

Capital Market Daily

Company Update

FFC CY11 - Result Preview

Robust margin play

FFC is scheduled to hold its CY11 board meeting on Jan 30'12 and we expect the company to post after tax profit of PKR 20.68bn - EPS PKR 24.39, higher by a massive 88% YoY. The growth is mainly tagged to a substantial surge in urea prices on account of gas curtailment to SNGPL based manufacturers, which in turn expanded margins of the company.

During 4Q CY11, earnings are expected to jump by 71% YoY to PKR 6.85bn – EPS PKR 8.07. Moreover, we anticipate the company to announce final dividend of PKR 7.5/share, taking full year payout to PKR 22.25/share. In addition to this we do not rule out announcement of a 10-20% stock dividend along with the result, which will lower dividend payout from our expectation.

PKR mn	3mo ending		%	Δ	12mo ending		%	Δ
	Dec10	Dec11E			Dec10	Dec11E		
Net revenue	16,369	16,791	▲	3	44,874	55,324	▲	23
Gross Profit	6,846	10,772	▲	57	19,564	32,765	▲	67
Other Income	913	1,985	▲	117	3,153	6,377	▲	102
Net Profit	4,008	6,849	▲	71	11,029	20,684	▲	88
EPS-Diluted (PKR)	4.73	8.07			13.00	24.39		
DPS (PKR)	3.50	7.50			10.40	22.25		

Source: Company accounts, Global estimates

Topline led to record bottomline

FFC's topline is likely to go up by 23% YoY to PKR 55.23bn in CY11 which is mainly attributable to swelling urea prices during the year. Urea production during the year is projected to decline by 4% YoY to 2.39mnMT, while offtake on the other hand will go down by 3% YoY to 2.40mnMT. However, FFC being on the safer network enjoyed higher margins, as average price rose by 41% YoY mitigating the impact of declining volumes. As a result, we expect gross margins to shoot up to 59.2% as compared to 43.6% in CY10.

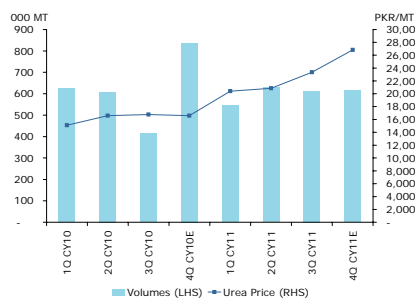
During 4Q CY11, we believe topline will go up marginally by 3% YoY mainly due to lower offtake by 26% YoY. However, incorporating price hike by ~PKR 200/bag during the period under review along with no significant change in input cost augmented gross margin to 64.2%, higher by 22ppts YoY.

Other income remains strong

In addition to the core profitability, other income continued to support bottomline during the year. Major support to the 102% YoY growth came in from high dividend of PKR 10/share from FFBL. During 4Q CY11, we expect other income to go up by 117% YoY, mainly driven by dividend of PKR 1.43bn from FFBL translating into after tax EPS of PKR 1.51/share.

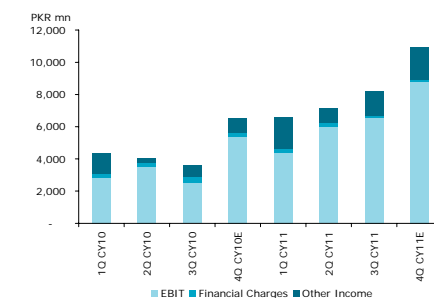
Consequently, our EBIT/MT is expected to go up to PKR 13,369/MT from PKR 7,004/MT in CY10, while we believe the same would increase to PKR 17,507/MT in 4Q CY11 as compared to PKR 7,502/MT in last year. Moreover, financial cost for the company is also projected to decline by 30% YoY to PKR 763mn on the back of lower KIBOR rate and decline in short term borrowing by the company.

Figure 1: Volumes vs Prices



Source: NFDC, Global estimates

Figure 2: EBT breakup



Source: Company accounts, Global estimates

Valuation

At current levels FFC provides 24% upside to our Jun12 TP of PKR 221/share and we recommend investors to 'BUY'. In addition the scrip also provides 13% dividend yield for

Equities	Jan 25'12	% Δ
KSE100	11,949.75	▼ 0.35
Market Cap (PKR bn)	3,103.49	▼ 0.32
Volume (shares mn)	124.85	▼ 37.59
Value (PKR mn)	4,487.42	▼ 34.71

Fixed Income	Jan 25'12	Bid	Bp Δ
T-bills			
3 months	11.53%	▼	5
6 months	11.59%	▼	4
12 months	11.67%	▼	4

PIBs	Bid	Bp Δ
2 yr	11.81%	▼ 5
5 yr	12.26%	▼ 2
9 yr	12.31%	▼ 4

KIBOR	Jan 25'12	Bp Δ
1 month	11.95%	▲ 3
3 months	11.79%	▼ 2
6 months	11.85%	▼ 1

Exchange Rate	Bid	Offer
PKR/USD	90.16	▲ 90.18

Crude Oil	USD/barrel	% Δ
OPEC basket	111.78	▲ 0.37
US light sweet (WTI)	98.75	▼ 0.67

Major Events

Feb 08'12 T-bill Auction

Board Meetings

Jan 26'12	Lotte Pakistan
Jan 26'12	Fauji Fert Bin
Jan 28'12	National Refinery
Jan 30'12	Lucky Cement
Jan 30'12	Fauji Fertilizer Co.
Feb 01'12	Attock Refinery Ltd.
Feb 01'12	Attock Cement Pak.
Feb 02'12	Pak Oilfields
Feb 02'12	Attock Petroleum
Feb 22'12	Indus Motor

AGMs / EOGM

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

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CY12. However, we would like to point out that any reversal in urea price during 2Q CY12 will result in a downward revision to our valuation for the company.

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