

Equity Research Pakistan

In Focus

Fertilizer Overweight

FFBL - BUY

TP Dec-12: PKR 50

Current Price: PKR 43

Farid Aliani

farid@bmacapital.com

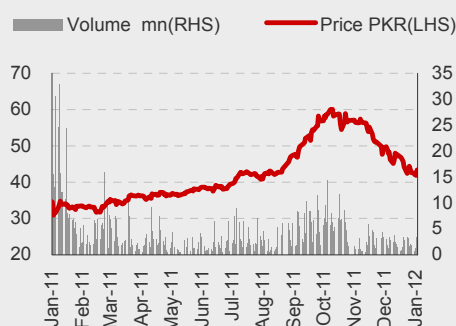
Stock Statistics

Ticker		FFBL
Mkt Cap	USD mn	454
12M ADT	mn shares	4.2
Shares Outstanding	mn	934

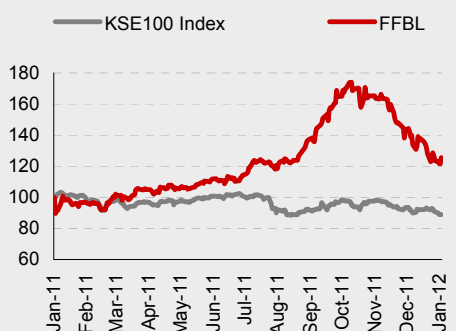
Stock Performance

	1M	3M	12M
Absolute %	-12%	-26%	26%
Relative to KSE %	-7%	-16%	37%

Price and Volume Graph



FFBL vs KSE100 Relative Index Chart



Fauji Fertilizer Bin Qasim (FFBL): Earnings to Peak in CY11

- We expect Fauji Fertilizer Bin Qasim (FFBL) to report PAT of PKR10,560mn (EPS: PKR11.31) for CY11, representing impressive growth of 62% in its result announcement on January 26, 2012
- For 4QCY11, the company is expected to post PAT of PKR3,391mn (EPS: PKR3.63), declining by 5% YoY due to 29% and 49% decline in DAP and urea off-takes respectively
- We expect the company to announce a final cash dividend of PKR3.5/share, taking cumulative payout for CY11 to PKR10.0/share
- For CY12, FFBL faces multiple challenges arising from declining international DAP prices, lower urea margins and gas supply concerns exacerbating in winter
- Our CY12E earnings for FFBL stand at PKR6.66/share whereas our Dec12 TP for the company stands at PKR50

Fauji Fertilizer Bin Qasim (FFBL) is expected to announce its CY11 earnings on Thursday, January 26, 2012. We expect the company to report PAT of PKR10,560mn (EPS: PKR11.31) representing impressive growth of 62%.

For 4QCY11, the company is expected to post PAT of PKR3,391mn (EPS: PKR3.63), declining by 5% YoY due to ~ 29% lesser DAP volumes and ~49% decline in urea off-takes on the back of exacerbated gas curtailment at their urea plant in Dec11. However, substantially high urea and DAP margins compared to 4QCY10 would have helped offset the drop in volumes, resulting in only a 5% YoY and 7% QoQ decline in the bottom-line.

We expect the company to announce final cash dividend of PKR3.5/share, taking cumulative payout for CY11 to PKR10.0/share.

Financial Summary: FFBL CY11E

PKR mn	CY11E	CY10A	▲	4QCY11E	4QCY10A	▲
Sales	55,318	43,257	28%	18,996	21,055	-10%
Gross Profit	20,505	13,463	52%	6,750	6,781	0%
Distribution & Admin cost	2,613	2,585	1%	760	854	-11%
Finance cost	1,104	934	18%	348	214	63%
Net Profit Before Taxation	16,189	9,686	67%	5,298	5,378	-1%
Net Profit After Taxation	10,560	6,514	62%	3,390	3,583	-5%
EPS	11.31	6.97		3.63	3.84	

Source: BMA Research, Company Reports

The Party is Over: Declining Margins to Dent CY12 Earnings

For CY12, FFBL faces multiple challenges arising from declining international DAP prices, declining urea margins and gas supply concerns exacerbating in winter. Significant capacity addition (3mtpa from Maaden Phosphates) has already



Equity Research Pakistan

In Focus

Fertilizer Overweight

started to push international DAP prices downwards, with DAP Tampa Current month trading at USD510/ton, down 22% from its Sep11 high of USD650/ton. Thus lower DAP import cost is sure to pressurize local DAP margins for FFBL. Combined with lower margins from urea due to gas price hike and disproportional urea price hike in response, our CY12E earnings for FFBL stand at PKR6.66/share. Our Dec12 target price for the company is PKR50/share, justifying a buy stance at current levels.

Glossary

- *TP: Target Price*
- *EPS: Earning per share*
- *PER: Price to earnings ratio*
- *PBV: Price to Book ratio*
- *DY: Dividend Yield*