

PAKISTAN

Fauji Fertilizer Company

20 January 2012

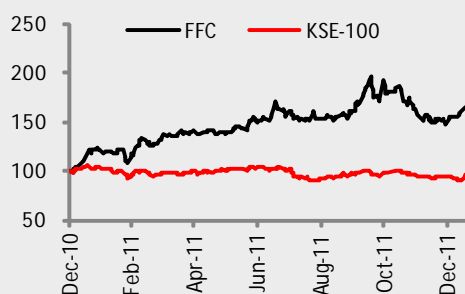
FFC PA		Outperform
Stock price as of 19 Jan	Rs	166.0
Jun-12 target	Rs	194.2
Upside/downside	%	17.0
Valuation	Rs	194.2
- DCF based		

Fertilizer Sector		
Market cap	Rs bn	140.8
30-day avg turnover	US\$m	3.3
Market cap	US\$m	1,564
Number shares on issue	m	848

Investment fundamentals

Year end 31Dec		2010A	2011E	2012E	2013E
Total revenue	m	44,874	55,015	76,469	77,646
EBIT	m	17,397	31,285	30,477	28,670
EBIT Growth	%	24.2	82.4	(4.0)	(5.9)
Recurring profit	m	11,029	20,557	20,381	19,344
Reported profit	m	11,029	20,557	20,381	19,344
EPS rep	Rs	13.00	24.34	24.03	22.81
EPS rep growth	%	25.0	87.2	(13)	(5.1)
EPS rec	Rs	13.00	24.34	24.03	22.81
EPS rec growth	%	25.0	87.2	(13)	(5.1)
PE rep	x	12.8	6.8	6.9	7.3
PE rec	x	12.8	6.8	6.9	7.3
Total DPS	Rs	10.40	22.25	22.50	22.00
Total div yield	%	6.3	13.4	13.6	13.3
ROA	%	25.6	48.3	44.5	42.5
ROE	%	71.4	119.8	110.0	100.6
EV/EBITDA	x	8.2	4.5	4.5	4.8
Net debt/equity	%	-12.9	-16.2	-45.0	-38.2
Price/book	x	9.1	8.2	7.6	7.3

FFC PK rel KSE100 performance



Source: Bloomberg, Foundation Research, Jan 2011
(all figures in PKR unless noted)

Analyst

Taha Khan Javed, CFA
92 2135612290-94 Ext 313 taha@fs.com.pk

Record earnings in CY11 thanks to higher urea prices and dividend income

Event

- We preview FFC's CY11 results and expect the company to report a net profit of PKR20,557mn (EPS PKR24.24, up 86% YoY) and gross profit of PKR32,300mn (up 65% YoY). We also anticipate a final cash payout of PKR7.5/share for 4QCY11, taking the full year cash payout to PKR22.25/share. Cash payout may decrease if the company opts for bonus issue (given the share price surge). We maintain our Outperform stance.

Analysis

- Higher urea prices to propel margins:** Top line is projected to increase by 23% YoY despite slight dip in urea sales, mainly due to higher urea selling prices. Urea volumes in CY11 are expected to decline by 4% YoY (gas curtailment) to 2,391k tons (we have assumed 189k tons urea sales in Dec). Gross profits are expected to improve by a whopping 65% mainly due to urea price rise. Operating profits are projected to improve by 78% YoY despite double digit rise in distribution costs. Operating margins in CY11 have jumped to 51% compared to 35% in CY10. QoQ operating profits are expected to improve by 26% in 4q despite flat urea sales, due to urea price increase in October.
- Record dividend income from FFBL expected in CY11:** Other income during CY11 is projected to jump by a massive 94% thanks to robust dividend income from FFBL. 4QCY10 FFBL dividend of PKR3.5/share, plus PKR6.5/share announced in 9MCY11 will be booked by FFC in CY11 accounts. Thus FFC will book PKR10/share of FFBL dividend in CY11. FFBL's 4QCY11 dividend is also expected to be handsome (PKR3.0/share), which will keep FFC's 1QCY12 earnings buoyant.
- Urea price decline assumed in 2QCY12:** With FFC/FFBL also raising urea prices (now stand at PKR1,798/bag) the spread between international and local urea price is declining. Once Enven production starts from 2QCY12, it is likely that government/farmer lobby will put pressure on Engro to decrease urea prices. Taking a conservative stand we have decrease urea price by (gross) PKR100/bag in our model. In case prices remain flat at current level; our CY12 EPS will improve by PKR2.1 to PKR26.1.

Earnings Revision

- Incorporating reduction in FFBL dividend and decline in urea price from 2QCY12, our CY12 and CY13 earnings decline by 11% and 16%, respectively..

Price catalyst

- June-12 price target: PKR194.2/share based on discounted cash flow valuation.
- Catalyst: Urea price change, any change in gas supply position/regulatory regime and progress on wind power project.

Action and recommendation

- The stock is trading at CY12 P/E of 6.9x and offers a dividend yield of 13.6%. We maintain our Outperform stance.

Fig 1: FFC's earnings forecast

Rs mn	CY10	CY11f	YoY	3QCY11	4QCY11f	QoQ
Net sales	44,874	55,015	23%	14,311	16,483	15%
COGS	25,310	22,715	-10%	6,012	6,176	3%
Gross Profit	19,564	32,300	65%	8,299	10,307	24%
Operating Profit	15,619	27,804	78%	7,212	9,065	26%
EBIT	17,397	31,285	80%	8,052	9,944	23%
Financial charges	1,087	755	-31%	131	152	16%
PBT	16,310	30,530	87%	7,921	9,792	24%
Tax	5,281	9,973	89%	2,275	3,070	35%
PAT	11,029	20,557	86%	5,646	6,722	19%
EPS	13.00	24.24	86%	6.66	7.93	19%
DPS	10.40	22.25	114%	5.50	7.50	36%

Source: Company data, FS Research, Jan 2012

About The Company

Fauji Fertilizer Company Limited (FFC) is the largest fertilizer manufacturing company in Pakistan with a market share of 60%. FFC was incorporated in 1978 as a private limited company, in a joint venture between Fauji Foundation (a leading charitable trust in Pakistan) and Haldor Topsoe A/S of Denmark. The initial authorized capital of the company was Rs 813.9mn, while the present share capital of the company stands at Rs 3.0bn. FFC also has 51%, 12.5% and 13.5% stake in Fauji Fertilizer Bin Qasim Limited (formerly FFC-Jordan Fertilizer Company Limited), Pak Maroc Phosphore (PMP) and Fauji Cement Company Limited (FCCL) respectively. FFC commenced commercial production of urea in 1982 with designed annual capacity of 570k tons, which has been subsequently augmented to 2.05mn tons at present.

FFC has recently decided to diversify into power sector and plans to build a 50MW wind power project at Jhimpir, Sindh. The estimated cost is USD130mn and COD in CY12.