

July 29, 2009

Pakistan Market

FFC: EPS of Rs6.7 expected in 1H2009

MORNING BRIEFING



KSE100 Index: Closing 7674.77 ↓ (-36.29)

As the result season gathers further momentum another important company, Fauji Fertilizer Company (FFC), will be announcing its first half 2009 results on July 31, 2009. We expect the company to post an EPS of Rs6.65, an increase of 37%. Higher urea prices along with additional quantum of dividend income from FFBL are the major reasons for increase in earnings.

Along with the results, we expect company to announce Rs2.7 per share cash dividend taking the cumulative dividend for the year to Rs7per share. We reiterate our liking for FFC, due to its high dividend payout ratio and low business risk.

Higher urea prices propel 20% revenue growth

We expect FFC to record revenues of Rs16.8bn in 1H2009 versus Rs14bn in 1H2008 an increase of 20%YoY. The sharp jump in revenues is driven primarily by higher urea prices as urea offtake remained at 1.3mn tons close to levels recorded in 1H2008. Average ex-factory urea prices in 1H2009 stood at 684per bag as compared to Rs529 per bag in 1H2008, up by 29%. As a result, we expect gross margins to improve by 188bps to 46% versus 44% in the corresponding period last year.

Core earnings to remain strong in 2Q2009

A combination of a strong urea offtake and high urea prices would ensure that core earnings continue to remain strong in 2Q2009 as well. FFC sold 624k tons of urea at an average price of Rs690 per bag which is expected to propel total revenues to Rs8.6bn up 24%YoY. Thanks to higher average ex factory urea prices of Rs690 per bag and no change in feed stock gas prices during the period, gross margins are likely to remain strong at 46% up 162bps QoQ.

Recommendation: 'Buy' reiterated

Due to guaranteed offtake amid urea shortage in the country and government's having pro agriculture policies, business risk continues to remain low for FFC. As a result we expect company's earning to depict a 29% growth in 2009 to Rs12.4

per share. Trading at 2009E PE of 7.7x and offering one of the highest dividend yields of 13% amongst JS Universe companies we reiterate our 'Buy' stance on FFC at current levels.

Table: 1H2009 Financial highlights

Rs mn	1H2009E	1H2008	Δ%
Net Sales	16,799	14,025	20%
COGS	9,068	7,907	15%
Gross Profit	7,731	6,118	26%
<i>Gross Margins</i>	<i>46%</i>	<i>44%</i>	
EBIT	7,000	5,129	36%
Profit Before Tax	6,479	4,898	32%
Tax	1,527	1,011	51%
Profit After Tax	4,514	3,286	37%
EPS (Rs)	6.7	4.8	37%

Source: Company Accounts, JS Research

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Also in focus

UBL: 1H2009 EPS stood at Rs3.85, down 23%YoY

United Bank Limited (UBL) announced its first half (Jan-June) 2009 results today. The company posted net profits of Rs4.3bn (diluted EPS Rs3.85) versus earnings of Rs5.6bn (EPS Rs5.03) in 1H2008 – a decline of 23%YoY. Net Interest Income rose a healthy 20%YoY, however provisions for NPL's remained the major reason behind the decline in profitability as NPL's rose by 172%YoY to Rs5.3bn.

Moreover, non interest income fell 4% to Rs5.8bn as there was a decline in fee income (down 4%YoY), a lower gain on sale of securities (down 76%YoY) and income from dealing in foreign currencies (down 28%YoY). As expected, UBL did not announce any payout with the results.

(Rs in mn)	1H2009	1H2008	Δ%
Mark-up interest earned	31,820	23,170	37%
Mark-up interest paid	(15,987)	(9,954)	61%
Net interest income	15,833	13,216	20%
Provisions/write offs/reversal	(6,424)	(2,544)	153%
	9,409	10,672	-12%
Non interest income	5,781	6,034	-4%
Operating expenditures	(8,421)	(7,809)	8%
Profit before tax	6,769	8,898	-24%
Taxation	(2,481)	(3,304)	-25%
Profit After Taxation	4,288	5,594	-23%
Earning per share (EPS)	3.85	5.03	-23%

Source: Company announcement

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