

Day Break

Monday, 26 March 2018

COMPANY UPDATE

Fatima Fertilizer Company Limited

Fertilizer

Recommendation	BUY
Target Price:	40.2
Last Closing: 22-Mar-18	31.8
Upside:	26.7
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

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)	66.7	576.2	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	5.2	6.3	(18.5)
Lo	29.4	26.8	26.8
Hi	33.0	34.1	39.0

Key Company Financials

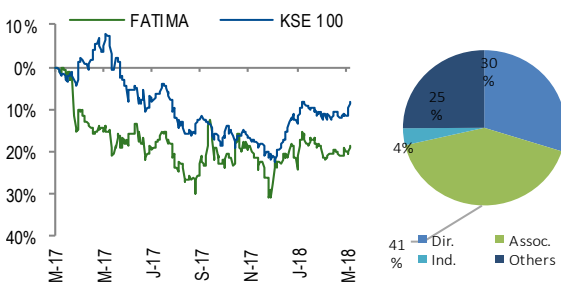
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	33.8	37.8	35.6	36.7
Net Income	9.8	10.8	10.8	11.1
EPS (PKR)	4.7	5.1	5.1	5.3
DPS (PKR)	3.3	3.6	3.6	3.7
Total Assets	110.6	98.1	95.4	94.1
Total Equity	47.4	50.6	53.8	57.2

Key Financial Ratios

ROE (%)	20.6	21.3	20.0	19.4
P/E (x)	6.8	6.2	6.2	6.0
P/B (x)	1.4	1.3	1.2	1.2
DY (%)	10.2	11.3	11.3	11.6

Relative Price Performance



About the Company

The Company is a public limited company incorporated in Pakistan. The principal objective of the company is manufacturing, purchasing and marketing of fertilizers. The Company commenced its commercial production effective from January 01, 2000.

Source: Bloomberg, PSX & IGI Research

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Fertilizer

FATIMA: Earnings for 4QCY17 expected at PKR 1.96/share

- Fatima Fertilizer Company Limited (FATIMA) is scheduled to announce its financial result for CY17 on 27th Mar-18, wherein we expect earnings for the 4QCY17 to increase by +13%YoY to PKR 4.1bn (EPS: PKR 1.96/share).
- We attribute the increase in earnings to a) increase in offtake by +12%YoY to 281k tons in the phosphate segment (CAN/NP) and b) decrease in phosphate rock prices.
- We have a 'BUY' call on the scrip based on our Dec-18 target price of PKR 40.2/share, offering +28% upside from its last closing. The company is currently trading at CY18F P/E of 8.8x and offers a dividend yield of 11.4%.

Earnings for 4QCY17 to increase by +13%YoY to PKR 4.1bn (EPS: PKR 1.96/share)

Fatima Fertilizer Company Limited (FATIMA) is scheduled to announce its financial result for CY17 on 27th Mar-18, wherein we expect earnings for the 4QCY17 to increase by +13%YoY to PKR 4.1bn (EPS: PKR 1.96/share). We attribute the increase in earnings to a) increase in offtake by +12%YoY to 281k tons in the phosphate segment (CAN/NP) and b) decrease in phosphate rock prices. On a cumulative basis, we expect earnings for CY17E to move up by +8%YoY to ~PKR 10.8bn (EPS: PKR 5.14/share) supported by massive growth of 21% to 1.5mntons in the overall offtake (exports of 102ktons) and with finance cost providing some relief (expected to decline by 14%YoY). In addition, we also expect the company to declare a cash dividend of PKR 3.6/share.

Exhibit:

FATIMA Result Highlights (Uncons.)

