

# Fauji Fertilizer Bin Qasim (FFBL)

2Q2018 LPS Rs0.99, vs. LPS of Rs0.1 in 2Q2017

1H2018 LPS Rs1.25 vs. LPS Rs0.53 in 1H2017

Below expectations

Shankar Talreja<sup>AC</sup>

shankar@topline.com.pk

Tel: +9221-35303330

Topline Securities, Pakistan



www.jamapunji.pk

**ASIAMONEY**

Best Local Brokerage House  
Brokers Poll 2011-14, 2016-17



Best Local Brokerage House 2015-16

## Higher finance cost and FX loss dragged bottom-line in 2Q2018

<b>FFBL: Financial Highlights (Consolidated)</b>							
<b>Rsmn</b>	<b>2Q2018</b>	<b>2Q2017</b>	<b>YoY</b>	<b>QoQ</b>	<b>1H2018</b>	<b>1H2017</b>	<b>YoY</b>
Sales	13,092	9,553	37%	-7%	27,116	19,208	41%
Cost of Sales	10,597	8,235	29%	-11%	22,571	18,109	25%
Gross Profit	2,494	1,318	89%	22%	4,544	1,099	314%
Distribution Expense	1,577	1,662	-5%	6%	3,062	3,003	2%
Admin Expense	547	475	15%	35%	953	1,007	-5%
Operating Profit/(Loss)	370	-819	NM	133%	529	-2,911	NM
Finance Cost	1,186	890	33%	10%	2,260	1,551	46%
Other Expenses	557	48	NM	174%	760	66	NM
Other Income	369	1,223	-70%	-13%	793	2,570	-69%
Share of Profit from JV	107	270	-60%	-47%	310	718	-57%
Profit/(Loss) Before Tax	-896	-264	NM	83%	-1,386	-1,239	12%
Tax	-332	-209	NM	NM	-255	33	NM
Profit/(Loss) After Tax	-1,228	-474	NM	197%	-1,642	-1,206	36%
Attributable to owners	-928	-89	NM	284%	-1,170	494	NM
EPS/(LPS)	-0.99	-0.1	NM	NM	-1.25	-0.5	NM

**Source: Company Accounts, Topline Research**

- Fauji Fertilizer Bin Qasim (FFBL) announced its financial results for 2Q2018, where company reported LPS of Rs0.99 per share vs. LPS of Rs0.1 per share in 2Q2017. Company reported increase in losses amidst increase in finance cost and other expenses by 33% YoY and 10.6x YoY respectively, with former due to increase in both debt borrowings and interest rates and latter due to exchange losses, as per our channel checks.
- Company reported increase in net sales by 37% YoY to Rs13bn during 2Q2018, mainly due to increase in fertilizer revenue by 14% YoY. Furthermore, its subsidiary (Fauji Foods or FFL) also recorded revenue growth of 54% YoY to Rs2bn.

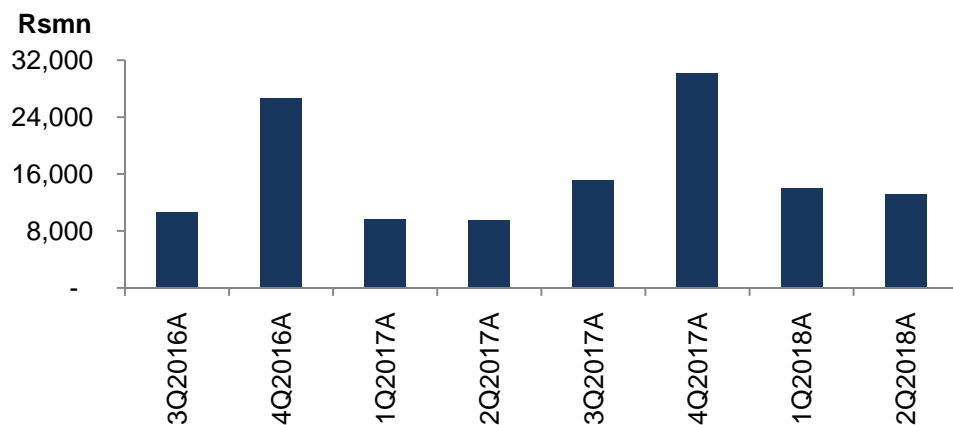
## Higher finance cost and FX loss dragged bottom-line in 2Q2018

- Fertilizer revenue increased due to increase in urea and DAP prices by around 10% and 20% respectively.
- Gross margins of the company went up by 5.3ppts YoY to 19.1% amidst increase in GP margins of FFL by 5.1ppts YoY to 7.1%. While GP margins of fertilizer business were marginally up by 0.6ppt YoY to 7.8% in 2Q2018.
- Substantial decline was witnessed in other income to Rs369mn in 2Q2018 from Rs1.2bn in corresponding period of last year, as cash subsidy on DAP was discontinued in FY17-18, while on urea company recorded subsidy income for only half of the quarter (till May 07, 2018).
- Key risks to our forecast includes: 1) change in regulatory structure in Milk segment, 2) increase in coal and gas prices beyond our assumptions (the primary raw material) and 3) barrier to entry in export countries for meat segment.

