

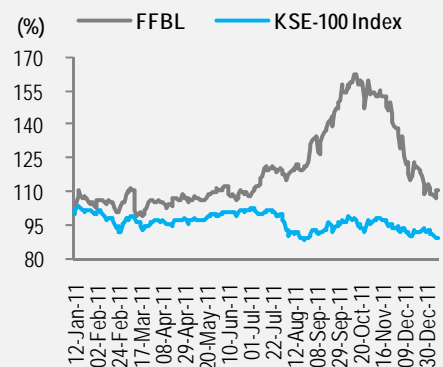
Chemicals
Over Weight
FFBL PA

Price Target: PKR42/Share
Closing Price: PKR43.3/Share
HOLD

Stock Statistics

12m Price Range (PKR)	63.7 – 38.6
Market Cap (PKR mn)	40,437.6
Outstanding Shares (mn)	934.1
Avg. Daily Volume mn (YTD)	2.3

1Yr – Relative Performance



Source: Elixir Research

FFBL-Summary	CY11E	CY12E	CY13E
EPS (PKR)	10.62	6.63	5.26
DPS (PKR)	9.5	6.2	4.9
PER (x)	4.1	6.5	8.2
Div. Yield	21%	14%	11%
EV/EBITDA (x)	2.2	3.2	3.9
P/BV (x)	3.2	3.1	3.0
ROE	77%	47%	37%

Source: Elixir Research

Ali Ahmad Tiwana^{AC}
atiwana@elixirsec.com
(+92-21) 111 354 947 Ext:3119

FFBL: Investment case weakens after GIDC implementation

Local DAP prices likely to sustain: Our channel checks suggest that Engro is eyeing import around 25 – 30ktons at CFR price of USD600-610/tons. Moreover, Engro previous DAP import transaction was concluded at a CFR price of USD680/ton. At these prices, local price DAP comes to around PKR4084/bag. Therefore, given nearly 150ktons of DAP available inventory and recent transaction prices suggest that there is strong likelihood of DAP prices to sustain in 1Q as well.

International DAP prices likely to stabilize in 2Q: In an attempt to counter the deteriorating DAP prices amid weak demand and ample stock, major DAP manufactures, Mosaic, PhosArgo and OCP, have cut their production for Jan-Mar-12 period. Moreover, recovery in demand, which is likely to emanate from upcoming spring season in US (starts from Mar-12) and Pakistan Kharif season shall help DAP prices to stabilize in 2Q.

Higher feed stock prices; FFBL impacted the most: With PKR215/bag upward revision in urea price, FFBL has passed on 14% hike in fuel and feed gas price and 68% of GIDC. However, increase in gas stock prices has also jacked up DAP production cost by an estimated PKR170/bag which has resulted in an annualized impact of PKR1.55/share on FFBL's bottom line.

Investment case downgraded: Since Phos acid contract still remains to be set, we have assumed 17% YoY lower DAP primarily margins of USD272/ton for CY12, while our long term margin assumption is USD250/ton. With a cumulative PKR2.5/share impact of increase in feed stock prices, we have revised down our future EPS estimates by 26/36%. Resultantly our Jun-12 PT has reduced by 32% to PKR42/share. With CY12 dividend yield of 14% along with downside of 3% to revised target price, we downgrade our stance for FFBL from buy to neutral. Hold

Local DAP prices would likely sustain

After witnessing a high of USD660/tons during 3QCY11, DAP prices have been moving south since then. Our industry sources reveal that the ENGRO is seeking import of around 25 – 30k tons of DAP in Jan-12 at CFR price of USD600-610/ton. Moreover, Engro earlier transaction on January 06, 2012 happened at a price of USD680/ton. Average of these prices translate to a local DAP price of PKR4084/bag, suggesting local prices could sustain at the current level of PKR4070/bag during 1Q as well.

Phos acid contract remains unsettled

Phos acid contract price for 1QCY12 between Indian buyers and OCP has still not been set. OCP is eyeing a rollover of 4QCY11 contract price (USD1080/ton) while Indian manufacturers are eyeing a price of USD920-930/ton. FFBL's Phos acid contract price is usually set equal to the contract price of Indian importers, which would most likely settle in the vicinity of USD980-1000/ton.

International DAP prices likely to stabilize in 2Q

Deteriorating DAP prices backed by weak demand coupled with ample stock led major DAP produces to cut their production. Mosaic, OCP and PhosArgo have curtailed their production by nearly 18% during 1QCY12. This along with recovery in demand emanating from upcoming spring season in US (starts from March) and Kharif in Pakistan shall help prices to stabilize in 2Q. However, increase in DAP supply with the commencement of Saudi's MPC, which is expected to add 150kton to world's DAP supply in 2QCY12, shall remain a concern for the international DAP prices.

GIDC; FFBL impacted the most

In response to increase in feed stock price, FFBL has revised up its urea prices by PKR215/bag where it passed on 14% hike in fuel and feed gas prices along with nearly 68% of increment in urea cost due to GIDC. Thus, FFBL still requires an additional PKR80/bag hike in urea prices to exactly offset the incremental cost or otherwise take an annual hit of PKR0.95/share. In addition to that, increase in feed stock price has also jacked up DAP production cost by an estimated PKR170/bag which translates to an annual impact of PKR1.55/share.

Investment case downgraded

Increase in DAP cost, post increase in feed/fuel stock prices, and a mere 68% GIDC pass through has resulted in PKR2.5/share reduction in our future estimates. Furthermore, in the backdrop of weak prices, we have also assumed 17% YoY lower DAP primary of USD272/ton for CY12, while our long term margins assumption is USD250/ton. Rising supply would be a downside risk to our long term DAP margins. Given the uncertainty regarding Phos acid contract, we have maintained DAP and Phos acid prices at the current level for CY12. Resultantly, we have reduced our Jun-12 PT price by 32% to PKR42/share. Our investment case for FFBL downgrade from Buy to Hold. With CY12 dividend yield of 14%, the scrip offers a total return of 11% to our revised Jun-12 PT.

Economic & Political News

Capital market, corporate sector boost: FBR urged to consider new taxation proposals

Securities and Exchange Commission of Pakistan has proposed the Federal Board of Revenue to consider new taxation proposals for development of capital market and corporate sector. This includes income-based Capital Gain Tax on stock market against the existing transaction based fixed rate of CGT, major reduction in corporate tax rate and increase in the tax rates on the National Saving Schemes (NSS).

Forex reserves ease to USD16.90bn

Pakistan's foreign exchange reserves eased to USD16.9bn by the week ended on January 5 against USD16.9bn. The reserves held by the central bank came down to USD12.8bn from USD12.9bn by the week ended on December 30, 2011. However, the reserves held by commercial banks slightly improved to USD4.1bn against USD4.1bn a week ago.

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