

FLASH NOTE

FAUJI FERTILIZER COMPANY LTD. (FFC)



February 01, 2012

FFC POSTING EXCEPTIONAL CY11 RESULTS!!

Fauji Fertilizer Company (FFC) has yet again shown a tremendous performance in the year 2011, where the bottom line of the company has registered an enormous growth of 104%YoY. Fauji Fertilizer has posted a profit after tax of PKR 22.49 bn (EPS: PKR 26.52) as compared to PKR 11.03 bn (EPS: PKR 13.0) last year. The company has declared a handsome dividend of PKR 5.25 per share along with a 50% stock dividend in 4QCY11, taking the cumulative cash dividend to PKR 20.0 per share in CY11.

FFC REAPS THE BENEFIT OF HIGHER UREA PRICES:

FFC among other industry peers has largely benefited from a hike in urea prices, which has risen up by 56%YoY, from PKR 1,150 per 50-kg bag to PKR 1,795 per bag at current levels. Fertilizer manufacturers raised urea prices in order to offset production losses caused as a consequence of severe gas shortfall, which has hampered the industry's urea production. FFC being on the Mari Gas network faces no significant gas curtailment issues and thus enjoyed the benefit of high urea prices along with urea production at an optimum level.

The top-line of the company has shown a substantial YoY increase of 23.06% to PKR 55.22 bn against PKR 44.87 bn in CY10, primarily due to a 56%YoY hike in urea prices, which has also led the company to improve their gross margins to 62.20% (PKR 34.35bn) against 43.60% (PKR 19.56 bn) last year.

MASSIVE OTHER INCOME ENHANCES PROFITABILITY:

FFC's other income registered a massive increase of 110.25%YoY as it stood at PKR 6.63 bn in CY11 against PKR 3.15 bn last year, contributing 29.47% to the total net income of the company. The overall increase in other income is attributable to high dividend income from its subsidiaries, mainly contributed by Fauji Fertilizer Bin Qasim (FFBL), and increased income from investments and financial assets. Furthermore, the finance cost of the company witnessed a decline of 27.7%YoY to PKR 0.79 bn as against PKR 1.1 bn in CY10, indicating the financial strength of the company to service its debt comfortably.

BUY

PkR 188.14

Fair Value: PkR 225.69

Potential Upside: 20%

Pakistan Equities

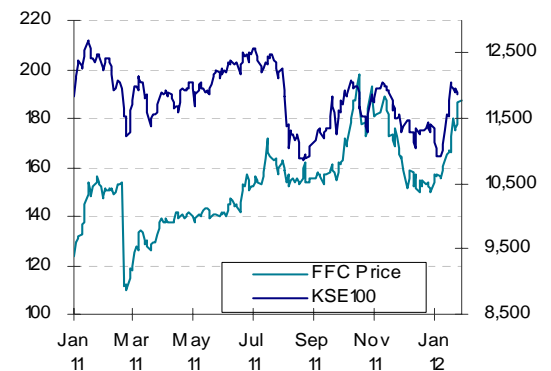
Fertilizer

KEY DATA

Fauji Fertilizer Company	
KATS Code:	FFC
Bloomberg Code:	FFC PA
52 Week Average Price (PkR):	153.86
52 Week Average Volume (mn sh):	2.19
52 Week Trading Range (PkR):	109.82 – 108.35
Avg. Market Cap. (PkRmn / USDmn):	130,497 / 1,450
Avg. Daily Turnover (PkRmn / USDmn):	336.49 / 3.74
Shares in Issue (mn):	848.16
Free Float %:	55.0

Source: Company Accounts, Alfalah Securities Research

Graph: Index Comparative



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Profit & Loss Account (Pkr mn)	CY11	CY10	YoY (%Δ)
Sales	55,221.2	44,874.4	23.1%
Cost of sales	(20,871.8)	(25,310.4)	-17.5%
% of sales	37.80%	56.40%	
Gross Profit	34,349.4	19,564.0	75.6%
Gross margin%	62.20%	43.60%	
Distribution cost	(4,372.2)	(3,944.5)	10.8%
Operating Profit	29,977.3	15,619.5	91.9%
Finance cost	(785.8)	(1,086.7)	-27.7%
Other expenses	(2,654.9)	(1,376.0)	92.9%
	26,536.6	13,157	101.7%
Other income	6,629.5	3,153.1	110.3%
Net profit before tax	33,166.1	16,309.8	103.4%
Taxation	(10,674.0)	(5,281.0)	102.1%
Net profit after tax	22,492.1	11,028.8	103.9%
EPS (Pkr)	26.52	13.00	

