

Fatima Fertilizer Company Limited
Result Review

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

Pakistan Research

3QCY22 EPS clocked in at PKR 1.93, down 15% YoY

- FATIMA announced its 3QCY22 financial result today, wherein unconsolidated EPS of the company clocked in at PKR 1.93, down 15% YoY. This takes cumulative EPS for 9MCY22 to PKR 4.71, down 30% YoY.
- Company recorded the revenue of PKR 36.6bn, up 24% YoY during 3QCY22 on the back of higher fertilizer prices.
- Gross margins came at 35.1% in 3Q, down 8pp YoY. We believe this could be due to the delay in disbursement of subsidy on RLNG by the government and higher phos-acid prices.
- Other income of the company increased by 65% YoY to PKR 534mn due to higher return on short term investments and better dividends.
- Other charges for the period clocked in at PKR 1.7bn probably due to the impairment loss and exchange loss on phos-acid purchase. We await detailed accounts for further clarity.
- Finance cost for 3QCY22 increased by 31% YoY to PKR 740mn due to higher borrowings and elevated interest rates.
- The effective-tax rate clocked in at 43% for 3QCY22, due to imposition of the super tax from CY22 onwards.
- We recommend 'BUY' on FATIMA with our June-23 price target (PT) of PKR 45/share, offering an upside of 18% along with a dividend yield of 16.4%.

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | FATIMA |
| Target Price (PKR) | 45 |
| Current Price (PKR) | 38 |
| Upside/(Downside) (%) | 18% |
| Dividend Yield (%) | 16.4% |
| Total Return (%) | 34% |
| 12-month High (PKR) | 45 |
| 12-month Low (PKR) | 29 |
| Outstanding Shares (mn) | 2,100 |
| Market Cap (PKR mn) | 79,800 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 3QCY21 | 3QCY22 | YoY | 9MCY21 | 9MCY22 | YoY |
|---------------------------|---------------|---------------|-------------|---------------|---------------|-------------|
| Net Sales | 29,462 | 36,637 | 24% | 76,770 | 98,920 | 29% |
| Cost of Sales | 16,881 | 23,762 | 41% | 43,262 | 57,743 | 33% |
| Gross Profit | 12,581 | 12,875 | 2% | 33,508 | 41,178 | 23% |
| Dist. & Admin. Exp. | 2,585 | 1,925 | -26% | 7,019 | 9,556 | 36% |
| Other Income | 324 | 534 | 65% | 2,848 | 4,850 | 70% |
| Other Charges | 1,650 | 1,671 | 1% | 2,848 | 4,850 | 70% |
| Finance cost | 565 | 740 | 31% | 1,776 | 1,915 | 8% |
| Other gains (losses)/GIDC | 89 | 66 | -26% | 284 | 215 | -24% |
| Profit Before Tax | 8,039 | 7,159 | -11% | 22,485 | 25,994 | 16% |
| Taxation | 3,262 | 3,106 | -5% | 8,400 | 16,095 | 92% |
| Net Income | 4,777 | 4,053 | -15% | 14,085 | 9,899 | -30% |
| EPS | 2.27 | 1.93 | -15% | 6.71 | 4.71 | -30% |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | CY19A | CY20A | CY21A | CY22F | CY23F | CY24F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS | 5.7 | 6.3 | 8.8 | 10.3 | 11.8 | 11.9 |
| EPS Growth | 1.3% | 10.0% | 39.2% | 17.6% | 14.1% | 0.8% |
| DPS | 2.0 | 2.5 | 3.5 | 4.8 | 7.8 | 7.8 |
| PER | 6.6 | 6.0 | 4.3 | 3.7 | 3.2 | 3.2 |
| Dividend Yield | 5.3% | 6.6% | 9.2% | 12.5% | 20.4% | 20.4% |
| EV/EBITDA | 4.5 | 4.0 | 2.1 | 1.5 | 1.5 | 1.4 |
| P/B | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 | 0.6 |
| ROE | 15.5% | 15.2% | 18.4% | 18.9% | 19.1% | 18.1% |

