with higher than expected second interim cash dividend of Rs1.3 per share taking the cumulative payout to Rs1.8 per share. The stock currently trades at 2010E PE and dividend yield of 6.7x and 13.8% respectively, and we maintain our 'Hold' call on the scrip.

### Gross margins soared to 32% in 1H2010

FFBL's revenues declined by 21%YoY to Rs12bn versus Rs15bn in 1H2009 primarily driven by lower volumetric sales especially of DAP (down 43%YoY) during the period. Urea and DAP offtakes arrived at 260K tons and 159k tons, versus 281K tons and 279k tons respectively in the corresponding period last year. Though higher prices for fertilizers were one of the key reasons for depressing offtakes, these helped push gross margins up by 12ppts to 32% in 1H2010.

### Lower finance costs and profit from JV

FFBL's earnings were further supported by a decline in financial charges (down 67%YoY to Rs332mn) - due to a better liquidity position and a healthy increase in Other income which rose by 413%YoY to Rs493mn. Moreover, owing to a rise in international phosphoric acid prices Pak Moroc Phosphore (PMP), FFBL's JV reported profits in 1Q2010 which were reflected in the 2Q results of FFBL. FFBL's share of profit from PMP stood at Rs122mn in 2Q2010 alone which contributed to the growth in Other income. Going forward however, increasing input prices in particularly phos-rock and sulphur are likely to pose a challenge to its JV's profitability.

### Recommendation: 'Hold' maintained

High prices for both urea and DAP along with an expected

dent in farmer income due to floods will take its toll on fertilizer offtakes in the coming quarters. Nevertheless, the scrip still offers a dividend yield of 13.8% in 2010 and trades at a PE of 6.7x in the same period. We currently maintain our 'Hold' recommendation on the scrip.

#### 1H2010 result snapshot

(Rs mn)	1H2010	1H2009	Δ%
Net Sales	11,919	14,998	-21%
Cost of Goods Sold	8,082	12,049	-33%
Gross Profit	3,837	2,949	30%
Gross Margin	32%	20%	
Administration & Distribution exp	1,299	1,078	20%
Operating Profit	2,538	1,872	36%
	21%	12%	
Finance Cost	332	998	-67%
Other Expenses	188	77	143%
Other Operating Income	493	96	413%
Profit Before Taxation	2,511	893	181%
Taxation	789	395	100%
Profit After Taxation	1,722	498	246%
Earnings per share (Rs)	1.84	0.53	246%

Source: Company accounts

Fauji Fertilizer Bin Qasim Limited	
<b>Market Price:</b> Rs27.32	<b>Kats Code:</b> FFBL
<b>Market Cap:</b> Rs25.5bn (US\$298.0mn)	<b>Bloomberg Code:</b> FFBL PA
<b>1-yrs Avg. Daily Volume:</b> 3.9mn shares, Rs110.7mn (US\$1.3mn)	<b>Reuters Code:</b> JORD.KA
<b>1-year High/Low:</b> Rs33.64/19.21	

### Also in focus

#### 6month T bill yield falls a mere 2bps

The GoP raised Rs83bn (participation of Rs150bn) through an auction yesterday, surpassing its target of Rs75bn. The cut-off yields remained unchanged for the 3-month bills at 12.51% and 12-month at 12.79%, and fell by a slight 2bps for the 6-month bills, to 12.66%. The 3-month tenure bills secured most of these funds (Rs.67.8bn) as banks have begun to prefer shorter term investments.

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