



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ Pakistan Fertilizers: 2QCY18F/1HCY18F Result Previews

Commencing next week, the AKD Fertilizer Universe is scheduled to declare its 2QCY18F/1HCY18F results; first up being FFBL (Jul 30'18). In this regard, we expect the AKD Fertilizer Universe to post combined NPAT of PkR10.38/19.81bn in 2QCY18F/1HCY18F as compared to PkR5.84/14.53bn in 2QCY17/1HCY17 - earnings increase of 92%/37%YoY. Higher earnings are expected to arise from significant 8.5ppts/4.1pptsYoY jump in Gross margins to 34.3%/32.9% in 2QCY18F/1HCY17F (avg. urea prices up 13%/10%YoY during 2QCY18F/1HCY18F), despite flattish growth in total fertilizer offtake (-1%YoY) during 1HCY18. The AKD fertilizer Universe has gained 16.4%CYTD, outperforming the market by 12% on improving fundamentals. With exciting 2QCY18F results coupled with decent payouts, we anticipate the sector to remain in limelight on the back of: 1) low inventory levels, 2) inevitable urea import at current elevated cost of imported fertilizers and 3) continuous upward trend in local product prices. Maintaining our Marketweight stance on the sector, EFERT (TP of PkR87.8/sh) remains our top pick on the basis of an attractive dividend yield of ~10% (total return 16%).

#### KSE100 - Index

Current 42,089.16  
Previous 41,339.22  
Chg. 1.81%

#### Mkt Cap. (PkRbn/US\$m)

Current 8,595 / 67.06  
Previous 8,496 / 66.28  
Chg. 1.17%

#### Daily Turnover (mn)

Current 254.33  
Previous 190.85  
Chg. 33.3%

#### Value Traded (PkRmn/US\$m)

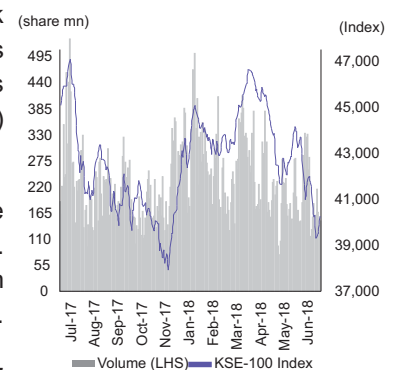
Current 9,225 / 71.98  
Previous 7,726 / 60.28  
Chg. 19.4%

AKD Daily

Friday, Jul 27, 2018

#### News and Views

- The country total FX reserves remained stable during the previous week ending at US\$15.7bn (marginally up by US\$46mn). SBP reserves continuing its downward trajectory recorded at US\$9.0bn which was more than offset by uptick in reserves held by banks (up US\$99.5mn) which cloaked in at US\$6.7bn.
- Repatriation of profit and dividend by foreign companies operating in the country recorded at US\$2.3bn in FY18, implying a growth of 10%YoY. Sector wise, highest outflow of profits of US\$330mn was from communication sector followed by US\$314mn from financial services.
- The Pakistan Muslim League-Nawaz under the leadership of Shahbaz Sharif decided in principle not to boycott parliament on the issue of poll rigging while play an aggressive role as opposition in the National Assembly.



Waqas Imdad Ali

waqas.imdad@akdsecurities.net

111-253-111 Ext:634

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2018 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.

Our research is also available on ResearchPool (<https://www.researchpool.com/provider/akd-securities>)

