

Fauji Fertilizer Company (FFC)

**4Q2017 EPS Rs3.7 flat YoY (+45% QoQ); 2017 EPS Rs9, -4% YoY;
DPS Rs3/share (Interim Dividend Rs4/share)
Better than expectations**

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Better off-take and retention lead to higher sales

FFC: Financial Highlights (Consolidated)

Rsmn	4Q2017	4Q2016	YoY	QoQ	2017	2016	YoY
Sales	33,232	27,168	22%	16%	93,583	75,378	24%
Cost of Sales	26,980	21,746	24%	18%	74,479	56,366	32%
Gross Profit	6,252	5,421	15%	5%	19,105	19,012	0%
Admin & Dist	2,192	2,490	-12%	-15%	9,093	7,524	21%
Operating Profit	4,060	2,931	39%	21%	10,011	11,488	-13%
Finance Cost	683	843	-19%	-25%	3,229	3,360	-4%
Other Expenses	594	535	11%	61%	1,632	1,763	-7%
Other Income	2,145	3,830	-44%	55%	8,096	8,356	-3%
Share of Profit from JV	1,468	1,307	12%	15%	3,535	3,340	6%
Profit Before Tax	6,397	6,689	-4%	35%	16,782	18,061	-7%
Tax	1,709	1,974	-13%	12%	5,286	6,045	-13%
Profit After Tax	4,688	4,715	-1%	45%	11,496	12,016	-4%
EPS	3.7	3.7			9.0	9.4	

Source: Topline Research, Company Accounts

- FFC reported flat earnings in 4Q2017, though fared better than expectations, due to better off-take of Urea & Dap and higher retention prices.
- We attribute higher sales, up 22% YoY in the outgoing quarter, owing to 1) Urea export (clocked in at ~76k tons vs. no export last year), higher retention prices on Urea (averaged around Rs1,294/bag) on the back of squeeze in discounts as inventory levels normalize and 3) better Dap off-take, up ~12% to 176k tons.

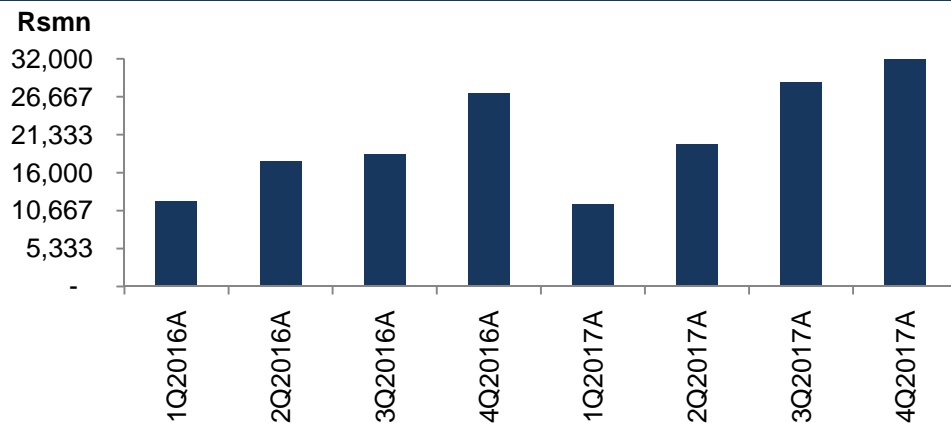
Better off-take and retention lead to higher sales

- Other expenses and financial charges in 4Q2017 declined by 12% and 19% YoY, respectively that mitigated decline in profits to some extent .
- Other income was down 44% in 4Q2017 mainly due to reduction of Urea cash subsidy (Rs100/bag vs. Rs156/bag last year), we believe.
- While pre-tax earnings were down 4% in the outgoing quarter, lower effective tax rate, down 3ppts to 27% led to flat earnings.
- Key risks to FFC include 1) decline in international urea prices, 2) slower than expected urea sales, and 3) weaker than expected local urea prices.

