July 30, 2010

Pakistan Market

MORNING BRIEFING

FFBL and Engro analyst briefings takeaways

KSE100 Index: Closing 10438.66 ↑ (+2.37)

Fauji Fertilizer Bin Qasim (FFBL) and Engro Corporation (Engro) held their respective analyst briefings yesterday to discuss their 1H2010 result. FFBL reported earnings of Rs1.7bn (EPS: Rs1.84) while Engro posted profit after tax of Rs3.4bn (EPS: Rs10.37) in the period under review. Both the companies announced dividend payouts of Rs1.3 and 2 per share in 2Q2010, respectively. Currently, we maintain our 'Buy' call on Engro while upgrade our stance to 'Buy' on FFBL from 'Hold' earlier.

FFBL analyst briefing takeaways

FFBL posted earnings of Rs1.7bn (EPS: Rs1.84) compared to profits of Rs498mn (EPS: Rs0.53) in 1H2009. The company also announced a second interim cash dividend of Rs1.3 per share, taking the cumulative dividend to Rs1.7 per share.

This impressive growth was due to high urea & DAP prices, lower financial charges and profit from Pak Moroc Phosphore's (PMP) 1Q2010. The profit from PMP (Rs30mn for FFBL in 1H2010) is attributable to high phosacid prices and declining input costs (low sulphur and phosrock prices) during 1Q2010.

Regarding the gas curtailment issue, the company's management indicated that the actual gas being curtailed averaged around 14-15% compared to the initially planned curtailment of 20%. This along with carried forward Ammonia inventory from 1Q2010 helped the company record higher urea production during 2Q than initial estimates. Given better than expected 1H2010 result and revision in the gas curtailment and price assumption, we have tweaked upwards our 2010E full year earnings estimate to Rs3.8bn (EPS: Rs4.09) compared to the earlier estimate of Rs3.4bn (EPS: Rs3.64).

Given the upward revision in our earnings estimate we have upgraded our stance on FFBL to 'Buy' from 'Hold' earlier. The scrip currently trades at a 2011F PE and offers a dividend yield of 6.8x and 13.5%, respectively.

EFL and Eximp led growth for Engro

Engro posted earnings of Rs3.4bn (EPS: Rs10.4) in 1H2010 compared to profit after tax of Rs1.1bn (EPS: Rs3.2) in 1H2009, up 220%YoY. Engro Fertilizer Limited (EFL) and Engro Eximp (the trading arm) were major growth drivers as the two subsidiaries recorded profits of Rs2bn and Rs973mn, respectively. However, losses posted by Engro Polymer (Rs295mn) and Avanceon (Rs94mn) remained minor irritants. In terms of revenue, Engro Foods contributed a major chunk of Rs9.8bn to Engro's total revenue. However, heavy marketing and advertisement expenses during 2Q2010 for the ice cream segment led to the subsidiary reporting a loss of Rs180mn for 1H2010.

Engro 1H2010 result snapshot

(Rs mn)	1H2010	1H2009
Engro Fertilizer	2,012	743
Engro Eximp	973	199
Engro Energy	379	(40)
Engro Foods	(180)	(292)
Engro Polymer	(449)	13
Avanceon	(94)	(90)
Share of profit from Vopak	259	195

Source: Company presentation

The major focus of the briefing remained on the gas curtailment issue and Engro's new urea plant (Enven 1.3) which is scheduled to come online in 3Q2010. The company is expecting to start commercial production by September end or early October. However, to be on a conservative side we have now assumed the new plant to start commercial production from November 2010. However, gas curtailment is expected to continue till October 31, 2010 which along with any hiccups during the commissioning of the new plant remains downside risks for the company.

Higher sales attributable to speculative buying on rising international DAP prices during 1Q2010 led to higher net profit for Engro Eximp at Rs973mn compared to Rs199mn in the same period last year. Going forward, we believe DAP offtake to remain slow in 3Q2010 due to high prices.

Based on the late commercial production of the new plant, better margins in 3Q amid prolonged gas curtailment and higher than expected EFL's 2Q2010 result, we have revised our full year earnings expectation for EFL to Rs9.5 per share from Rs8.1 earlier. Therefore, our full year earnings estimate for Engro arrives at Rs19 per share from 17.2 earlier.

The scrip currently trades at 2011E and 2012F PEs of 8.4x and 7.4x and we maintain our 'Buy' call on the scrip.

Revised 2010 earnings estimate

(Rs/share)	New	Old
FFBL	4.09	3.64
FFC	14.30	13.81
Engro	17.20	19.00

Source: JS Research

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