Fatima Fertilizer Company Limited

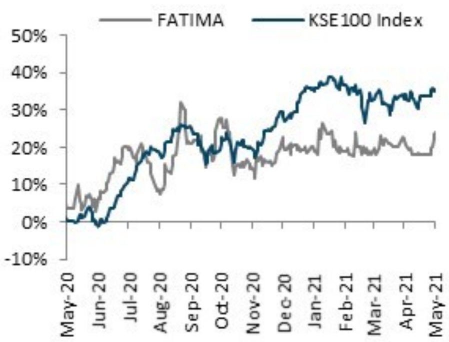
1QCY21: ANALYST BRIEFING TAKEAWAYS

Higher fertilizer offtake supported earnings growth in 1Q

Fatima Fertilizer (FATIMA) held its analyst briefing session today to discuss company's financial performance and future business outlook. To recall, the company posted earnings of PKR 13.3Bn (EPS: PKR 6.3) in CY20, up 10% YoY. On the other hand, profitability during 1QCY21 clocked-in at PKR 3.8Bn (EPS: PKR 1.8), up 53/1% YoY/ QoQ. Key takeaways from the briefing are summarized below:

- The company has three operational plants at Sadiqabad, Multan and Sheikhupura with cumulative name plate capacity of around 2.57Mn tons, with nearly 1.54Mn tons (60%) of capacity comprising of CAN and NP. The company is the sole producer of these value added fertilizers in the country.
- The Sadiqabad plant alone has a name plate capacity of 1.46Mn tons which has been increased from 1.28Mn tons through de-bottlenecking projects. The end products of this plant are Urea (0.50Mn tons), CAN (0.42Mn tons), and NP (0.36 Mn tons). The Sadiqabad plant receives gas from Mari at a concessionary rate of USD 0.7/MMBTU. This agreement is all set to expire in Jun'21 after which the company will receive normalized gas rates of PKR 302/MMBTU for feed and PKR 1,023/ MMBTU for fuel.
- The Sheikhupura plant was acquired in 2015 and has been operating as a merged entity of FATIMA since then. The end product, Urea, is marketed under a separate name "Bubber Sher", and the plant has a capacity of 0.45Mn tons. The Sheikhupura plant operates on RLNG supply, however, the management stated that they are in talks with the government to have a private arrangement of gas supply for this unit similar to its other plants.
- The company also completed the transaction of acquiring Pak Arab Fertilizer Limited's operating plant in Sep'20, making FATIMA the largest fertilizer manufacturing company to have cumulative name plate capacity of 2.57Mn tons. The primary end products of the plant are Urea, CAN and NP with capacities of 0.09Mn, 0.45Mn and 0.30Mn tons, respectively. The gas tariff charged to this plant is under the Petroleum Policy of 2012 at the rate of PKR 635/MMBTU for both feed and fuel.
- Due to company's multiple plant units spread across Punjab, it has a positioning advantage with over 90 warehouses and a network of nearly 3,100 dealers. As per the management, on a cumulative basis, the company's market share in Nitrogen segment (Urea and CAN) stood at 21% in CY21 (↑ 2.0ppts YoY). With regards to Phosphate segment (DAP and NP), the market share during the same period clocked-in at 29% (↑ 2ppts).
- Over the last three years (CY17-CY20), the company has expanded its production and sales volumes at a CAGR of 14/8% to 1.90/1.87Mn tons in CY20. On the other hand, production/sales volumes increased by 63/47% YoY in 1QCY21, which translated into profitability growth of 53% YoY (PKR 1.8/sh) during the same period.
- Given the expectations of healthy offtake amidst improved farm economics and strong prices of phosphatic fertilizers, the management expects the company to continue to do well in coming years. They are also exploring several investment opportunities to further support growth going forward.
- We maintain our BUY stance on the company with our Dec'21 TP of PKR 40.0/sh, which implies an upside of 38% from the last close.

FATIMA vs. KSE-100 Index



%	3M	6M	12M
Absolute	8	9	26
Relative to KSE	2	1	-15

Source: PSX

Noor Huda Shaikh
Research Analyst
Tel: 111-262-111 ext. 2053
E-mail: noor.shaikh@bmacapital.com

BMA Capital Management Ltd.

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

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