

June 28, 2010

Pakistan Market

MORNING BRIEFING



FFCL: Plant visit and analyst briefing takeaways

KSE100 Index: Closing 9796.85 ↑ (+4.96)

The management of Fatima Fertilizer Company Limited (FFCL) and Arif Habib Group arranged a plant visit and conducted an analyst briefing at its site on Saturday, providing an update on the company's operations and financials. In light of the information shared along with latest offtake numbers and adjustments to our pricing and sales assumptions, we have revised our 2010 earning estimates for the company. Thus, we now expect FFCL to post earnings of Rs0.11 per share as compared to Rs0.05 earlier in 2010. With 15% potential upside to our TP, we recommend investors to 'Hold' on FFCL.

Analyst Briefing takeaways

FFCL's ammonia, urea, CAN and nitric acid plants have already come online with urea production commencing in March 2010, while production of CAN officially started in November 2009. This is evident from the latest NFDC's (National Fertilizer Development Centre) latest report which shows a cumulative offtake for the year so far at 46k and 15k tons of urea and CAN, respectively. In light of the latest figures along with delays in urea production by 2 months we have revisited our production and sales estimates. We now expect the company to sell 392k and 340k tons (442k and 363k tons earlier) of urea and CAN respectively, in 2010.

On the positive front, the increase in prices of both urea and CAN is likely to more than offset the impact of our downward revision in FFCL's new production and sales estimates. Consequently, our 2010 earnings estimates now arrive at Rs0.11 per share (Rs0.05 per share earlier). The NP plant however is still under construction and is expected to come online by December 2010, which is inline with our earlier expectations.

Moreover, the company is also planning to issue an American Depository Receipt (ADR) by end 2010 with Bank of New York Mellon being its assisting firm. However, no details on this were disclosed.

Gas curtailment; no risk at the moment

As per the management, the ongoing gas curtailment does not pose as a hindrance to the company at the moment, as their NP plant has still not begun operations. However, if this curtailment continues in the long term we believe it will become a major challenge for the company, especially when its NP plant is commissioned in December 2010.

Outlook: 'Hold' at current levels

With diversified product portfolio we believe the company is better placed amongst its peers to take advantage of the untapped market of other fertilizers (CAN and NP). Moreover, the company has a joint marketing department with already established Pak Arab Fertilizer Company (PAF) which is likely to provide cost synergies to the company. Further, with its NP plant coming online in December 2010 we expect the company's revenues to grow by 52% in 2011 to Rs18bn. The scrip currently trades at a (post NP Plant) 2011 PE and PBV of 10.2x and 0.41x respectively and we currently have a 'Hold' stance on the scrip.

FFCL's revised earning estimates

	Previous EPS	Revised EPS
2010E	0.05	0.11
2011F	1.06	1.16
2012F	1.34	1.45

Source: JS Research

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Also in focus

Fertilizer offtake flat in 5M2010

According to the latest fertilizer data released by the National Fertilizer Development Centre (NFDC), total fertilizer offtake for the 5M2010 was recorded at 3.1mn tons.

DAP offtake in 5M2010 was recorded at 280k tons, down 16%YoY. The decline in DAP offtake is attributable to higher DAP prices during the period which averaged at Rs2,400 per bag compared to Rs1,900 per bag last year. However, on a monthly basis, offtake actually increased by 121% to stand at 49k tons compared to a mere 22k tons in April 2010. FFBL was able to register an offtake of 22k while Engro managed to sell 12k tons of DAP during the month.

Urea offtake witnessed growth of only a single ppt to 2.5mn tons during 5M2010. Encouragingly, despite the gas curtailment issue, urea offtake on a monthly basis registered a growth of 31% to 591k tons. FFC's offtake stood at 192k tons while Engro's and FFBL's stood at 77k tons and 48k tons, respectively.

'000 tons	All Fertilizer		UREA		DAP	
	May-10	May-09	May-10	May-09	May-10	May-09
Opening Inventory	428	532	151	76	129	246
Imported supplies	323	54	284	52	37	1
Domestic production	614	579	452	441	59	56
Total availability	1,365	1,165	888	569	224	304
Offtake	735	668	591	466	49	95
Write off / on	0	6	(0)	1	-	0
Estimated balance	631	491	297	102	175	209

Source: NFDC Fertilizer Review Mid Jun 2010

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