Source: Company Accounts, Alfalah Securities Research

LUCRATIVE 4QCY11 RESULTS

The 4QCY11 results of Fauji Fertilizer Company (FFC) have shown a remarkable improvement in earnings, where the bottom line of the company grew substantially by 116%YoY and 53.3%QoQ, taking the profit after tax to Pkr 8.66 bn (EPS: Pkr 10.21) in 4QCY11.

The top line of the company grew by a meager 1.96% on YoY basis while registering a significant 16.61% increase when compared on QoQ basis. The quarterly results of FFC also witnessed gross margin to touch its new peak of 74% against 58% in the previous quarter. Moreover, FFC's other income in the 4QCY11 was recorded at Pkr 2.24 bn, depicting an enormous increase of 145% on YoY and 48% on QoQ basis.

Profit & Loss Account (Pkr mn)	4QCY11	3QCY11	4QCY10	QoQ(%Δ)	YoY(%Δ)
Sales	16,689.1	14,311.4	16,369	16.61%	2.0%
Cost of sales	(4,332.3)	(6,012.2)	(9,523)	-27.94%	-54.5%
% of sales	25.96%	42.01%	58.18%		
Gross Profit	12,356.8	8,299.2	6,846	48.89%	80.5%
Gross margin%	74.04%	57.99%	41.82%		
Distribution cost	(1,119.1)	(1,087.5)	(1,075)	2.90%	4.1%
Operating Profit	11,237.7	7,211.7	5,771	55.83%	94.7%
Finance cost	(183.3)	(131.2)	(249)	39.72%	-26.4%
Other expenses	(863.4)	(670.1)	(401)	28.85%	115.3%
	10,191.0	6,410.4	5,121	58.98%	99.0%
Other income	2,236.9	1,510.7	913	48.07%	145.1%
Net profit before tax	12,427.9	7,921.1	6,034	56.90%	106.0%
Taxation	(3,771)	(2,275)	(2,026)	65.75%	86.1%
Net profit after tax	8,657	5,646	4,008	53.33%	116.0%
EPS (Pkr)	10.21	6.66	4.73		

Source: Company Accounts, Alfalah Securities Research

INDUSTRY SCENARIO – UREA PRICE GAME & IMPOSITION OF GIDC:

Pakistan's fertilizer industry is currently facing a downturn in production due to severe gas shutdown and curtailment issues, where the urea demand-supply gap has widened to new heights. Fertilizer manufacturers, particularly ENGRO acting as a first mover in the price game, have been raising urea prices in order to offset production losses and FFC has largely benefited from it since its production remained intact.

The government imports urea at a much higher price due to heavy price differential between the locally and internationally produced urea and subsidizes it to bring it down to the farmer's purchasing power. Recently, the fertilizer manufacturers have raised urea prices by PkR 210 per bag to pass through the impact of the imposition of Gas Infrastructure Development Cess (GIDC) to end consumers, according to which feedstock price for fertilizer sector was raised by PkR 197 per mmbtu (up by 207%) for old plants while 1.81% for new plants like Fatima and Enven1.3. The international commodity prices have been witnessing a sharp decline since the last quarter of CY11, where the international urea prices have dropped by ~25% MoM to USD 430 per ton C&F (PkR 1,935 per 50-kg bag) due to a significant supply ease off in recent times. Hence, we believe the local fertilizer producers are left with lesser cushion to raise urea prices going forward. However, we also believe that the international urea prices would not fall below from the existing level as the demand of fertilizers would start to inch up again in Kharif season.

RECOMMENDATION:

We expect FFC would continue to outperform in the fertilizer industry with robust operational results as the company keeps on benefiting from higher urea prices and superior financial strength. Hence, based on FFC's strong financial capability, stable earnings and sustainable business model we recommend investors to BUY the scrip with a target price of PkR 225.69 per share (unadjusted for bonus), offering an upside of 20%. FFC is among the top dividend yielding scrips in the industry, offering an attractive CY12F yield of 12.5%. The scrip currently trades at a CY12F P/E multiple of 7.2x. **BUY!**