Company Update

Fauji Fertilizer Company Limited

CY11 Result Preview

January 26, 2012

Fauji Fertilizer Company Limited (FFC) is scheduled to announce its CY11 results on January 30, 2012. We expect full year earnings to clock in at PKR20,658mn (EPS: PKR24.36) compared to PKR11,029mn (EPS: PKR13.00/share), depicting 87%YoY bottomline growth. Our final dividend forecast stands PKR7/share which would take the total annual payout to PKR21.75/share. Our conservative dividend expectation is in line with our expectation of a 15% bonus share issue.

Topline Surge Drives Earnings Bonanza

Withstanding the predicted 3%YoY volumetric decline in sales, FFC's topline is expected to witness a 23%YoY boost as average urea prices surged 40% over the year, exclusive of GST. In light of the substantial price increment and relatively stable gas prices during the year, primary margins are expected to average PKR888/bag for CY11, depicting a 60% improvement from CY10. Following the same pattern, FFC's gross margins will depict a stellar improvement to 60% from 44% a year ago.

Bottomline Gets Additional Support

Taking into account the PKR10/share dividend contribution from FFBL, which adds up to PKR4.7bn, FFC's other income is expected to catapult 75%YoY. Also aiding bottomline growth is the projected 22%YoY decline in finance costs for CY11.

Pricing Power Challenges Ahead—CY12 Outlook

CY11 was a powerful display of the industry's urea pricing power as the Sui-based manufacturers countered curtailment induced losses with frequent price hikes in order to maintain primary margins. However, with international urea prices rapidly beginning to decline, the pricing disparity between domestic and international prices is evaporating, thereby creating a ceiling for future domestic price hikes. Furthermore, with increasing chatter of the GoP's emphasis to improve gas supply to Engro's EnVen facility, an era of price cuts instead of hikes could become a reality in CY12. With the GIDC burden already weighing heavy upon FFC's earning growth potential, the possibility of price cuts would dampen future primary margins and consequently earnings.

Earnings Summary: FFC

PKR mn	CY11E	CY10	YoY	4QCY11E	4QCY10	YoY
Revenue	55,115	44,874	23%	16,583	16,369	1%
COGS	22,178	25,310	-12%	5,638	9,523	-41%
Gross Profit	32,938	19,564	68%	10,945	6,846	60%
Operating Profit	28,630	15,619	83%	9,891	5,771	71%
EBIT	31,794	17,397	83%	10,453	6,283	66%
Finance Cost	850	1,087	-22%	247	249	-1%
PBT	30,944	16,310	90%	10,206	6,034	69%
PAT	20,658	11,029	87%	6,824	4,008	70%
EPS	**24.36**	**13.00**	**87%**	**8.05**	**5.91**	**36%**
DPS	**21.75**	**13.00**	**67%**	**7.00**	**3.50**	**100%**

Source: HMFS Research & Company Accounts

Market Data

KATS Code :	FFC
Current Price (PKR) :	176.18
52 Week Hi (PKR) :	198.35
52 Week Low (PKR) :	109.82
Avg Turnover :	2.15mn
Free Float :	55%
Share in Issues (PKR) :	848.16mn
Market Capitalization (PKR) :	149.43bn

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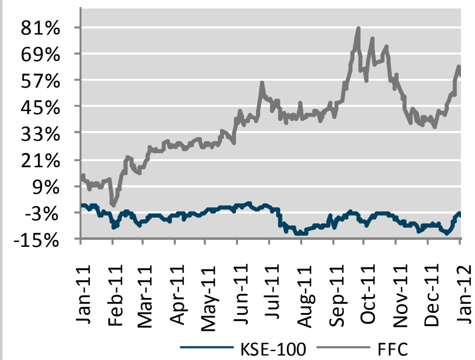
Relative Performance



Source: HMFS Research

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

Investment Perspective

In light of our conservative stance on the industry's urea pricing power being part of our key assumptions, our Dec'12 target price stands at **PKR201/share**, which offers a 14% upside potential to its last closing price. The script trades at a CY12 PER of 6.7x and offers an attractive dividend yield of 13.7%. With the recent run up of the stock price and remaining upside potential, we maintain an **Accumulate** rating. Higher than expected curtailment on the Sui Network accompanied by buoyant international urea prices would be upside triggers for our existing investment perspective.

Analyst Certificate

The research analyst denoted AC on the cover of the report on with the name of analyst who has written the report. The analysis and views express in this report exclusively reflect his/her personal views about the subject, company or security. Furthermore his/her compensation was, is or will not be directly related to the recommendation or views articulated in this report. The information provided in this report is based on information available to the analyst and in accordance with best of his/her knowledge.

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