



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan

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### Today's Daily

#### ■ FATIMA: Finding growth in its diversified product mix

Despite a challenging year for the fertilizer sector, FATIMA has posted decent earnings growth of 6%YoY in CY16 characterized by marked improvement in its overall market share. More specifically, volumetric growth was the most prominent in NP offtake (up 54%YoY) with market share improving by 15pts to stand at 64% followed by 0.4pts YoY improvement in Urea market share and 8%YoY increase in CAN offtake. Following this, we revisit our investment case for FATIMA incorporating the volumetric uptick in NP, CAN and Urea offtake. Accordingly, we revise up our industry urea offtake forecast by 2% to 5.66mn tons alongwith an upward revision in FATIMA's urea market share to 7.4%/7.7% from 6.5%/7% previously for CY17F/CY18F. In addition to, we also revise up our CAN and NP offtake assumptions by 10%/6% and 13%/12% for CY17F/CY18F respectively. This, consequently increases our topline growth by 6%/4% to 8%/6%YoY for CY17F/CY18F and GM assumption by 2.1/2.6pts to 54.2%/54.6%. With our earnings estimates for CY17F/CY18F now standing at PkR5.06/PkR5.43 (revised up by 11%/16%), our Dec'17 TP goes up by 15% to PkR45.11/sh. While we continue to maintain our Marketweight stance on the sector, FATIMA remains our preferred play with positives in the form of concessionary gas pricing and a diversified product mix. Moreover, with resumption of dividend payout (70% in CY16), the scrip also offers an attractive dividend yield of 9% at current levels.

#### News and Views

- As per PBS, LSM posted 3.48%YoY growth in 7MFY17 mainly supported by hefty 17.46%YoY growth in Iron & steel product, followed by growth in electronic (13.49%YoY), non-metallic products (7.78%YoY), pharmaceutical (7.57%YoY), automobiles (6.91%YoY) and paper & paper board (6.61%YoY). In Jan'17 alone, LSM output edged up by 1.08%YoY/2.78MoM.
- As per news report, GoP is considering levy additional tax on the transfer of a new car within three months of its purchase, this additional tax will help state to curb common practice of a premium charge.
- According to PCGA fortnightly report, country's cotton production up by 9.99%YoY to reach at 10.722mn bales. Out of the total arrivals, the arrivals in Punjab were recorded at 6.9mn bales (up15.92%YoY), while arrivals in Sindh stood at 3.787mn bales, showing a tad increase of 0.56%YoY.

#### KSE100 - Index

Current	48,409.35
Previous	48,289.66
Chg.	0.25%

#### Mkt Cap. (PkRbn/US\$bn)

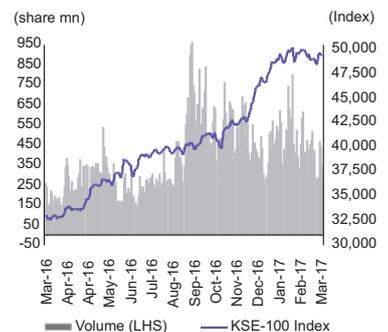
Current	9,532 / 90.91
Previous	9,539 / 90.98
Chg.	-0.08%

#### Daily Turnover (mn)

Current	212.87
Previous	180.61
Chg.	17.9%

#### Value Traded (PkRmn/US\$m)

Current	16,576 / 158.09
Previous	10,210 / 97.37
Chg.	62.4%



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## FATIMA: Finding growth in its diversified product mix

