# FFC– Company to post an EPS of Rs.3.14 for 3QCY18

ABBASI SECURITIES

**REP-091**
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## Result Preview

- Fauji Fertilizer Company (FFC) Board of Directors meeting is scheduled to take place on 26th October, 2018 to consider financial result for the 3QCY18. We expect company to post an EPS for the quarter of Rs.3.14, which will take the EPS for 9MCY18 to Rs.6.85
- We expect company to pay out a DPS of Rs.2.6 for the quarter taking the total payout to the date to Rs.6.8 per share
- Earning increase on a sequential basis can be attributed to better average selling price of Rs.1,643/ bag during the quarter vs. average selling price of Rs.1,491/bag (inclusive of Rs.100/bag subsidy) in 2QCY18, as company passes on the impact of inflation and subsidy withdrawal on consumers
- We have a hold call on the scrip with December 19 base TP of Rs.101/share. However, we haven`t incorporated intrinsic value of Thar Energy Limited (TEL) in our working, as the company hasn`t achieved financial close as of yet. TEL would add another Rs.11/share to our December base TP.

## Topline to increase

- As per our working topline of the company will come in around Rs.27,607mn for 3QCY18 vs. 22,708mn recorded in 2QCY18. This sequential increase in earning can be attributed to increase in average selling price of the bag to Rs.1643/bag from Rs.1491/bag in the 2QCY18
- We expect Urea sales during the quarter to shrink to 626KT vs.653KT in the previous quarter, whereas DAP sales despite being meager are expected to clock in at 113KT vs. 80KT in the previous quarter
- Despite our expectation of increase in sales by 21% QoQ, we expect COGS of the company to increase marginally by 6.68% QoQ to 18,436mn. Resultantly gross margin of the company are set to increase to its highest level of 33% in last two years
- However, we expect gross margin to squeeze going forward due to increase in gas prices effective from October18

## Other income to decline

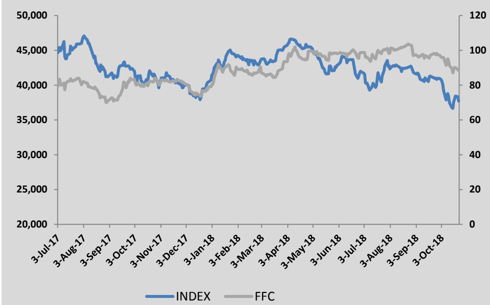
- Due to absence of government subsidy in the 3QCY18 we expect other income to clock in at Rs.251mn vs. 2,157mn in the previous quarter. This drastic decrease in other income is due to withdrawal of government subsidy of Rs.100/bag from July 18 onwards
- FFC Energy Limited (FFCEL) paid a maiden dividend of Rs.500mn in CY17, we expect wholly owned wind power subsidiary to pay dividend on a recurring basis.

## Industry Overview

- Indus River System Authority (IRSA) has projected a 38% water shortage for Rabi sowing season, which they say might hit crop cultivation. However, fertilizer industry is eyeing normal demand and views water shortage crisis being overplayed. Industry assurance comes on the back of current dispatches in the month of October which are in line with their expectation
- We see farmer economy to improve in light of rupee depreciation and increase in international commodity prices, which in turn will keep the demand for fertilizer intact
- Government eyes shortage of urea inventory in the country. To address this two closed fertilizer plant namely Agritech Limited and Fatimafert Limited were made operational from last week of September. These plant are being run on subsidized RLNG and system gas mix
- Ministry of Industries and Production (MoI&P) has proposed the following measures to ECC to address anticipated shortage of urea in the country: Pakarab Limited to be operationalized immediately for 60 days, change in gas mix to 75% system gas and 25% RLNG for plants on SNGP network, to cap RLNG price at Rs.729 per MMBTU and to allocate subsidy amount of Rs.7.5bn to avoid passage of gas price impact on end consumers for Rabi season (October 18 to March 19)
- Apart from aforementioned measures, ECC in its decision on September 10,2018 has approved import of 100,000 tons of urea. Imported urea is expected to land in Pakistan in November 18. Imported fertilizer landed cost is expected ~Rs2,700/bag and subsidy of more than Rs.2bn will be required to sell imported inventory at prevailing local prices.
- So, given the spread between and local and international urea prices and further devaluation in sight local industry has significant pricing power. It will also be cost effective for government to subsidize local production of urea than to import the fertilizer on a continuing basis
- We see strong urea dispatches with higher average selling for 4QCY18.

| | |
|---|---|
| KATS Symbol | **FFC** |
| Reuters Symbol | FFC.KA |
| **Target Price** | **Rs.101** |
| LDCP | Rs.92.67 |
| Outstanding Shares (mn) | 1,272.34 |
| Free Float (mn) | 699.73 |
| Market Cap (mn Rs) | 120,862.62 |

**Price Performance vs. KSE100 Index**



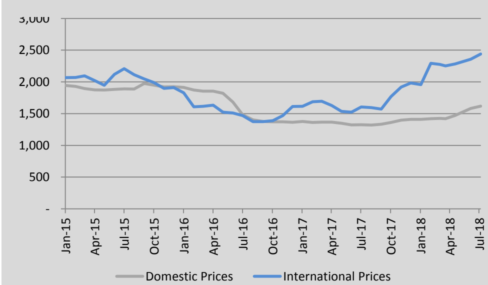

*Source: PSX*

**EPS Estimates**

| | CY17A | CY18E | CY19E |
|---|---|---|---|
| EPS (Rs) | 8.42 | 10.59 | 12.62 |
| P/E (x) | 11.00 | 8.75 | 7.34 |
| DPS (Rs) | 7.00 | 8.93 | 10.58 |
| D/Y (%) | 7.56% | 9.64% | 11.42% |

*Source: Co Financials, AS Research*

**Int vs. Domestic Urea Price**




*Source: NFDC, AS Research*

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## Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method ( P/E, P/B, Justified P/B & P/E etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

## Rating

| | |
|---|---|
| BUY | Total return more than 20% from last closing of market price |
| HOLD | Total return is in between 10% and 20% from last closing of market price |
| REDUCE | Total return is less than 10% from last closing market price |

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