Flash Note…

Fertilizer Sector: FFBL - reports an exceptional 65% YoY growth in Profits…

The Fauji Fertilizer Bin Qasim (FFBL) has just announced its CY11 financial performance. The company has recorded an exceptional 65% YoY growth in its earnings as the company has reported a PAT of PKR10.77bn (EPS: PKR11.53) in CY11 which is 1.65times higher than the profit of PKR6.52bn (EPS: PKR6.97) which the company had reported last year. The company has also announced a final interim cash dividend of PKR3.50/share taking total dividend to PKR10.00/share in CY11.

The main reason behind substantial growth in earnings was massive increase in sales of 29% YoY to PKR55.86bn, primarily because of the higher DAP and Urea prices. Average DAP and Urea prices in market were higher by 43% YoY and 56% YoY respectively. In addition to this, another effervescent factor which added further growth in earnings was higher other operating income which rose by 43% YoY to PKR1.65bn. Other income contributed 15% share in total earnings of the company. On the other hand, financial charges of the company witnessed an upsurge of 16% YoY to PKR1.08bn CY11 as against the financial charges of PKR934m in the same period last year.

Based on our DCF basis target price of **PKR52/share,** we recommend a **HOLD** stance on **FFBL**.

(PKR m)	CY10A	CY11	Chg
Sales	43,257	55,869	29%
Cost of Sales	29,794	35,753	20%
Gross Profit	13,463	20,116	49%
S & D expenses	2,585	2,554	-1%
Admin. expenses	700	777	11%
Operating Profit	10,178	16,784	65%
Finance Cost	934	1,088	16%
Other operat. Expenses	713	1,177	65%
Other Operating Income	1,154	1,650	43%
Profit Before Tax	9,686	16,170	67%
Taxation	3,171	5,403	70%
Profit After Tax	6,514	10,767	65%
EPS (PKR)	6.97	11.53	
Gross profit margin	31%	36%	
Operating profit margin	24%	30%	
Net profit margin	15%	19%	

Source: Company financials, Summit Capital Research

Summit Capital (Pvt.) Limited