

Flash Note

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Fertilizer

FATIMA: High offtake and improved margins boosted CY17 earnings up by +8%YoY to PKR 10.6bn (EPS: PKR 5.04)

- Fatima Fertilizer Company Limited (FATIMA) announced its financial results for CY17 with unconsolidated earnings clocking at PKR 10.6bn (EPS: PKR 5.04), up by +8%YoY as compared to PKR 9.8bn (EPS: PKR 4.66) in the last year. However, for 4QCY17 alone earnings were up by +14%YoY to PKR 3.9bn (EPS: PKR 1.86).
- The company also announced a final cash dividend of PKR 2.25/share for the last quarter and whole year.
- Net sales for 4QCY17 increased by +7%YoY to PKR 11.5bn compared to PKR 10.8bn in 4QCY16 owing to high offtake of CAN and NP. Hence, this resulted in total net sales of PKR 37.6bn, up by +11%YoY for CY17.
- Gross margins in 4QCY17 have improved to the tune of 59% compared to 55% in the same period last year which in our view is due to low production costs amid declining phosphate rock prices.
- Furthermore, finance cost during 4QCY17 decreased by 28%YoY to PKR 0.6bn thereby providing relief to the bottom line.
- Distribution cost for 4QCY17 increased by +31%YoY to PKR 1.1bn with full year cost increasing substantially by +46%YoY to PKR 3.5bn owing to high dealer margins and discounts.
- In addition, effective tax rate for the 4QCY17 stood at 13% v/s 16% in the corresponding period last year.

Exhibit:

FATIMA Result Highlights (Unconsolidated)

Period End Dec- PKRmn	4QCY17	4QCY16	YoY	CY17	CY16	YoY
Net Sales	11,533	10,769	7%	37,612	33,765	11%
Gross Profit	6,787	5,932	14%	20,337	17,985	13%
Selling / Dist.	1,084	826	31%	3,482	2,383	46%
Other Op. Income	155	170	-9%	527	703	-25%
EBIT	5,098	4,887	4%	14,935	14,366	4%
Finance Cost	591	815	-28%	2,198	2,739	-20%
Pre-Tax Profits	4,508	4,072	11%	12,736	11,627	10%
Taxation	607	660	-8%	2,160	1,844	17%
Post-Tax Profits	3,901	3,412	14%	10,576	9,782	8%
EPS	1.86	1.62		5.04	4.66	
DPS	2.25	2.00		2.25	3.25	

Key Ratios

Gross Profit Margins	59%	55%	54%	53%
Ebit Margins	44%	45%	40%	43%
Effective Tax Rate	13%	16%	17%	16%

Source: IGI Research, Company Financials, PSX

No. of shares :2100mn

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Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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