

### FFBL: Record earnings in 2011; margins erosion ahead

- FFBL posted record earnings of PRs11.53/sh for 2011, reflecting 67% YoY growth. FFBL also announced a final dividend of PRs3.50/sh (2011: PRs10/sh).
- Going forward, we foresee a comparatively sedate period ahead with earnings declining 46% YoY in 2012E on the back of decline in DAP prices and margins.
- We are lowering our PO to PRs48/sh (-9%) and 12E/13E EPS by 1%/7% on account of higher than expected increase in gas prices in Jan-12.
- At current prices FFBL is trading close to our PO and its historical mid-cycle P/E of ~7.5x where a 12% 12E D/Y keeps us Neutral on the stock.

#### FFBL reported record profits; sedate period ahead

FFBL announced record EPS of PRs11.53 for 2011, +67% YoY on the back of peak DAP margins. The excitement surrounding the results has seen FFBL's stock price recover 19% from its low of PRs42.05 in early Jan. Going forward, we foresee a comparatively sedate period where we reiterate our view of a potential decline in int'l DAP prices and margins, leading to 46% YoY drop in 2012E EPS. After incorporating the higher than expected gas price increase on Jan 1st, our PO now stands at PRs48/sh (-9%), indicating a balanced risk/reward profile at current levels where the 12% 12E D/Y further augments our Neutral stance.

#### 2011: Best of earnings is behind us

FFBL posted net earnings of PRs11.53/sh, which came in 4% above our expectations on account of higher profit from associated company and lower operating expense. FFBL also announced a final cash payout of PRs3.5/sh (PRs3/sh expected), taking full year DPS to PRs10/sh.

67% YoY earnings growth was achieved on the back of 43% and 28% YoY increase in avg. realized prices for urea and DAP respectively leading to expansion in margins for both products. Volumetric growth remained subdued due to gas curtailment issues faced by the company during 2011. During the year, FFBL avg. primary margins (DAP price less cost of phosphoric acid) have seen a high of US\$346/ton during 2Q11, averaging at US\$311/ton, 49% higher YoY.

Taking advantage of high DAP margins and low gas requirement for the product compared to urea, FFBL has efficiently diverted higher gas supply to its DAP plant during curtailment days and thus achieved record operating profit in the company's history since its commencement. This can be seen from decline in FFBL's urea plant capacity utilization rate to 79% in 2011 (95% in 2010) while utilization rate for DAP plant was slightly higher at 98% in 2011 (96% in 2010).

#### Domestic prices yet to respond to decline in int'l prices

Int'l DAP prices have started to stabilize and shown signs of recovery after the 19% decline seen since Jul-2011 but our regional team still sees them clocking in 7% lower YoY in 2012 due to 1) high grain inventories pushing pressure on prices; 2) potential supply addition from the Middle East and 3) macro uncertainty. On the domestic front, DAP prices are at a 19% premium (or PRs550/bag) to cost of imports and should adjust downwards. We expect DAP primary margins (price net of acid cost) to see US\$60/t decline in 2Q12 to US\$213/t from 4Q11.

#### Estimates tweaked on higher gas prices

We revise our EPS estimates for FFBL by -1%, -7% and -4% for 12E, 13E and 14E on the back of higher than expected increase in gas prices in Jan-12. With a 207% increase in feedstock and 17% increase in fuel gas prices, FFBL's cost of producing urea went up by PRs303/bag and DAP by PRs137/bag. FFBL passed on partial impact of increase in cost of urea (by PRs215/bag) while it was not able to pass-on any impact on DAP prices. As a result, FFBL's DAP margins declined by 21% while urea margins declined by 11% in Jan-12 vs. 4Q11.

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Current Price PRs48.74  
Price Objective PRs48.00

KATS FFBL  
Bloomberg FFBL PA  
Reuters JORD.KA

Shares Outstanding  
934.11mn

Market Cap  
PRs45,529mn (USD504.53mn)

3m average daily volume  
3,182,296 shares

12M High / Low  
63.67/38.57

#### Stock Performance

	1M	3M	12M
Absolute%	4.3	-17.8	18.7
Rel Index%	-0.8	-22.1	23.5
Abs. (PRs)	2.0	-10.5	7.7

#### FFBL - 2011 results review

PRsmn	2011	2010	YoY
Sales Revenue	55,869	43,257	29%
Cost of Sales	34,446	28,537	21%
Gross Profit	21,423	14,720	46%
Op Expenses	3,331	3,285	1%
Operating Profit	18,092	11,435	58%
Other Income	1,410	1,033	36%
Share of Ass Prof	241	121	99%
Other Expenses	1,177	713	65%
EBITDA	18,565	11,876	56%
Depreciation	1,308	1,328	-2%
EBIT	17,258	10,548	64%
Financial Charges	1,088	934	16%
EBT	16,170	9,614	68%
Taxation	5,403	3,171	70%
<b>Net Profit</b>	10,767	6,443	67%
<b>EPS (PRs)</b>	11.53	6.90	67%
<b>DPS (PRs)</b>	10.00	6.55	53%

Source: FFBL, KASB Estimates

Morning News

▶ **LSM growth slows to 1.5% in July-Nov (Dawn)**

As per latest data released by Pakistan Bureau of Statistics (PBS), Large Scale Manufacturing (LSM) sector grew by 1.5% in 5MFY12 primarily attributed to positive YoY growth in textile, petroleum products and cements supported by a high base. However in Nov-11, production contracted by 4.7% MoM where output in fertilizer, autos, wood products, chemicals, and iron and steel products fell by 0.95%, 4.85%, 8.12%, 6.16% and 39.8% respectively.

