

# Capital Market Daily

## Company Update

### FFBL CY11 - Result Preview

#### End of high profitability

FFBL is scheduled to announce its CY11 result on Jan 26'11 and we expect the company to post 55% YoY growth in bottomline to PKR 10.78/share. We tag the massive growth to 1) Higher urea prices; and 2) Robust DAP margins coupled with expectation of higher other income. During 4Q CY11 alone, earnings are expected to bear the brunt of lower production. As a result we expect profit after tax to decline on a YoY and sequential basis by 19% YoY and 21% QoQ respectively to PKR 3.11/share. Moreover, along with the result we anticipate the company to announce final dividend of PKR 2.75/share, taking full payout to PKR 9.25/share in CY11.

PKR mn	3mo ending		%	Δ	12mo ending		%	Δ
	Dec10	Dec11E			Dec10	Dec11E		
Net revenue	21,055	19,120	▼	9	43,257	55,441	▲	28
Net profit	3,583	2,904	▼	19	6,514	10,074	▲	55
EPS	3.84	3.11			6.97	10.78		
DPS	3.50	2.75			6.55	9.25		

Source: Company accounts, Global estimates

#### Higher prices, DAP margins reflect a record profit!

Topline is expected to inch up by 28% YoY to PKR 55.44bn in CY11 mainly supported by higher urea prices, up by 43% YoY coupled with strong DAP margins of ~USD 289/MT. We forecast production of urea to go down by 18% YoY while DAP is expected to rise by a meager 2% YoY. On the flipside, offtake of urea is expected to go down by 18% as well, while sales of DAP is projected to remain stable at 656k MT. Moreover, incorporating higher prices we estimate gross margins to clock in at 35%. In addition, higher returns from cash balance and stable profit from PMP has further supported bottomline growth.

However, with higher gas curtailment issues in the country, FFBL witnessed lower production of urea and DAP during 4Q CY11, down by 26% YoY and 5% YoY respectively. As a result, offtake is projected to decline by 39% YoY and 30% YoY for urea and DAP respectively. Moreover, urea prices were volatile during the said period as we witnessed a cumulative price hike by ~PKR 200/bag, while DAP prices remained constant during the period under review. Hence, topline is expected to decline by 9% YoY to PKR 19.12bn in 4Q CY11 despite lower offtake. Furthermore, with phos acid price of USD 1,080/MT during the last quarter and no major change in the input cost, we estimate gross margin to clock in at 29.5%, lower by 2.7ppts YoY. Moreover, profitability from PMP remains our concern as rising input cost will drag down income from the strategic investment. Additionally, we believe other income will improve marginally by 2% YoY to PKR 340mn.

#### CY12 to stay bleak

With the onset of CY12, we believe FFBL will not witness another record breaking year. Recall our CMD (dated Dec 08'11), where we mentioned ongoing gas supply issues have resulted in lower urea production in the last quarter while the company had increased focus on DAP due to higher margins. We believe, declining international prices on account of lower grain prices and addition of new capacities will eventually have its effect on local prices. However, current DAP prices remain firm at PKR 4,070/bag, mitigated by depreciating PKR against USD and lower production. In addition, with the setting of phos acid price for 1Q CY12 we will be able to determine DAP primary margins more accurately. Nonetheless, we have incorporated a decline in DAP margins to ~USD238/MT during CY12, where we anticipate a decline in local DAP prices with lower cut in phos acid prices during the year.

#### Valuation

We rollover our price target for FFBL to Dec12 at PKR 50/share along with incorporating 1) Stable urea prices and 2) Declining DAP margin outlook for CY12. Earnings outlook for CY12 is weak due to 1) Lower DAP primary margin projected at USD 238/MT for CY12; and 2) Higher gas charges along with inability to full price pass through couple with ongoing gas curtailment issues. We advise investors to **HOLD** the stock as the scrip is trading at a discount of 7% from our price target. At current levels FFBL offers a very attractive dividend yield of 14% for CY12.

Equities	Jan 19'12	% Δ
KSE100	11,515.59	▼ 0.28
Market Cap (PKR bn)	2,991.75	▼ 0.24
Volume (shares mn)	92.47	▲ 10.44
Value (PKR mn)	3,539.03	▼ 12.85

Fixed Income	Jan 19'12	
<b>T-bills</b>	<b>Bid</b>	<b>Bp Δ</b>
3 months	11.67%	▼ 2
6 months	11.74%	▼ 1
12 months	11.79%	▼ 2

PIBs	Bid	
2 yr	12.00%	▼ 4
5 yr	12.46%	▼ 1
9 yr	12.51%	▼ 2

KIBOR	Jan 19'12	Bp Δ
1 month	12.04%	▲ 2
3 months	11.88%	-
6 months	11.93%	-

Exchange Rate	Bid	Offer
PKR/USD	90.05	▼ 90.08

Crude Oil	USD/barrel	% Δ
OPEC basket	111.78	▼ 0.41
US light sweet (WTI)	100.39	▼ 0.20

#### Major Events

Jan 25'12 T-bill Auction

#### Board Meetings

Jan 24'12	Honda Atlas Cars
Jan 24'12	Byco Petroleum Pakistan Ltd
Jan 25'12	Pak Petroleum Ltd.
Jan 26'12	Fauji Fert Bin
Feb 01'12	Attock Refinery Ltd.
Feb 02'12	Pak Oilfields
Feb 02'12	Attock Petroleum
Feb 03'12	Unilever Foods
Feb 09'12	UniLever Pak. Ltd.
Feb 15'12	Kot Addu Power Co. Ltd.

#### AGMs / EOGM

Feb 28'12	Fauji Fertilizer Co.
Mar 03'12	Lotte Pakistan PTA

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