FFBL: Key Numbers					
	2013A	2014A	2015A	2016A	2017A
EPS	6.0	4.7	5.5	0.2	2.0
Earnings Growth	29%	-22%	18%	-96%	729%
PE at Rs37.7	6.3	8.0	6.8	153.9	18.6
Dividend Yield	13%	11%	10%	1%	2%
ROE	38%	29%	30%	1%	11%
PBV	2.4	2.3	2.1	2.1	2.1

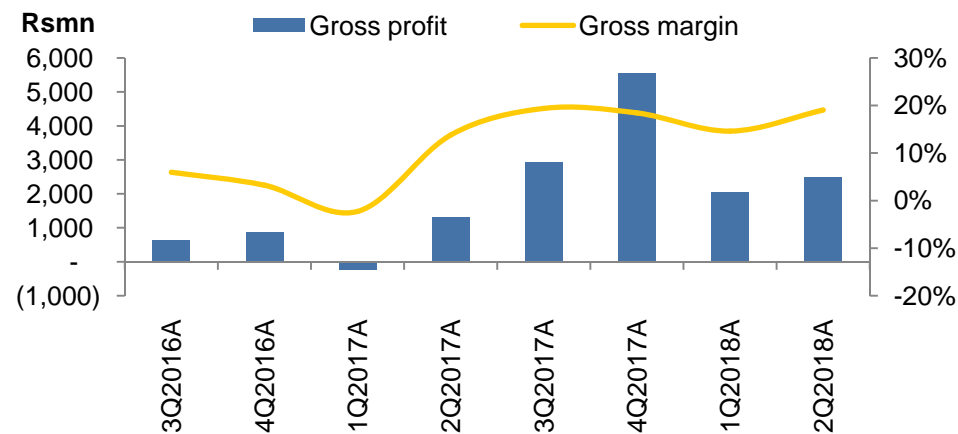
Source: Company Accounts, Topline Research

### FFBL: Quarterly Sales



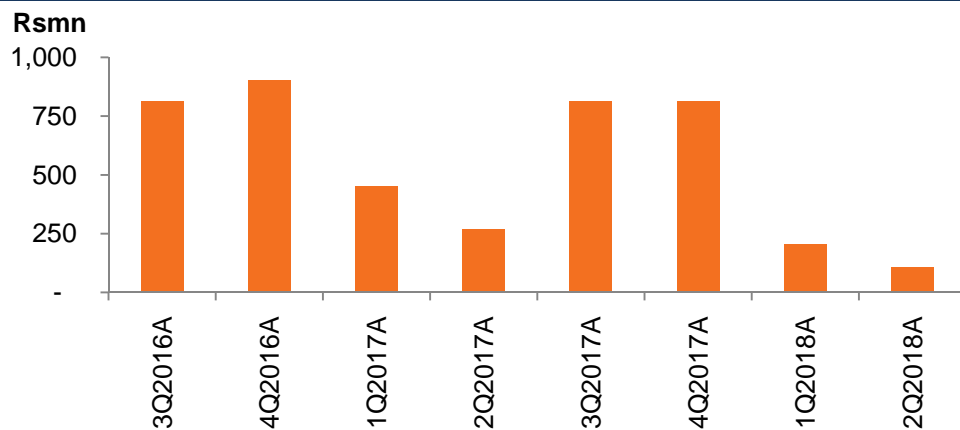
Source: Company Accounts, Topline Research

### FFBL: Quarterly Gross Profit & Gross Margins



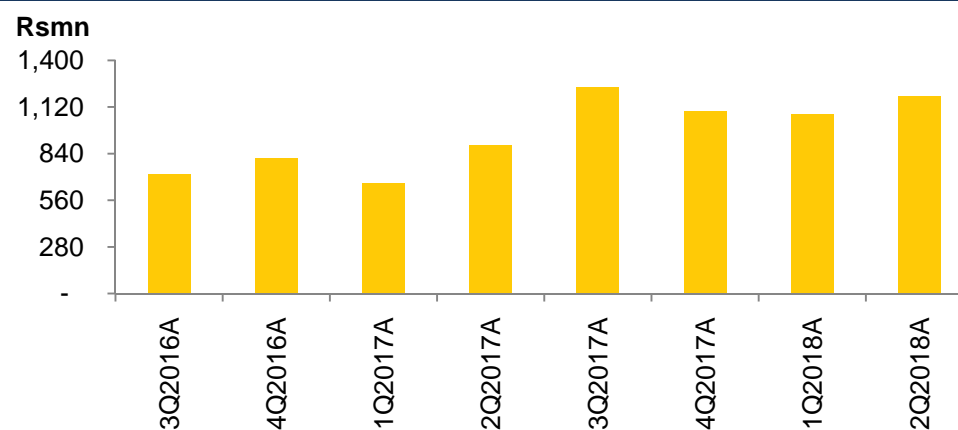
Source: Company Accounts, Topline Research

### FFBL: Quarterly Other Income



Source: Company Accounts, Topline Research

### FFBL: Quarterly Finance Cost



Source: Company Accounts, Topline Research

# Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

## Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

## Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

## Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

# Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

**All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.**