

July 31, 2009

Pakistan Market**FFC: 1H2009 EPS of Rs6.7 up 38%/‘Buy’ maintained**

KSE100 Index: Closing 7491.76 ↓ (-45.22)

MORNING BRIEFING

In line with our expectations, Fauji Fertilizer Company (FFC) in its just released 1H2009 results posted earnings of Rs4.5bn (EPS Rs6.7) an increase of 38%YoY. Higher urea prices along with additional quantum of dividend income from FFBL were the major reasons for the jump in earnings. Continuing with its tradition of strong dividend payout FFC also announced a second interim dividend of Rs2.6 per share taking the cumulative dividend per share for 2009 to Rs6.9.

Revenues rose 20% on higher urea prices

As expected FFC posted revenues of Rs16.9bn in 1H2009 up a handsome 20% versus Rs14bn in 1H2008. 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%. Thanks to higher urea prices, gross margins improved by 145bps to 45.1% from 43.6% previously.

Dividend income mitigates rising finance cost

Higher dividend income from FFBL of Rs1.1bn (up 125%YoY) helped to completely mitigate the impact of rising finance cost and other expenses. Finance cost stood at Rs520mn 126% higher than Rs230mn last year, while increasing inflationary pressures saw other expenses rise by 51% to Rs620mn. Hence, FFC's net profit margin rose by 348bps to 27% in 1H2009 as against 23% in 1H2008.

Impressive performance continues in 2Q2009

The impressive performance of FFC continued in 2Q2009 with the company recognizing profits of Rs1.9bn (EPS 2.74) up 20%YoY. Revenues rose by 25%YoY to Rs8.7bn while gross margins remained stable at 45%. A combination of higher ex-factory prices and increased volumetric urea sales contributed towards the impressive topline growth. Average ex-factory urea prices in 2Q2009 stood at 690per bag as compared to Rs547 per bag in 2Q2008, while urea offtake

stood at 625k tons as against 589k tons earlier.

Recommendation: ‘Buy’ reiterated

Another strong set of financial results and dividend payout further strengthens our liking for FFC. Trading at 2009E PE of 7.6x and offering one of the highest dividend yields of 13% amongst JS Universe companies we reiterate our ‘Buy’ stance on FFC at current levels.

(Rs mn)	1H2009	1H2008	Δ%
Net Sales	16,897	14,025	20%
Cost of Sales	9,281	7,907	17%
Gross Profit	7,615	6,118	24%
Gross Margin	45%	44%	
Distribution Costs	1,508	1,258	20%
Operating Profit	6,107	4,861	26%
	36%	35%	
Finance Cost	520	230	126%
Other Expenses	620	410	51%
Other Income	1,565	678	131%
Profit Before Taxation	6,532	4,898	33%
Taxation	1,984	1,612	23%
Profit After Taxation	4,548	3,286	38%
Basic Earnings per share	6.7	4.8	38%

Source: Company Announcement

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Also in focus**IMF to discuss US\$4bn funding request on Aug 7th**

IMF Director of External Relations, Caroline Atkinson the IMF board is set to discuss Pakistan's request for additional funding in its executive board meeting on Aug 7. Pakistan has requested an additional US\$4bn from IMF to shore up the economy and meet fiscal financing needs. IMF meeting will be followed by the monetary policy statement due on (Aug 15), with a cut in discount rate on the cards.

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