

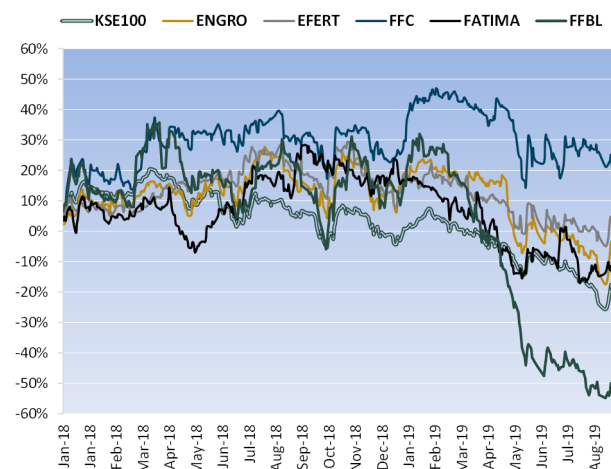
Fertilizer Sector Update

Impact of Amendments in GIDC Act

	52-Week High	52-Week Low	Current
FFC	109.12	84.88	89.48
FFBL	43.57	14.90	16.01
EFERT	82.94	60.88	65.00
FATIMA	37.93	24.54	25.30

Source: PSX

Price Performance Relative to KSE-100



Source: PSX

- The GoP has published an amended ordinance of GIDC act, 2015 wherein GoP has resolved the issue regarding GIDC levy and outstanding amounts
- As per the officially amended GIDC act, 2015, fertilizer sector has to pay half of the outstanding cess levied up to 31st December, 2018 on both feed and fuel gas
- The payment will be made in two equal tranches, first tranche will be payable within thirty days and the following will be payable within three months of signing the agreement.
- Further, the fertilizer sector may exercise one time option of non-cash settlement of cash arrears with FBR against Subsidy claims and General sales tax refund claims or DTLT.
- Note that, the amended ordinance has not explicitly mentioned that the remaining half of GIDC payable is waived off. However, assuming that if the other half is waived, one time earnings impact on the fertilizer companies will be positive as given in the table below:

	EFERT	FFC	FFBL
GIDC Accrued (till 31st Dec, 2018)	12,576	42,083	16,436
Half of GIDC accrued (Payable)	6,288	21,042	8,218
Subsidy Receivable	6,368	6,962	3,161
Net payable/receivable	(80)	14,080	5,057
<i>*Note: The amount in positive is payable</i>			
Current Cash Position			
Cash and equivalents	1,110	3,289	6,586
Short Term Investments	14,511	50,305	1,359
If the other half of GIDC is waived:			
Cumulative EPS Impact	4.71	16.54	8.80
Going forward GIDC levy on feed and fuel reduced to half			
Annualized EPS Impact	2.09	7.79	2.87

Source: Company financials, HMFS Research

Amin Hamdani

amin.hamdani@hmfs.com.pk

Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by Habib Metropolitan Financial Services (HMFS) from publicly available information and sources that HMFS believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of HMFS gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of HMFS has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of HMFS. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of HMFS and/or their respective principals, directors, officers, and employees and their families may own, have positions or affect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

HMFS and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. HMFS prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

HMFS endeavors to make all reasonable efforts to disseminate its publication to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

HMFS Stock Ratings System

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. HMFS uses a three tier rating system: i) Buy, ii) Hold and iii) Sell with our rating being based on total stock returns. A table presenting HMFS' rating definitions is given below:

Valuation Methodology

To arrive at our fair value estimates, HMFS uses different valuation methodologies including but not limited to:

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

HMFS RATING GUIDE

<i>BUY</i>	<i>More than 15% Upside</i>
<i>HOLD</i>	<i>Between 15% Upside & 15% Downside</i>
<i>SELL</i>	<i>More than 15% Downside</i>

Note: All fair value estimates are for a twelve month time horizon unless specified otherwise in the report

Upside/Downside represents the difference between the stated "Fair Value" & the prevailing "Market Price"

Total Return is based on both the Capital Gains return & the Dividend Yield & is exclusive of all applicable taxes