FFC: Key Numbers					
	2013A	2014A	2015A	2016A	2017E
EPS	15.8	14.3	13.2	9.3	7.7
Earnings Growth	-3%	-10%	-4%	-4%	-16%
PE at Rs85.7	5.4	6.0	11.1	11.1	11.1
Dividend Yield	18%	16%	14%	11%	8%
ROE	75%	65%	57%	40%	34%
PBV	4.1	3.9	3.7	3.7	3.7

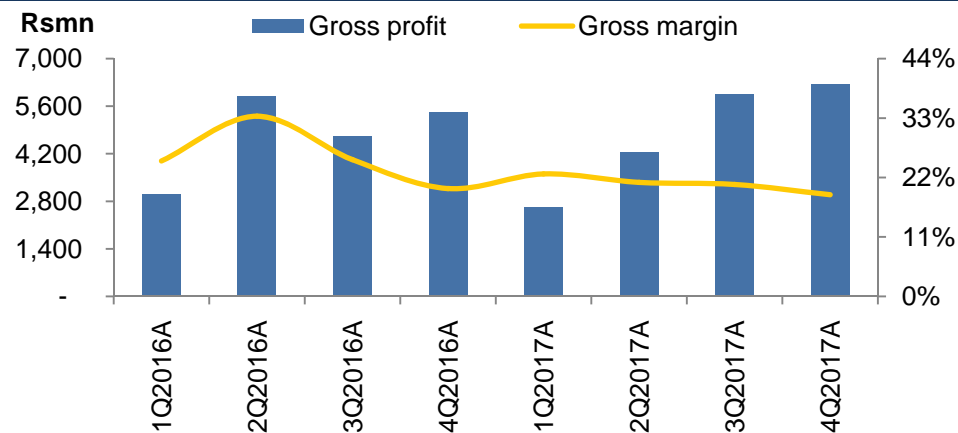
Source: Company Accounts, Topline Research

FFC: Quarterly Sales



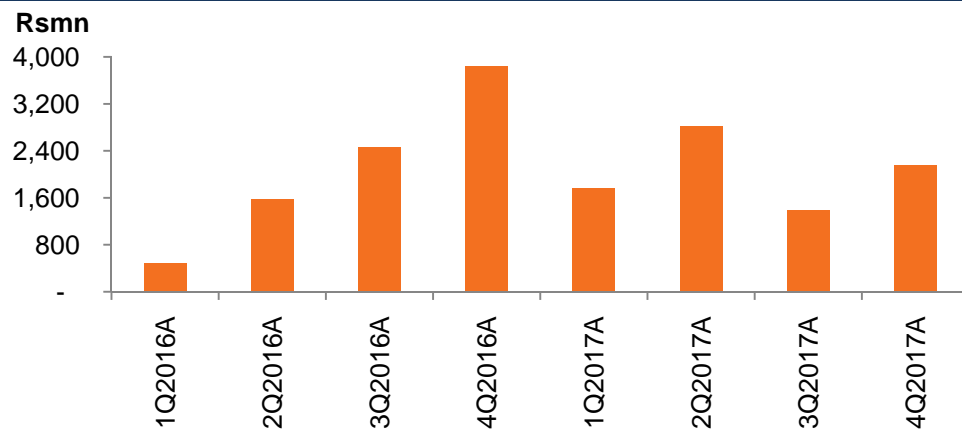
Source: Company Accounts, Topline Research

FFC: Quarterly Gross Profit & Gross Margins



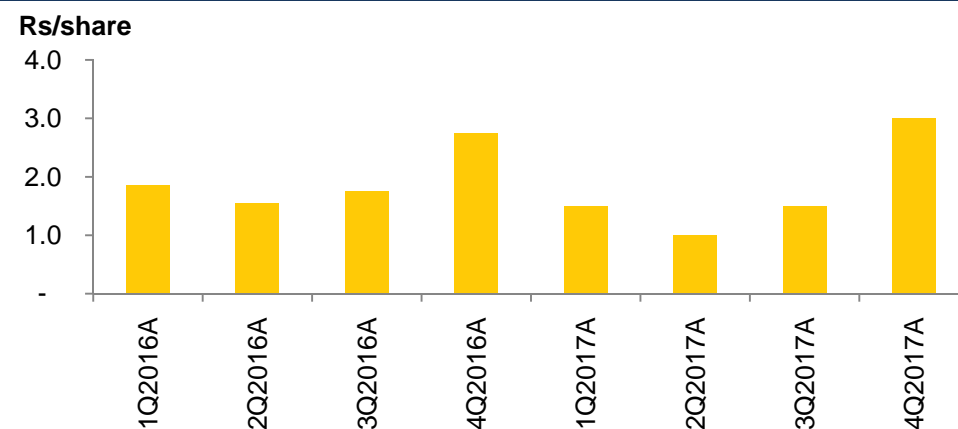
Source: Company Accounts, Topline Research

FFC: Quarterly Other Income



Source: Company Accounts, Topline Research

FFC: Quarterly Dividend



Source: Company Accounts, Topline Research

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