Source: Company Accounts, Akseer Research

Muhammad Atif

muhammad.atif@alphacapital.com.pk

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 June-23 PT of 45/share. Our PT offers an upside 18% along with a dividend yield of 16.4%. 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 | 152,578 | 140,783 | 140,627 |
| Cost of sales | 47,065 | 42,473 | 69,404 | 89,902 | 91,568 | 91,686 |
| Gross Profit | 27,899 | 28,795 | 43,084 | 62,677 | 49,215 | 48,941 |
| SG & A | 6,579 | 7,259 | 8,948 | 11,980 | 9,560 | 10,002 |
| Operating Profit | 21,320 | 21,535 | 34,136 | 50,696 | 39,655 | 38,939 |
| Other income | 1,114 | 1,810 | 1,210 | 2,110 | 2,594 | 3,220 |
| Other charges | 1,480 | 1,678 | 4,677 | 6,184 | 3,722 | 3,607 |
| Finance cost | 3,761 | 3,469 | 2,007 | 2,602 | 1,250 | 1,211 |
| Profit before tax | 17,193 | 18,743 | 28,185 | 43,658 | 37,017 | 37,297 |
| Taxation | 5,123 | 5,468 | 9,711 | 21,924 | 12,216 | 12,308 |
| Profit after tax | 12,070 | 13,275 | 18,474 | 21,734 | 24,801 | 24,989 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | CY19A | CY20A | CY21A | CY22F | CY23F | CY24F |
| PPE | 100,721 | 104,938 | 105,422 | 107,531 | 109,144 | 110,781 |
| Other LT assets | 9,857 | 10,062 | 7,697 | 11,682 | 12,369 | 13,506 |
| Non-Current Assets | 110,577 | 114,999 | 113,120 | 119,213 | 121,513 | 124,287 |
| Current assets | 44,539 | 42,558 | 71,773 | 75,070 | 83,269 | 89,433 |
| Total Assets | 155,116 | 157,557 | 184,893 | 194,282 | 204,782 | 213,720 |
| Non-Current liabilities | 26,536 | 29,303 | 30,307 | 28,518 | 25,260 | 23,113 |
| Current liabilities | 50,572 | 41,151 | 54,323 | 51,053 | 49,984 | 52,356 |
| Total Liabilities | 77,108 | 70,454 | 84,630 | 79,571 | 75,244 | 75,469 |
| Equity | 78,008 | 87,103 | 100,263 | 114,711 | 129,537 | 138,251 |
| Total Equity & liabilities | 155,116 | 157,557 | 184,893 | 194,282 | 204,782 | 213,720 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|----------------|---------------|---------------|---------------|---------------|---------------|
| | CY19A | CY20A | CY21A | CY22F | CY23F | CY24F |
| Net Income | 12,070 | 13,275 | 18,474 | 21,734 | 24,801 | 24,989 |
| Non-cash Charges | 2,822 | 2,967 | 5,288 | 5,318 | 7,047 | 7,164 |
| Operating Cash flows | 7,938 | 21,799 | 22,041 | 18,782 | 31,956 | 29,352 |
| FCFF | (1,241) | 17,055 | 19,966 | 10,034 | 24,060 | 21,272 |
| Net borrowings | 7,241 | (8,383) | (6,830) | (4,697) | (2,582) | 2,253 |
| FCFE | 3,361 | 6,215 | 11,820 | 4,042 | 20,641 | 22,714 |
| Net change in cash | (203) | 41 | 6,788 | (4,815) | 372 | (614) |
| Closing cash | 515 | 555 | 7,343 | 2,529 | 2,901 | 2,286 |

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

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.

| Rating | Expected Total Return |
|--------|-------------------------------|
| Buy | Greater than or equal to +15% |
| Hold | Between -5% and +15% |
| Sell | Less than or equal to -5% |

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.pk