

Fatima Fertilizer Company Limited
Result Review

PSX: FATIMA Bloomberg: FATIMA.PA Reuters: FATF.PSX

Pakistan Research

FATIMA: 2QCY22 EPS clocked in at PKR 0.07, down 97% YoY

- FATIMA announced its 2QCY22 result today, wherein unconsolidated EPS clocked in at PKR 0.07, down 97% YoY, taking cumulative EPS FOR 1HCY22 to PKR 2.78. The result was below than our expectation due to lower than anticipated cost of sales and higher effective tax rate of 99%.
- Company recorded the highest ever quarterly revenue of PKR 33.2bn up 29% YoY during 2QCY22 on the back of higher fertilizer prices, up 33% YoY.
- Gross margins came in higher than our expectations at 48.4% in 2Q, up 3pp YoY. We believe this could be due to the disbursement of subsidy on RLNG by the government.
- Other income of the company increased of 33% YoY to PKR 552mn due to higher return on short term investments and better dividends.
- Other charges for the period clocked in at PKR 1.9bn, up 178% YoY, probably due to the impairment loss. We await detailed accounts for further clarity.
- Finance cost for 2Q increased by 13% YoY to PKR 758mn due to higher borrowings and elevated interest rates.
- The effective-tax rate for 2Q clocked in at 99% due to imposition of the super tax on CY22 profits and deferred tax impact.
- We recommend 'BUY' on FATIMA with our Dec-22 price target (PT) of PKR 46/share, offering an upside of 25% along with a dividend yield of 14%.

Key Data

PSX Ticker	FATIMA
Target Price (PKR)	46
Current Price (PKR)	37
Upside/(Downside) (%)	25%
Dividend Yield (%)	14%
Total Return (%)	39%
12-month High (PKR)	46
12-month Low (PKR)	28
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	76,965
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY21	2QCY22	YoY	1HCY21	1HCY22	YoY
Net Sales	25,704	33,170	29%	47,308	62,284	32%
Cost of Sales	14,042	17,117	22%	26,381	33,981	29%
Gross Profit	11,662	16,052	38%	20,927	28,303	35%
Dist. & Admin. Exp.	2,023	1,897	-6%	4,434	5,811	31%
Other Income	413	552	33%	1,198	3,178	165%
Other Charges	700	1,915	174%	1,198	3,178	165%
Finance cost	668	758	13%	1,211	1,175	-3%
Other gains (losses)/GIDC	195	72	-63%	195	149	-23%
Profit Before Tax	8,536	10,582	24%	14,446	18,835	30%
Taxation	2,994	10,426	248%	5,138	12,989	153%
Net Income	5,542	156	-97%	9,308	5,846	-37%
EPS	2.64	0.07	-97%	4.43	2.78	-37%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	5.7	6.3	8.8	11.6	11.7	12.1
EPS Growth	1%	10%	39%	32%	1%	3%
DPS	2.0	2.5	3.5	5.3	7.5	7.8
PER	6.4	5.8	4.2	3.1	3.1	3.0
Dividend Yield	5%	7%	10%	14%	20%	21%
EV/EBITDA	4.3	3.8	2.1	1.4	1.4	1.2
P/B	1.0	0.9	0.8	0.7	0.6	0.5
ROE	15%	15%	18%	21%	19%	18%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fatima Fertilizer Company Limited (FATIMA) has been computed using Free cash flow to equity (FCFE) method. We have used a risk-free rate of 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 46/share. Our PT offers an upside 25% along with a dividend yield of 14%. Our investment case on FATIMA is based on 1) higher fertilizer prices, 2) volumes sustainability and 4) attractive dividend yield.

Risks

Key downside risks to our investments thesis are: 1) gas supply curtailment, 2) lower than anticipated fertilizer demand, and 3) lower than expected fertilizer prices.

Company Description

Fatima Fertilizer Company Limited is engaged in manufacturing, purchasing and marketing of fertilizers. Fatima Fertilizer Company Limited is as a joint venture between Fatima Group and Arif Habib Group.

Financial Highlights - FATIMA

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net sales	74,964	71,267	112,488	147,087	131,630	132,513
Cost of sales	47,065	42,473	69,404	83,355	82,156	82,057
Gross Profit	27,899	28,795	43,084	63,732	49,473	50,456
SG & A	6,579	7,259	8,948	11,325	9,441	9,876
Operating Profit	21,320	21,535	34,136	52,407	40,032	40,580
Other income	1,114	1,810	1,210	2,013	1,341	1,497
Other charges	1,480	1,678	4,677	5,603	3,151	3,225
Finance cost	3,761	3,469	2,007	1,892	1,224	1,011
Profit before tax	17,193	18,743	28,185	46,577	36,737	37,796
Taxation	5,123	5,468	9,711	22,144	12,123	12,473
Profit after tax	12,070	13,275	18,474	24,434	24,614	25,323

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	100,721	104,938	105,422	107,531	108,606	109,692
Other LT assets	9,857	10,062	7,697	11,603	12,173	12,878
Non-Current Assets	110,577	114,999	113,120	119,134	120,779	122,570
Current assets	44,539	42,558	71,773	72,630	79,934	84,257
Total Assets	155,116	157,557	184,893	191,764	200,713	206,827
Non-Current liabilities	26,536	29,303	30,307	28,477	25,217	23,068
Current liabilities	50,572	41,151	54,323	45,877	44,497	43,186
Total Liabilities	77,108	70,454	84,630	74,354	69,714	66,254
Equity	78,008	87,103	100,263	117,411	130,999	140,572
Total Equity & liabilities	155,116	157,557	184,893	191,764	200,713	206,827

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	12,070	13,275	18,474	24,434	24,614	25,323
Non-cash Charges	2,822	2,967	5,288	5,318	6,509	6,586
Operating Cash flows	7,938	21,799	22,041	19,536	33,588	29,881
FCFF	(1,241)	17,055	19,966	10,485	26,750	22,796
Net borrowings	7,241	(8,383)	(6,830)	(4,828)	(1,817)	(1,326)
FCFE	3,361	6,215	11,820	4,665	24,113	20,793
Net change in cash	(203)	41	6,788	(4,192)	9,847	105
Closing cash	515	555	7,343	3,152	12,999	13,104

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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