Despite a challenging year for the fertilizer sector, FATIMA has posted decent earnings growth of 6%YoY in CY16 characterized by marked improvement in its overall market share. More specifically, volumetric growth was the most prominent in NP offtake (up 54%YoY) with market share improving by 15pts to stand at 64% followed by 0.4pts YoY improvement in Urea market share and 8%YoY increase in CAN offtake. Following this, we revisit our investment case for FATIMA incorporating the volumetric uptick in NP, CAN and Urea offtake. Accordingly, we revise up our industry urea offtake forecast by 2% to 5.66mn tons alongwith an upward revision in FATIMA's urea market share to 7.4%/7.7% from 6.5%/7% previously for CY17F/CY18F. In addition to, we also revise up our CAN and NP offtake assumptions by 10%/6% and 13%/12% for CY17F/CY18F respectively. This, consequently increases our topline growth by 6%/4% to 8%/6%YoY for CY17F/CY18F and GM assumption by 2.1/2.6pts to 54.2%/54.6%. With our earnings estimates for CY17F/CY18F now standing at PkR5.06/PkR5.43 (revised up by 11%/16%), our Dec'17 TP goes up by 15% to PkR45.11/sh. While we continue to maintain our Marketweight stance on the sector, FATIMA remains our preferred play with positives in the form of concessionary gas pricing and a diversified product mix. Moreover, with resumption of dividend payout (70% in CY16), the scrip also offers an attractive dividend yield of 9% at current levels.

**CY16 Results Review:** FATIMA posted unconsolidated NPAT of PkR9.78bn (EPS: PkR4.66) in CY16 vs. NPAT of PkR9.25bn (EPS: PkR4.41) in CY15, an increase of 6%YoY. Key highlights of the results included: 1) strong 12%YoY growth in topline to PkR33.77bn reflecting 2%YoY/54%YoY/8%YoY increase in Urea/NP/CAN off-take to ~391k/435k/379k tons and 2) 3ptsYoY decline in GM to 53.3% on account of 9%YoY reduction in urea prices due to depressed farm economics and low international price trends (down 28%YoY to stand at an average US\$213/ton in CY16) restricted earnings growth. Alongwith the result, the company also paid a cash dividend of PkR2.0/sh taking CY16 payout to PkR3.25/sh (CY16 payout: 70%).

**Demand uptick with improving market share:** After declining significantly during 5MCY16, (down 32%YoY) fertilizer offtake recovered rising 25%YoY during Jun'16-Dec'16, with uptick primarily driven by the subsidy package announced in budget FY17 and the Rabi season. Moreover with effective marketing strategy in place and a higher dealer discount offering (PkR100-PkR120/bag), the company was able to increase its overall urea market share in CY16 by 0.4ppt to 7.1% in a highly competitive environment. Volumetric growth was the most prominent in NP offtake (up 54%YoY) with market share improving by 15pts to stand at 64% followed by 0.4pts YoY improvement in Urea market share and 8%YoY increase in CAN

FATIMA: EPS & TP Revision

EPS (PkR)	CY17F	CY18F	TP-Dec'17
New	5.06	5.44	45.11
Old	4.55	4.68	39.30
change	11%	16%	15%

Source: Co. Reports & AKD Research

NP: CY16 offtake

	tons (000)	YoY
Industry	681	18%
Fatima	435	54%
Fatima's market share	64%	-

Source: NFDC & AKD Research

Urea: CY16 offtake

	tons (000)	YoY
Industry	5,495	-2%
Fatima	391	2%
Fatima's market share	7.1%	-

Source: NFDC & AKD Research

CAN: CY16 offtake

	tons (000)	YoY
Industry	550	21%
Fatima	379	8%
Fatima's market share	69%	-

Source: NFDC & AKD Research



offtake due to 21%YoY growth in CAN market. Accordingly, we revise up our industry urea offtake forecast by 2% to 5.66mn tons alongwith an upward revision in FATIMA's urea market share to 7.4%/7.7% from 6.5%/7% previously for CY17F/CY18F. In addition to, we also revise up our CAN and NP offtake assumptions by 10%/6% and 13%/12% for CY17F/CY18F respectively. Consequently, our CY17F/CY18F earning estimates now stand at PkR5.06/PkR5.43 (revised up by 11%/16%).

**Investment Perspective:** Contrary to depressed fertilizer outlook, FATIMA gained 6%/15% CYTD/FYTD to currently trade at CY17F PE of 7.7x. While we continue to maintain our Marketweight stance on the sector until a sustainable improvement in the demand scenario and international price trend, FATIMA remains our preferred play with concessionary gas pricing and diversified product mix positioning it well in the Fertilizer space. At our revised TP of PkR45.11/sh, scrip currently offers a total return of 24%. Buy!



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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