Standard Capital
Securities (Pvt) Ltd
A venture of Naushad Haroon Chamdia, incorporated in 1997

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Fatima Fertilizer...Blossoming... BUY@22.5/sh TP Rs30/sh

In spite of some gas curtailment from dedicated Mari network during CY12, FATIMA has shown increase in sales and subsequent profits. We like FATIMA since it is a low urea capacity company and hence does not see Engro like situation. We have fine tuned our model and now enunciate CY13 EPS of Rs 3.38. FATIMA yield leading PE of 6.7x as against historical PE of 12.2x given CY12 EPS of Rs 2.96/sh. Our DCF target for FATIMA is Rs 30/sh; spelling 36% upside from market price. BUY

Profit&Loss a/c	CY11A	CY12A	CY13E	chg
Rs mn				
Sales	14,833	29,518	32,221	9%
Cost of sales	4,741	12,252	13,905	13%
Gross profit	10,092	17,266	18,316	6%
Distrib. cost	338	1,234	1,339	9%
Admin. cost	417	739	789	7%
Other exp	320	506	666	32%
Other inc	134	67	79	18%
operat profit	9,150	14,854	15,601	5%
Finance cost	3,063	5,774	5,229	-9%
PBT	6,087	9,080	10,372	14%
Tax	1,970	2,969	3,392	14%
PAT	4,117	6,111	6,980	14%
EPS	1.85	2.96	3.38	14%
DPS	1.5	2.0	3.0	50%

Source:Standard Capital Research

Fatima Fertilizer Limited is engaged in the production and sales of chemical fertilizers. Its main products are Urea, Calcium Ammonium Nitrate (CAN) and Nitro Phosphate (NP). These fertilizers provide nutrients to impoverished soil enabling them to strengthen plants leading to increased yields. The company has the annual design capacity of:

500,000 Metric Tons of Urea
420,000 Metric Tons of CAN
360,000 Metric tons of NP

As per our discussions with farming community, FATIMA is a recognized brand in South Punjab.

Increase in Revenue & Profit

For the year ended CY12 the company results showed significant growth and increase in the earnings. For the CY12 the sales of the company showed growth of about 99% and the gross profit increased by 71% and the profit after tax increased by 48%.

CY13 outlook...

We have forecasted an increase of 9-10% in the revenue for the coming CY13; we also see an increase of 6-8% in gross profit of the company. We see 14% increases in the EPS of the company for the coming year.

If during the year the urea prices remained stable then the increase in revenue will materialise and there could be increase in the profit as forecasted. We see all the signs of stable urea prices since we see hurdles in supplies to genuine farmers which creates price volatility; thus present high level of prices to remain in the same vicinity of Rs 1700 – Rs 1750. FATIMA has a good show as far as NP sales in CY12 are concerned. We see better performance of NP in context of FATIMA. The current utilization of NP is 72% which is impressive if we compare this with Engro.

Overview...

For the year ended 2012 the company's overall performance was good showing an increase in the profit and revenue of the company, during the year the company faced some unprecedented gas curtailment which led to sharp decline in the production for the year; the gas is not a major issue

Industry outlook...

During Rabi 2012-13, total availability of urea is estimated to be around 3.0mn tons. This includes 0.3mn tons of imported supplies, 2.0mn tons of domestic production and 0.7 mn tons of opening inventory. The estimated off take during Rabi 2012-13 is expected to be 2.83 mn tons leaving behind 0.196 mn tons of opening balance for coming Kharif 2013.

Urea and DAP industry off take during Jan 2013 as compare to Jan 12 and Jan 11

	11-Jan	12-Jan	13-Jan
Urea	0.394	0.61	0.517
DAP	0.059	0.02	0.053

Analyst
Saud Khan

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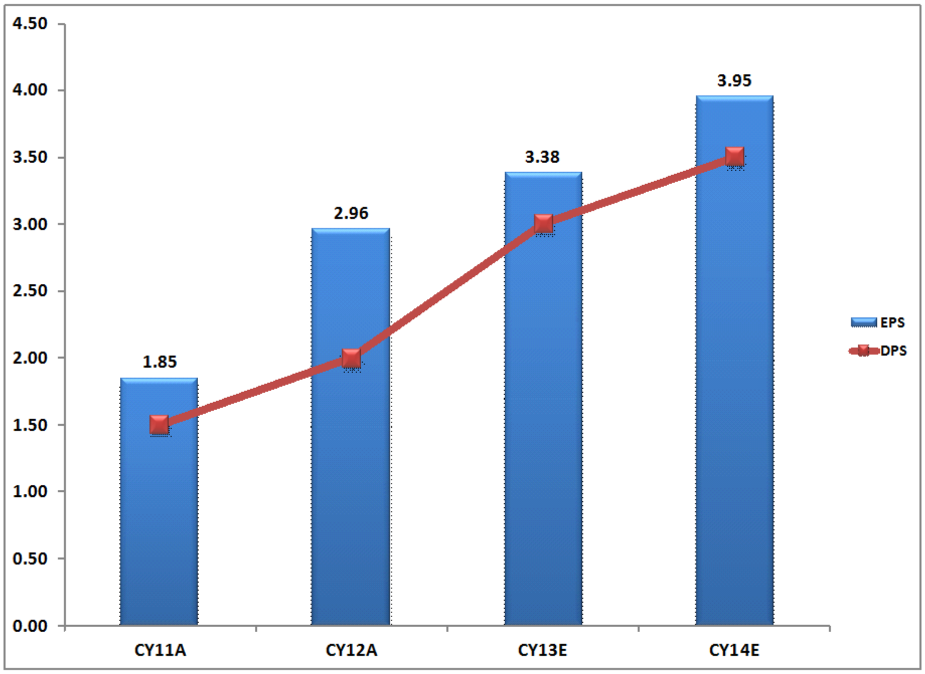
The major reason for the rise in the prices of urea is due to the imposition of GST and GIDC and the gas curtailment by the outgoing government; company sources are adamant that if these factors are being eliminated then the prices of urea could be reduced automatically. We do not subscribe to these views of the industry since prices of agriculture inputs should be lower. Perhaps the issue of gas supplies would create a favourable situation for few big companies in shape of profits.

If during the year gas price rationalization issue is being restored and the gas is being provided to the entire sector on an equitable basis then the sector could still perform well given utilization of capacities.

FATIMA outlook is pegged with country's political outlook...

In general the next six month should see some major activity in the country's economic and political climate something that is set to help Pakistan's industry. This will also be favourable for the FATIMA and also have an impact on urea off take which will be favourable for the company.

First ever imposition of GST on urea sales and imposition of GIDC had their toll on the prices too, as the industry passes on the tax to the end users along with their losses incurred on account abeyance in gas supply. Growers were able to accept the price increase because of the fact that the support price of wheat, rice and sugar has been increased.



Valuation...PE 6.7x and div. yield 7.6%

We have forecasted an EPS of Rs3.38/sh thus yielding improved PE of 6.7x and an annual dividend yield of 7.6%.

Our DCF value for FATIMA is Rs30/sh. We recommend BUY

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