Technical View

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**KSE-100: Coming down to test its trendline**

The index is gradually approaching its trendline above which it had recently given a breakout. This would serve as a retest. Further down, the 200-DMA (currently at 11,767 points) is likely to create support.

The Stochastic Oscillator continues to decline and maintains its sell signal. On the other hand, the MACD maintains its uptrend as well as buy signal.

We maintain our stance of accumulation on weakness.

KSE-100 Intra-day Movement



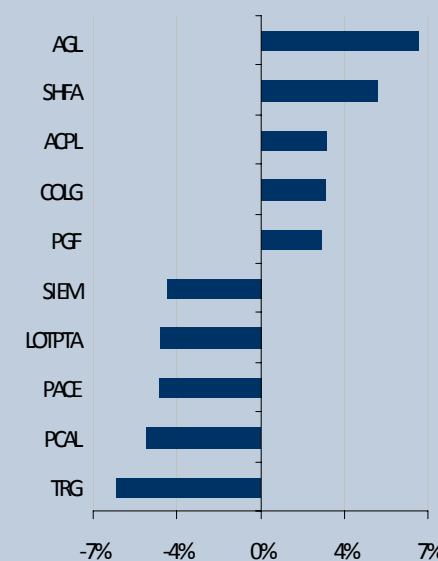
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	11,108.97	-0.21%	40.10
KSE100	11,883.92	-0.55%	42.83
KSE All Share	8,237.84	-0.51%	44.53
FFC	177.67	0.85%	6.59
ENGRO	115.40	1.14%	6.32
FFBL	48.74	-0.59%	5.35
LUCK	86.48	0.83%	4.97
ATRL	121.11	-1.03%	4.50

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

## World Markets and Commodity Prices

### International Equity Markets

#### Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries (25 <sup>th</sup> Jan)	4,329.10	42.70	1.00
Shanghai Composite*	2,319.12	23.04	1.00
Hang Seng*	20,439.14	328.77	1.63
BSE 30 (25 <sup>th</sup> Jan)	17,077.18	81.41	0.48
Jakarta Composite	3,983.43	19.83	0.50
KLSE Composite	1,523.86	4.10	0.27
Nikkei 225	8,849.47	-34.22	-0.39
NZSE 50	3,281.68	1.58	0.05
Straits Times	2,894.43	2.79	0.10
Seoul Composite	1,957.18	4.95	0.25
Taiwan Weighted (18 <sup>th</sup> Jan)	7,233.69	0.00	0.00
<b>KSE-100 Index</b>	<b>11,883.92</b>	<b>-65.83</b>	<b>-0.55</b>

Source: Bloomberg

\*20<sup>th</sup> Jan closing

#### European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,138.87	75.04	3.64
BEL-20 (25 <sup>th</sup> Jan)	2,194.53	1.66	0.08
CAC 40	3,363.23	50.75	1.53
DAX	6,539.85	118.00	1.84
AEX General	322.82	3.38	1.06
Swiss Market	6,135.10	61.74	1.02
FTSE 100	5,795.20	72.20	1.26

#### American Markets

Dow Jones Ind. Average	12,734.63	-22.33	-0.18
NASDAQ Composite	2,805.28	-13.03	-0.46
NASDAQ -100	2,454.63	-11.03	-0.45
S&P 500 Index, RTH	1,318.43	-7.62	-0.57

### Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	1.8	5.6	(4.7)	(4.7)	n.m	25-01
India	181.9	179.4	1,560.5	1,560.5	306.7%	24-01
Indonesia	(31.9)	(54.9)	381.9	381.9	261.6%	26-01
Japan	Na	2,293.2	4,109.5	4,109.5	-44.0%	20-01
Philippines	(7.5)	121.0	370.6	370.6	638.4%	26-01
South Korea	427.7	1,260.6	4,950.6	4,950.6	262.8%	26-01
Taiwan	119.8	105.7	1,029.4	1,029.4	-94.8%	18-01
Thailand	15.9	33.0	(24.8)	(24.8)	97.2%	26-01
Vietnam	(12.4)	(30.2)	(106.4)	(106.4)	-388.2%	20-01

Source: Bloomberg, NCCPL

### Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	11.82	11.85	-0.03
12-M T-Bill (Average)	11.61	11.66	-0.05
10- year PIB (Average)	12.24	12.24	0.00
Pkr/ US\$	90.24	90.16	0.08

Source: KASB Money Market

### Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	99.70	0.57	0.58
Gold	1720.65	10.08	0.59
CRB Index (26 <sup>th</sup> Jan)	317.42	1.05	0.33

Source: Bloomberg

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