

Fauji Fertilizer Bin Qasim Ltd

CY11 Result Preview



January 20, 2012

Fauji Fertilizer Bin Qasim (FFBL) is scheduled to announce its CY11 results on January 26, 2011. We expect full year earnings to clock in at PKR10,302mn (EPS: PKR11.03) depicting 58%YoY bottomline growth. In addition, the company is expected to announce a PKR3.00/share dividend in the 4th quarter, taking the total annual payout to PKR9.50/share (86% payout ratio).

Revenue Surge on Strong Price Push

Despite a volumetric decline, FFBL was able to boost its topline by 28%YoY on its way to recording PKR55,392mn in revenues, as buoyant Urea and DAP prices prevailed during the period. Average urea prices jumped 39%YoY (ex.GST) as Sui-based producers sought to recoup losses incurred due to extensive curtailment on the network. At the same time, DAP prices witnessed a 31%YoY (ex.GST) increase on the back of high DAP prices in the international market. Keeping these factors in perspective, we expect gross margins to improve by 500bps to 36% from 31% in the previous year.

Curtailment Sticks Out Like A Sore Thumb

A sharp increase in curtailment levels will see urea production decline 17%YoY and will consequently negatively impact urea off take, which is estimated at 432k tons for the year. To mitigate the curtailment impact, FFBL shifted its focus on DAP production which has a lower gas production requirement. Hence, we expect DAP production in CY11 to improve 2%YoY to 661k tons. Despite the production boost, we expect the bloated prices to result in demand attrition as offtake will remain relatively flat at 659k tons.

All Good Things Come To An End—CY12 Outlook

The upcoming year poses a number of significant challenges for FFBL as international DAP prices are expected to decline 17%YoY due to international capacity increments and subdued demand. Furthermore, the inability to pass on the GIDC impact on its DAP production will exert pressure on gross margins. However, the decline in USD-PKR parity will provide a buffer against the projected drop in international prices. Also, international phosphate producers believe that developments pertaining to the China Export Tax Policy, India Fertilizer Subsidy Policy and level of international grain reserves could stunt

Earnings Summary: FFBL

PKR mn	CY11E	CY10	YoY	4QCY11E	4QCY10	QoQ
Revenue	55,392	43,257	28%	19,071	21,055	-9%
COGS	35,376	29,794	19%	12,811	14,275	-10%
Gross Profit	20,016	13,463	49%	6,261	6,781	-8%
Operating Profit	16,373	10,178	61%	5,019	5,652	-11%
EBIT	16,543	10,620	56%	4,896	5,593	-12%
Finance Cost	941	934	1%	185	214	-13%
PBT	15,602	9,686	61%	4,711	5,379	-12%
PAT	10,302	6,514	58%	3,132	3,584	-13%
EPS	11.03	6.97	58%	3.35	3.84	-13%
DPS	9.50	6.55	45%	3.00	3.50	-14%

Source: HMFS Research & Company Accounts

Note: Please refer to the last page for Analyst Certification and other important disclosures.

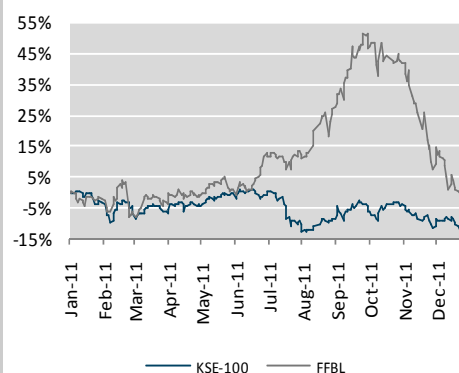
Market Data

KATS Code :	FFBL
Current Price (PKR) :	46.51
52 Week Hi (PKR) :	63.67
52 Week Low (PKR) :	38.57
Avg Turnover :	3.77mn
Free Float :	35%
Share in Issues (PKR) :	934.11mn
Market Capitalization (PKR) :	43.45bn

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Relative Performance



Source: HMFS Research

the expected international DAP price attrition. With the bulk of its DAP sales concentrated in the second half of the year, it's the outcome of the above mentioned policies that will determine the price points for FFBL's CY12 earnings.

Investment Perspective

With the script offering a 13% upside potential to our Dec'12 target price of PKR53/share, we have an **Accumulate** rating on FFBL. Although the stock offers a 15.1% dividend yield and is trading at CY12 PER of 6.3x, the uncertainty associated with DAP prices in the current year and level of curtailment on the SSGC network elevate the stock's risk profile. At this point we advise investors to take a cautious stance until further clarity emerges.

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