



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Today's Daily

■ FFC: Strong fundamentals warranting an update

In the backdrop of continuously improving sectors dynamics, we revisit our investment case for FFC with our revised Dec'19 TP standing at PkR104.6/sh (total return: 21%). Noteworthy improvement in company fundamentals include: 1) significant +13%YoY growth in urea offtake during 1HCY18 (characterized by 4.91ppts improvement in its overall market share to 45.1%) and 2) continuous upward trend in local product prices (+14% since Apr'18) on the back of alarmingly low inventory levels, pointing towards inevitable urea import in the upcoming months at current elevated landed cost of imported fertilizers (higher int'l prices alongwith sharp PkR depreciation). Following this, we revisit our investment case for FFC incorporating, 1) upward revision in FFC's urea market share to 43.1/42.8% (owing to closure of LNG based plants) from 41.4/41.3% for CY18F/CY19F and 2) recent uptick in local Urea prices (up ~PkR120/bag). Moreover, we have also assimilated budgetary measures (gradual 1% annual reduction in corporate tax to 25% by FY23, 5%/1% super tax impact in CY18/CY19 and GST fixation at 2%) in our valuations. In this regard, our earnings estimate for CY18F/CY19F now stand at PkR8.75/PkR10.22 (revised up by 10%/14%) while our rolled forward Dec'19 TP goes up by 8% to PkR104.6/sh. Having gained 19%CYTD, FFC currently trades at a CY19F PE of 9.1x, offering an appealing CY19F dividend yield of 10% at current levels.

KSE100 - Index

Current 39,452.81
Previous 39,288.48
Chg. 0.42%

Mkt Cap. (PkRbn/US\$bn)

Current 8,198 / 67.45
Previous 8,182 / 67.32
Chg. 0.20%

Daily Turnover (mn)

Current 167.81
Previous 123.58
Chg. 35.8%

Value Traded (PkRmn/US\$m)

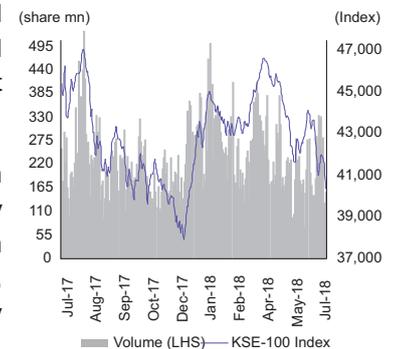
Current 8,042 / 66.17
Previous 5,345 / 43.98
Chg. 50.5%

AKD Daily

Wednesday, Jul 11, 2018

News and Views

- In the first incident of terrorism targeting the ongoing election campaign, 13 people, including Awami National Party (ANP) senior leader and provincial assembly candidate for PK-78 Haroon Bilour, were killed and 34 others injured when a blast targeted a corner meeting of the party at around midnight in Peshawar.
- Announcing the largest troops' deployment for the general elections in the country's history during a press conference by DG ISPR, the army pledged to remain neutral in the voting process. But hours after Maj Gen Ghafoor's presser, Nawaz Sharif, while talking to the media in London, alleged that the entire machinery was being used to target just his party and its members were being forced to join other parties.
- Remittances sent by overseas Pakistanis reached US\$19.62bn in FY18, up 1.4%, from US\$19.35bn the previous year. Despite a continued decline, Saudi Arabia remained the largest source of remittances.



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FFC: Strong fundamentals warranting an update

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1QCY18 Result Review: FFC posted unconsolidated NPAT of PkR2.26bn (EPS: PkR1.78) in 1QCY18 vs. NPAT of PkR2.19bn (EPS: PkR1.72) in 1QCY17, an increase of 3.3%YoY. Key highlights of the result included: 1) strong 84%YoY growth in topline to PkR20.55bn reflecting 52%/2.4xYoY increase in Urea/imported DAP off-take to ~573k/105k tons, 2) 3.3ppts fall in GM to 19.9% owing to urea subsidy (included in other income) & higher proportion of low margin imported DAP in total sales, 3) 29.6%YoY decline in finance cost and 4) higher effective tax rate of 35.2% in 1QCY18 against 23.4% in 1QCY17.

Improving market share coupled with higher product prices: FFC witnessed an impressive growth of ~13%YoY in urea offtake to 1.23mn tons during 1HCY18, characterized by 4.91ppts improvement in FFC's overall market share to 45.1% (lower industry production due to overall gas shortage and closure of LNG based plants owing to economically infeasible LNG cost). Following this, we revisit our investment case for FFC incorporating the recent volumetric uptick in Urea offtake. Accordingly, we revise up our FFC's urea market share assumption for CY18F/CY19F to 43.1/42.8% vs. 41.4/41.3% previously. Besides this, we have also incorporated recent uptick in urea prices (+PkR120/bag) on the back of: 1) alarmingly low inventory levels, pointing toward inevitable urea import in upcoming months and 2) elevated landed cost of imported fertilizers,

KATS Code	FFC
Bloomberg Code	FFC.PA
Price PkR	93.64
Market Cap (PkRmn)	119,132
Market Cap (US\$m)	984.57
Shares (mn)	1,272.24
3M High (PkR)	102.02
3M Low (PkR)	94.22
1Yr High (PkR)	102.02
1Yr Low (PkR)	70.07
3M Avg Turnover '000	1,390.60
1 Yr Avg Turnover '000	1,280.94
3M Avg DT Value (PkRmn)	136.78
3M Avg DT Value (US\$m)	1.13
1Yr Avg DT Value (PkRmn)	111.65
1Yr Avg DT Value (US\$m)	0.92

FFC: Earnings & TP revision

EPS(PkR)	CY18F	CY19F	TP- Dec'19
New	8.75	10.22	104.57
Old	7.96	8.95	96.9
Change	10%	14%	8%

Source: Co. Reports & AKD Research



currently hovering around PkR1800-1900/bag (owing to higher int'l prices alongwith sharp PkR depreciation against US\$). Incorporating the aforementioned developments, our earnings estimates for CY18F/CY19F now stand at PkR8.75/PkR10.22 (revised up by 10%/14%) while our rolled forward Dec'19 TP goes up by 8% to PkR104.6/sh (total return: 21%).

Investment Perspective: Having gained 19%CYTD on improving fundamentals, FFC is trading at a CY19F PE of 9.1x. Going forward, we anticipate the sector to remain in limelight on the back of: 1) alarmingly low inventory levels (high demand against low production), 2) inevitable urea import at current elevated cost of imported fertilizers, hovering around PkR1,800-1,900/bag (owing to stable int'l prices along with recent bouts of PkR depreciation against US\$) and 3) upward trend in local product prices (currently standing around PkR1,550-1,600/bag). Additionally, in case of urea imports in CY18 (highly likely in current scenario), we believe urea manufacturers possess pricing power to further increase their product prices in the local market, considering the prevailing high discount between local and int'l prices (~PkR250-300/bag), thus improving margins. Our revised Dec'19 TP for FFC stands at PkR104.6/sh offering a total return of 21% (includes dividend yield of 10%).



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