

## Day Break

Thursday, 20 April 2017

## COMPANY UPDATE

## FATIMA FERTILIZER COMPANY LIMITED

FERTILIZER

<b>Recommendation</b>	<b>BUY</b>
Target Price	42.1
Last Closing	33.2
Upside	26.7

## Market Data

Bloomberg Tkr.	FATIMA PA
Shares (mn)	2,100.0
Free Float Shares (mn)	420.0
Free Float Shares (%)	20.0%
Market Cap (PKRbn   USDmn)	69.8   665.5
Exchange	KSE 100
<b>Price Info.</b>	90D 180D 365D
Abs. Return	(14.8) 1.2 7.4
Lo	33.3 31.9 30.0
Hi	41.3 41.3 41.3

## Key Company Financials

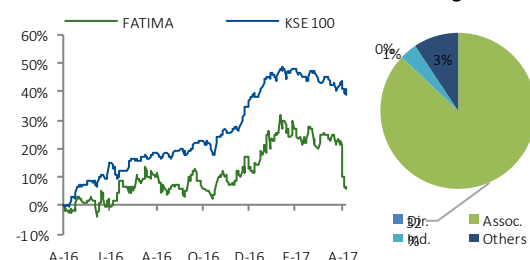
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	29.7	33.8	37.6	37.1
Net Income	9.25	9.8	10.4	10.9
EPS (PKR)	4.4	4.7	5.0	5.2
DPS (PKR)	-	3.3	2.9	3.1
Total Assets	94.8	96.4	91.7	92.0
Total Equity	40.2	43.2	47.5	51.9

## Key Financial Ratios

ROE (%)	23.0	22.7	22.0	21.1
P/E (x)	7.5	7.1	6.7	6.4
P/B (x)	1.7	1.6	1.5	1.3
DY (%)	-	9.8	8.9	9.3

## Relative Price Performance &amp; Shareholding



## About the Company

The Company is a public limited company incorporated in Pakistan. The principal activity of the Company is to manufacture, process and sell of dairy, beverages, and frozen desserts.

Source: Bloomberg, KSE 100 &amp; IGI Research

## Anjali Kukreja

Research Analyst

anjali.kukreja@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

## Fertilizer Preview

## FATIMA: Volumetric sales to increase earnings in 1QCY17

- Fatima Fertilizer Company Ltd.'s (FATIMA) board meeting is scheduled to announce its 1QCY17 financial result on 20<sup>th</sup> Apr-17, where we expect company to post earnings of PKR 2.2bn (EPS PKR 1.05) up by +96%YoY in 1QCY17.
- Industry's inventory rose to 1.19mn tons in Feb-17 as the higher production created the supply glut of urea. However, with the 0.3mn tons of export till May-17 (Govt has agreed to extend deadline for urea export till May-17).
- We recommend "BUY" call on FATIMA with our Dec-17 target price of PKR 42/share offering upside of +27% from its last closing. The company is currently trading at a CY17E P/E of 7.1x and dividend yield of 9.8%.

## Earnings to clock in at PKR 1.05/share for 1QCY17

Fatima Fertilizer Company Ltd.'s (FATIMA) board meeting is scheduled to announce its 1QCY17 financial result on 20<sup>th</sup> Apr-17, where we expect company to post earnings of PKR 2.2bn (EPS PKR 1.05) up by +96%YoY in 1QCY17. Our estimates are based on a) +61%YoY growth in topline on the back of +2.2x/+2.1x/1.48xYoY increase in urea/CAN/NP offtake due to lower prices, b) decline in finance cost by 16%YoY as company has decreased its long and short term borrowing. However, +2.3xYoY increase in distribution expense is expected to dilute earnings growth in 1QCY17.

Exhibit:

## FATIMA Financial Highlights

PKRmn (Period end=Dec)	1QCY17E	1QCY16	YoY	4QCY16	QoQ
Net Sales	8,447	5,260	61%	10,857	-22%
Gross Profit	4,692	2,737	71%	6,019	-22%
Mkting. / Dist. Cost	591	254	133%	914	-35%
Other Op. Income	78	154	-49%	170	-54%
Finance Cost	532	636	-16%	815	-35%
Pre-Tax Profits	3,201	1,652	94%	4,072	-21%
Profit After Tax	2,208	1,125	96%	3,412	-35%
EPS (PKR)	1.05	0.54	96%	1.62	
DPS (PKR)	-	-		2.00	

## KEY RATIOS

Gross Profit Margins	55.6%	52.0%	55.4%
EBIT Margins	44.2%	43.5%	45.0%
Effective tax rate	31.0%	31.9%	16.2%

Source: IGI Research, Company Financials

No. of shares 2,100.0

### **Outlook**

Industry's inventory rose to 1.19mn tons in Feb-17 as the higher production created the supply glut of urea. However, with the 0.3mn tons of export till May-17 (Govt has agreed to extend deadline for urea export till May-17), we expect inventory levels to ease down as a result. Whereas margins are anticipated to be on the lower side as international prices are down to USD 221/ton from high USD 275/ton recorded in Mar-17.

### **Recommendation**

We recommend **"BUY"** call on FATIMA with our Dec-17 target price of PKR 42/share offering upside of +27% from its last closing. The company is currently trading at a CY17E P/E of 7.1x and dividend yield of 9.8%.

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**Time Horizon:** Dec - 2017

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

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## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	jawad.ameer@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	anjali.kukreja@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

#### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaquat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Phone: (92-992) 408243 - 44

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Radio  
Station, Mansehra Road, Abbottabad  
Phone: (+92-99) 2408243 - 44