JS Research

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Pakistan Market

FFC: 2009 EPS expected at Rs13.0/'Hold'

MORNING BRIEFING

KSE100 Index: Closing 9666.48 ↓ (-22.72)

Fauji Fertilizer Company (FFC) is scheduled to announce its full year (2009) results tomorrow. We expect the company to post an EPS of Rs13.0 (PAT: Rs8.8bn) as compared to an EPS of Rs9.6 (profit of Rs6.5bn) in 2008, an increase of 35%. Higher urea prices and a healthy dividend income from FFBL are the main reasons for the rise in earnings. We further expect the company to announce a final dividend of Rs3 per share, which takes the cumulative dividend for the year to Rs12.9 per share. Currently, we have a 'Hold' stance on the scrip.

Higher urea prices boost revenues by 17%

We expect FFC to record revenues of Rs35.9bn, a growth of 17%YoY, primarily on the back high urea prices (average price: Rs704 per bag, up 21%YoY). Encouragingly, despite high urea prices, urea offtake posted a 4%YoY growth driven primarily by high farmer income. We expect gross margins to improve by 259bps to 43% in 2009.

Other Income to further support the bottom line

Additional quantum of dividend income from FFBL, a subsidiary of FFC, is expected to boost the bottom line for the company. FFC would recognize Rs1.9bn in dividend income from FFBL in 2009 versus Rs760mn in 2008, a significant increase of 150%. Therefore, the company is likely to post profits of Rs8.6bn (EPS of Rs12.7) in 2009 versus Rs6.5bn (EPS of Rs9.6) in the corresponding period last year.

Outlook: 'Hold' maintained

With Pakistan expected to remain a urea deficit country in 2010, FFC's capacity utilization is expected to remain over 100%. Moreover, even in the excess supply situation beyond 2010 (with Fatima Fertilizer and Engro's new urea plant starting full operation), big players like FFC can take advantage of its strong distribution network to keep sales volume intact. Further, given the high price differential between local (Rs750 per bag) and international (Rs1670 per share), exports remain a strong possibility.

The scrip currently trades at a 2010F PE of 7.6x and offers a dividend yield of 13%. Thus, we maintain our 'Hold' stance on the scrip.

Table: FFC 2009 earnings estimates

(Rs mn)	2008A	2009E	Δ%
Sales	30,593	35,919	17%
Cost of good sold	18,235	20,478	12%
Gross profit	**12,358**	**15,441**	**25%**
Gross margins	*40%*	*43%*	
Operating Expenses	2,669	3,338	25%
Operating profit	9,690	12,103	25%
Other Income	1,943	2,936	51%
Other charges	896	1,228	37%
EBIT	**10,736**	**13,811**	**29%**
Interest Expenses	695	1,152	66%
EBT	**10,041**	**12,658**	**26%**
Taxes	3,516	3,834	9%
PAT	**6,525**	**8,824**	**35%**
EPS	**9.6**	**13.0**	**35%**

Source: JS Research & Company accounts

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Also in focus

Pakistan repays US$600mn Sukkuk bond

Pakistan has paid US$600mn due on a 5-Year floating rate Euro Sukuk Al Ijarah bond, US$100mn of which is for the interest accumulated since January 2005. The money is expected to be drawn from the foreign exchange reserves, which as of Jan 16th stood at US$15.24bn. With the US$350mn expected to come in from the CSF by the end of this month, the reserves could be expected to shore up again after this payment.

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