

ENGRO & FFBL—EARNINGS PREVIEW

Engro and FFBL are likely to announce their annual results for full year end 2009 on 22nd January 2010 and 26th January 2010 correspondingly. Meanwhile, we have estimated our earning expectations for both the companies of the most attractive sector listed on KSE.

Repatriated Recommendation

Buy Engro
Hold FFBL

ENGRO- *The diversified performer*

Urea demand remained constant over the year 2009. From Jan 2009 to Nov 2009, Urea offtake witnessed a consolidating growth of 13%, it stood at 5.564 mn tonnes compared to 4.912 mn tonnes same period last year. We expect Urea demand to remain sluggish for the last month of the year and full year offtake for 2009 would shut at 06 mn tonnes. During 1st eleven months of 2009, Engro's Urea offtake declined by 19% YoY and market share was 15% while it managed to capture 17% market share for DAP by selling 1.3 mn tonnes, surged by 114% YoY.

Sales up 34% YoY

Engro is expected to post Profit after tax for full year end 2009 of PKR 3.78 bn. This is supported by the handsome growth of sales revenue up 34% YoY. This growth is achieved on the back of extensive sales of DAP with healthy margins in Urea. However, it is expected that other income would take the Net profits down than the previous years due to sluggish performance by its subsidiaries.

	2008	2009E	chg	4Q08	4Q09E	chg
Sales	23,317,198	31,297,146	34%	8,635,242	10,446,936	21%
Gross Profit	6,196,563	6,744,126	9%	1,005,394	1,845,526	84%
Opt Profit	4,538,748	4,765,385	5%	446,071	1,180,998	165%
Fin Cost	1,508,948	1,188,889	-21%	542,252	206,748	-62%
Div Income	2,754,330	2,150,297	-22%	1,142,149	991,636	-13%
Net Profit	4,240,430	3,787,408	-11%	881,080	1,187,965	35%
EPS	14.23	12.71	-11%	2.96	3.99	35%

Engro Chemicals Pakistan Limited- Company Reports & FDM Research

Estimated Stance

EPS is forecasted by at PKR 12.71 for CY09 lower 11% on YoY but higher 35% on QoQ basis due to improved offtake of Urea and DAP in last few months of the year. **We expect PKR 6 per share Cash Dividend for the period CY09 and maintain BUY stance for the scrip.**

FFBL- *sole producer of DAP*

CY09 witnessed massive DAP offtake which crossed 1.5 mn tonnes mark in 11 months and will easily cross 1.6 million tonnes mark at the close of CY09 which is 120% higher than previous year. FFBL sold 641,000 tonnes of DAP from Jan 09 to Nov 09 which is 109% higher than the full year sales of 2008 which was 307,000 tonnes.

	2008	2009E	chg	4Q08	4Q09E	chg
Sales	26,820,812	40,853,531	52%	17,742,308	13,829,546	-22%
Gross Profit	8,226,060	10,249,015	25%	5,376,934	3,864,499	-28%
Opt Profit	6,241,358	7,610,222	22%	4,624,988	3,084,352	-33%
Fin Cost	2,791,971	1,397,495	-50%	887,230	209,452	-76%
Otr Income	1,519,549	(28,746)	-102%	435,995	(41,628)	-110%
Net Profit	2,899,166	3,504,397	21%	2,354,861	1,699,281	-28%
EPS	3.10	3.75	21%	2.52	1.82	-28%

Fauji Fertilizer Bin Qasim Limited - Company Reports & FDM Research

Sales up 52% YoY

FFBL is expected to achieve sales revenue of PKR 40.853 bn for CY09 which is 52% higher than prior year. This tremendous growth is achieved on the back of smooth supply of DAP, lower DAP prices and lower Urea-DAP price differential over the year 2009.

Estimated Stance

Better cashflows in CY09 helped the company to cater the short term needs for cash and hence, lesser reliance on short term borrowings converting finance cost to PKR 1.397 bn from PKR 2.791 bn in 2008 which is 50% lower on YoY basis. On the other hand, share of loss from PMP (a subsidiary) converted the dividend income into loss sharing, this alone took the net profits down by 102% on YoY basis. **Our EPS stance for the scrip is at PKR 3.75 for CY09, 21% up YoY.** On quarterly basis, we expect Net profits to decline by 28% on the back of share of loss from associates.

Final Verdict:

We retain our **BUY** stance on **ENGRO** with a fair value of **PKR 235** per share. While on **FFBL**, we have commuted our **Buy** stance to **HOLD** as it has almost accomplished its fair value of **PKR 31** per share.

	FV	MP	Discount	Stance
Engro	235	192.60	18%	Buy
FFC	115	107.32	6%	Hold
FFBL	31	30.34	2%	Hold

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