

Result Preview

FFC: margins to jump to 61% in CY11

Buy

Target Price	217.4
Last Closing	176.2
Upside	23.4%
KSE Code	FFC
Bloomberg Code	FFC PA

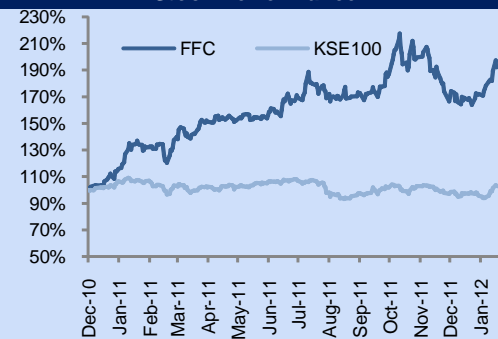
Shares

Market Cap (US\$ m)	1,645.9
Outstanding Shares (m)	848.0
Free Float	55%
12M Avg. Daily Turnover (m)	1.7
12M High/Low (PKR)	85.26/185.10
Major Shareholders	Fauji Foundation NIT

Financials

	CY10A	CY11E	CY12F
Total Equity (PKRbn)	15.4	21.7	24.0
Total Assets (PKRbn)	43.1	42.5	41.4
Net Profit (PKRbn)	8.82	21.12	21.66
ROE (%)	57.3%	97%	90.1%
EPS (PKR)	13.01	24.90	25.55
P/E (x)	13.54	7.08	6.90
P/B (x)	9.70	6.89	6.22
DPS (PKR)	13.00	23.50	25.55
Div Yield (%)	7.4%	13.3%	14.5%

Stock Performance



Source: Bloomberg

Analyst

Syed Abid Ali
 abid.ali@arifhabibltd.com
 021-32462589

www.arifhabibltd.com

FFC earnings to jump by 91% YoY in 12MCY11

The Board of Directors of Fauji Fertilizer Company Limited (FFC) is scheduled to approve its annual results for 2011 on 30th January, 2012. We expect the Company to post profit after tax (PAT) of PKR 21bn (EPS: PKR 24.90), depicting a phenomenal rise of 91% YoY from CY10 PAT of PKR 11bn (EPS: PKR 16.25). In 4QCY11 alone, FFC is estimated to post net income of PKR 7.3bn (EPS: PKR 8.59) compared to PKR 4.0bn (EPS: PKR 8.0) in the previous quarter. We project FFC to announce a final dividend of PKR 8.75/share alongwith the result, taking the total payout for CY11 to PKR 23.50/share. Moreover, possibility of a bonus issue of 20% cannot be ruled out.

Financial Highlights (PKR mn)	CY11E	CY10A	YoY
Sales	56,803	44,874	27%
Cost of sales	22,760	25,310	-10%
Gross profit	34,042	19,564	74%
Operating profit	28,722	14,244	102%
Other Income	6,175	3,153	96%
Finance cost	1,057	1,087	-3%
Profit before taxation	31,496	16,310	93%
Net Income	21,118	11,029	91%
EPS (PKR)	24.90	16.25	

Source: Company accounts & AHL estimates

Margins to soar on higher urea prices and falling cost of sales

In CY11, average urea price was recorded at PKR 1,443/bag, which is 69% higher than CY10's price of PKR 853/bag. The spike in urea prices came amidst extended gas curtailments to ENGRO's Enven plant, which was thus forced to increase its price while FFC rode this wave of soaring prices with quiet contentment. These favourable dynamics for FFC is attributed to its plant being on the Mari Gas network, which remained relatively insulated from gas shortages. Consequently, the Company's gross margin are expected to jump to an impressive 61% compared to just 44% in CY10. The Company's top-line is expected to jump by 27% YoY to PKR 57bn during the period under review (CY10: PKR 45bn). The decline in cost of sales by 10% is mainly due to sales of imported urea in CY10, which had increased last year's cost by PKR 3.7bn.

Higher other income to prop up bottom-line

We expect FFC's other income to be recorded at around PKR 6bn for CY11, an increase of 96% YoY (CY10: 3bn). The reason behind this is primarily a healthy increase in dividend payout by FFC's subsidiary Fauji Fertilizer Bin Qasim (FFBL) from PKR 5.3/share in CY10 to PKR 10.0/share in CY11, a rise of 89% YoY. This will magnify FFC's net earnings by PKR 7.0/share.

Recommendation

With FFC's ability to pass through the recently imposed Gas Infrastructure Development Cess of PKR 197/mmbtu, our DCF based Dec-12 target price comes out to PKR 217.4/share, depicting an upside potential of 23% from the current price of PKR 176.2/share. We thus recommend a 'Buy' stance on the scrip.