Period End Dec- PKRmn	4QCY17E	4QCY16	YoY	CY17E	CY16	YoY
Net Sales	11,742	10,933	7%	37,821	33,929	11%
Gross Profit	7,003	6,752	4%	20,553	18,805	9%
Selling / Dist.	1,057	765	38%	3,455	2,322	49%
Other Op. Income	378	170	122%	750	703	7%
EBIT	5,569	4,712	18%	15,406	14,191	9%
Finance Cost	439	508	-14%	2,047	2,432	-16%
Pre-Tax Profits	5,130	4,204	22%	13,359	11,759	14%
Taxation	1,019	579	76%	2,573	1,764	46%
Post-Tax Profits	4,111	3,624	13%	10,786	9,995	8%
EPS	1.96	1.73		5.14	4.76	
DPS	3.60	2.00		3.60	3.25	

Key Ratios

Gross Profit Margins	60%	62%	54%	55%
Ebit Margins	47%	43%	41%	42%
Effective Tax Rate	20%	14%	19%	15%

Source: IGI Research, Company Financials, PSX

No. of shares :2100mn

Net sales for the quarter to clock in at PKR 11.7bn, up by +7%YoY

The total offtake during the quarter stands at 399k tons down by 4% owing to decline in urea offtake (excluding exports of 19.2 tons) by 29%YoY to 118k tons. However, sales of CAN/NP partially offset the decline each reporting offtake at 134/147k tons up by +8%/+17%YoY. Hence, net sales are expected at PKR 11.7bn (up by +7%YoY) for the 4QCY17 with full year sales approaching at PKR 37.8bn (+11%YoY).

Low raw material costs amid decrease in international phosphate rock prices

International phosphate rock prices are in a declining phase, having decreased substantially by 12%YoY during 4QCY17 owing to oversupply situation. As a result, for the period in review we expect company incurring low production costs (~PKR 345/bag v/s ~PKR 387/bag in 4QCY16) for its blended phosphate (NP) fertilizer.

Exhibit:
Urea, DAP and NP/NPK offtake (k tons)

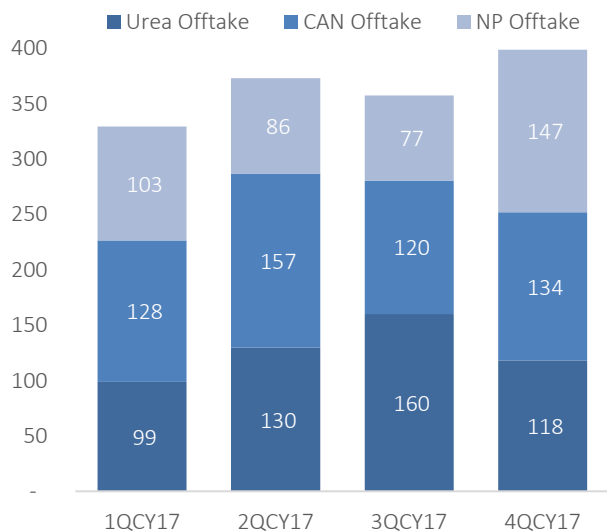
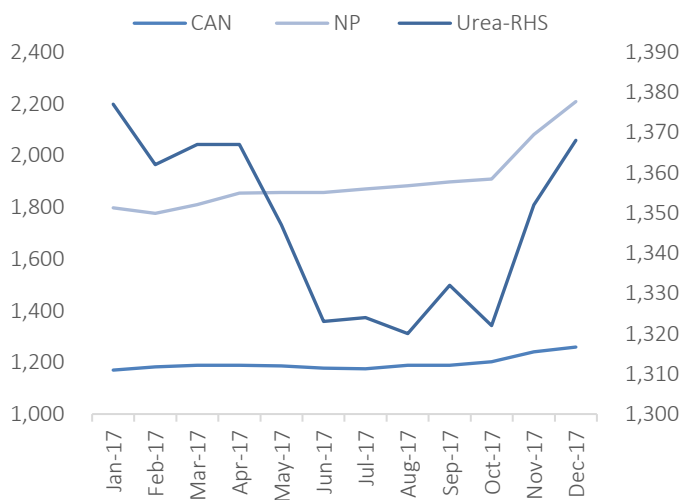


Exhibit:
Local CAN/NP and urea prices (PKR/bag)



Source: IGI Research, Company Financials, Bloomberg

Recommendation

We have a **'BUY'** call on the scrip based on our Dec-18 target price of PKR 40.2/share, offering +27% upside from its last closing. The company is currently trading at CY18F P/E of 6.2x and offers a dividend yield of 11.3%.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2018

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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