

July 26, 2010

## Pakistan Market

## FFBL &amp; FFC 1H2010 result preview

MORNING BRIEFING



KSE100 Index: Closing 10296.04 ↑ (+67.18)

Fauji Fertilizer Bin Qasim (FFBL) and Fauji Fertilizer Company (FFC) are scheduled to announce their 1H2010 results on July 27 and 29, 2010 respectively. FFBL is expected to post profit after tax of Rs1.6bn (EPS: Rs1.76) in 1H2010, up 230%YoY. While we expect FFC to earn profit after tax of Rs4.9bn (EPS: Rs7.19), a growth of 7%YoY. High urea and DAP prices during the period are primary growth drivers for the profitability of both companies. Moreover, we expect the two to announce second interim dividends of Rs0.8 and Rs3 per share, respectively.

**FFBL: 1H2010 EPS likely at Rs1.76**

Given a 20% gas curtailment for FFBL in 2Q2010, its urea sales are expected to decline by 9%YoY in 1H2010 amid lower production. Nevertheless, given the high prices of both urea and DAP, it is expected to record revenues of Rs14bn in 1H2010 compared to 15bn in the corresponding period last year. Average DAP prices during the period under review stood at Rs2,449 per bag, translating into primary margins of ~US\$230 per ton. As a result, we expect gross margins to improve to 26% from 20% in 1H2009.

**FFBL financial highlights**

(Rs mn)	1H2010E	1H2009A	Δ%
Net Sales	14,217	14,998	-5%
Gross Profit	3,723	2,949	26%
Gross Margin	26%	20%	
Operating Profit	2,673	1,872	43%
Finance Cost	248	998	-75%
Other Operating Income	285	96	196%
Profit Before Taxation	2,517	893	182%
Taxation	876	395	122%
Profit After Taxation	1,641	498	230%
Earnings per share (Rs)	1.76	0.53	230%

Source: JS Research & Company accounts

We anticipate FFBL to book ~Rs90mn of its share of loss from Pak Maroc Phosphore (PMP), its subsidiary, in 2Q2010. Furthermore, FFBL's finance costs are expected to decline by

75%YoY due to retirement of its debt upon the receipt of government's subsidy in 1Q2010.

Therefore, we expect FFBL to post earnings of Rs1.76 per share compared to Rs0.53 per share in 1H2010, an increase of 230%YoY. Additionally, the company is expected to announce a second interim dividend of Rs0.8 per share taking the cumulative dividend to Rs1.3 per share.

**FFC: 1H2010 EPS expected at Rs7.19**

We expect FFC to record revenues of Rs19bn in 1H2010 versus Rs17bn in 1H2009, an increase of 12%YoY. The expected jump in revenues is driven predominantly by higher urea prices. Average ex-factory urea prices in 1H2010 stood at 794 per bag as compared to Rs683 per bag in 1H2009, up 16%YoY. Urea offtake however, is likely to register a decline of 4% to 1.2mn tons which is mainly attributable to the gas curtailment in the 2Q2010. Moreover, higher dividend income of Rs2.75 (Rs2.25 from 4Q2009 and Rs0.5 in 1Q2010) per share from FFBL is further expected to propel the bottom line of the company to Rs4.9bn (EPS: Rs7.19).

**FFC financial highlights**

(Rs mn)	1H2010E	1H2009A	Δ%
Net Sales	18,928	16,897	12%
Gross Profit	8,059	7,615	6%
Gross Margin	43%	45%	
Operating Profit	6,245	6,107	2%
Finance Cost	510	520	-2%
Other Operating Income	1,712	1,565	9%
Profit Before Taxation	6,806	6,532	4%
Taxation	1,928	1,984	-3%
Profit After Taxation	4,879	4,548	7%
Earnings per share (Rs)	7.19	6.70	7%

Source: JS Research & Company accounts

We expect FFC to announce a second interim dividend of Rs3 per share, taking the cumulative dividend for 1H2010 to Rs7 per share.

**Recommendation**

At current levels, FFBL and FFC trade at respective 2011 PEs of 7.3x and 7.7x, offering dividend yields of 12.6% and 12.8% for the same period. We maintain our 'Buy' call on FFC at these levels while recommend 'Hold' on FFBL.

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**Also in focus****Extension of 15% RD to be decided today**

A meeting of the Cabinet Committee on Textile is to be held today, chaired by Dr Abdul Hafeez Sheikh. The agenda of the meeting is to resolve the ongoing dispute between the spinning and the value-added sector over the lapse of 15% Regulatory Duty (RD) on export of yarn effective today, July 26th. Thus, some conclusion is expected to be drawn on the issue by day end.

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