research@akdsecurities.net | www.akdsecurities.net

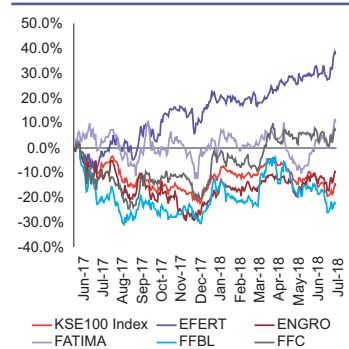


## Pakistan Fertilizers: 2QCY18F/1HCY18F Result Previews

Commencing next week, the AKD Fertilizer Universe is scheduled to declare its 2QCY18F/1HCY18F results; first up being FFBL (Jul 30'18). In this regard, we expect the AKD Fertilizer Universe to post combined NPAT of PkR10.38/19.81bn in 2QCY18F/1HCY18F as compared to PkR5.84/14.53bn in 2QCY17/1HCY17 - earnings increase of 92%/37%YoY. Higher earnings are expected to arise from significant 8.5ppts/4.1pptsYoY jump in Gross margins to 34.3%/32.9% in 2QCY18F/1HCY17F (avg. urea prices up 13%/10%YoY during 2QCY18F/1HCY18F), despite flattish growth in total fertilizer offtake (-1%YoY) during 1HCY18. The AKD fertilizer Universe has gained 16.4%CYTD, outperforming the market by 12% on improving fundamentals. With exciting 2QCY18F results coupled with decent payouts, we anticipate the sector to remain in limelight on the back of: 1) low inventory levels, 2) inevitable urea import at current elevated cost of imported fertilizers and 3) continuous upward trend in local product prices. Maintaining our Marketweight stance on the sector, EFERT (TP of PkR87.8/sh) remains our top pick on the basis of an attractive dividend yield of ~10% (total return 16%).

**2QFY18F/1HFY18F earnings to remain strong:** After posting decent results in 1QCY18, we expect the AKD Fertilizer Universe to post combined NPAT of PkR10.38/19.81bn in 2QCY18F/1HCY18F as compared to PkR5.84/14.43bn in 2QCY17/1HCY17 - earnings increase of 92%/37%YoY. Higher earnings are expected to arise from: 1) significant 8.5ppts/4.1pptsYoY jump in Gross margins to 34.3%/32.9% in 2QCY18F/1HCY17F (avg. urea prices up 13%/10%YoY during 2QCY18F/1HCY18F), despite flattish growth in total fertilizer offtake (-1%YoY) and 2) 28%/16%YoY decline in financial charges on account of swift debt deleveraging and restructuring. In this backdrop, we feel EFERT and FATIMA will emerge out as clear winners, with earnings growth accelerating to 75%/99%YoY and 78%/51%YoY during 2QCY18F/1HCY18F respectively. Alongwith the result, we also expect an impressive interim cash dividend of PkR3.50/sh, PkR2.00/sh and PkR1.50/sh from EFERT, FFC and FATIMA respectively.

Fertilizer Sector vs. KSE Index 100



Source: PSX & AKD Research

### AKD Fertilizer Universe: Cumulative earnings snapshot

(PkRmn)	2QCY18	YoY	QoQ	1HCY18	YoY
Sales	66,433	25%	10%	126,881	12%
Gross profit	22,795	66%	20%	41,798	28%
NPAT	10,379	92%	31%	19,816	37%

Source: Co Report & AKD Research

### 2QCY18F: AKD Fertilizer Universe Earnings Snapshot

Symbol	2QCY18F	2QCY17	YoY	QoQ	1HCY18F	YoY	DPS-2QCY18	AKD Comments
EFERT	3.21	1.83	75%	10%	6.13	99%	3.50	Expected 8.3ptsYoY jump in GMs and 18%YoY decline in financial charges continues to lift bottomline.
FFC	2.37	1.28	86%	33%	4.15	38%	2.00	Anticipated 4.9ptsYoY rise in GMs alongwith 41% fall in financial cost will keep bottomline interesting.
FFBL	0.35	(0.27)	n.a	n.a	(0.13)	-68%	-	Positive recovery in earnings on account of impressive growth in urea offtake coupled with higher prices.
FATIMA	1.71	0.96	78%	24%	3.09	51%	1.50	Higher product prices expected to lift GMs to 59.6% that will keep bottomline exciting.

Source: Company Report & AKD Research



**Investment Perspective:** The AKD fertilizer universe has gained 16.4%CYTD, outperforming the market by 12% on improving fundamentals. With exciting 2QCY18F results coupled with decent payouts, we anticipate the sector to remain in limelight on the back of: 1) low inventory levels (high demand against low production), 2) inevitable urea import at current elevated cost of imported fertilizers, hovering around PkR1,950-2,000/bag (owing to higher int'l prices along with recent bouts of PkR depreciation against US\$) and 3) upward trend in local product prices (Urea: currently standing around PkR1,580-1,620/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 (~PkR350-380/bag), thus further improving margins. Maintaining our Marketweight stance on the sector, EFERT (TP of PkR87.8/sh) remains our top pick on the basis of an attractive dividend yield of ~10% (total return 16%)



## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

### Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



### **Analyst Certification of Independence**

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

### **Disclosure of Interest Area**

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

### **Regional Disclosures (Outside Pakistan)**

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.