



# Fertilizer | FATIMA | BUY

REP # 048



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# Fatima Fertilizer Company Limited (FATIMA)– “BUY”

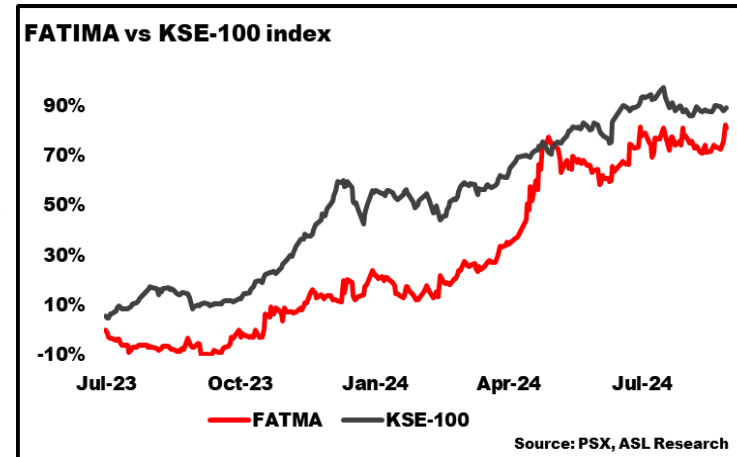


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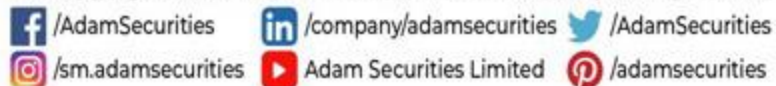
- **We initiate our detailed coverage on Fatima Fertilizer Limited (FATIMA), one of Pakistan’s largest fertilizer manufacturer with a “Buy” rating and June 2025 target price of Rs.70/share offering potential total return of 46%.. FATIMA is our preferred pick due to: (1) dominating the CAN and NP segment (2) combined growth in dispatches with 3-years CAGR of 15% (3) sustainable divided payout (4) trading at attractive P/E of 4.21x compared to industry.**
- Pakistan has seen a significant increase in demand for NP and CAN products, In last three years NP and CAN products have experienced an average annual growth rates of 18% and 9% respectively, while urea dispatches have grown by 4% during the same period.
- Fatima Fertilizer is only manufacturer of CAN and NP products in Pakistan. As per CY23 data, company fulfills more than 90% demand for NP and in CAN segment, FATIMA fertilizer is only company to fulfill demand.
- In CY23, company sold combined total of 2.8mn ton of neutrinos, this is highest ever sales volume for company. This was mainly due to revival of Agri sector last year.
- We expect company to post EPS of Rs.16.68 in CY24 and Rs.21.62 in CY25. We also expect company earnings to grow at 3-years (CY24-CY26) CAGR of 29%.

"Buy" Rated	
KATS Code	FATIMA
Bloomberg Code	FATIMA PA
Market Price	52
Target Price	70
Market Cap	Rs109.20bn/USD391.85mn
Free float Market Cap	Rs16.38bn/USD58.78mn
1-Yr High/ Low	Rs56.2/Rs26.1
Average Daily Volume	788,585
Free Float	315.00 million (15%)
Outstanding Shares	2,100.00 million

Source: PSX, ASL Research



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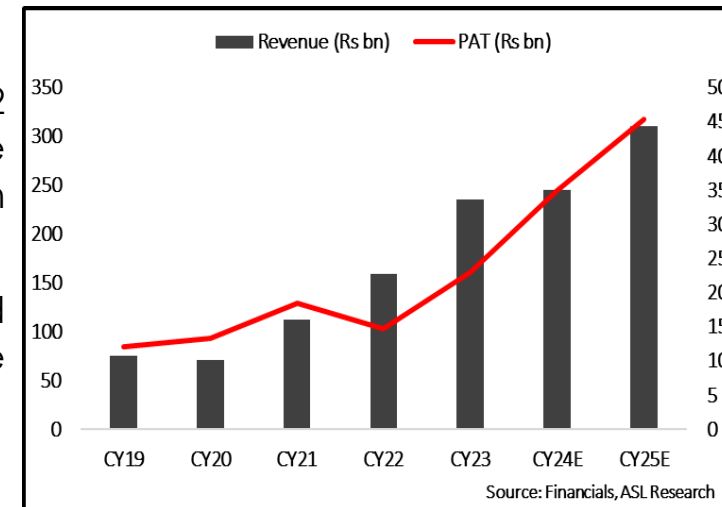
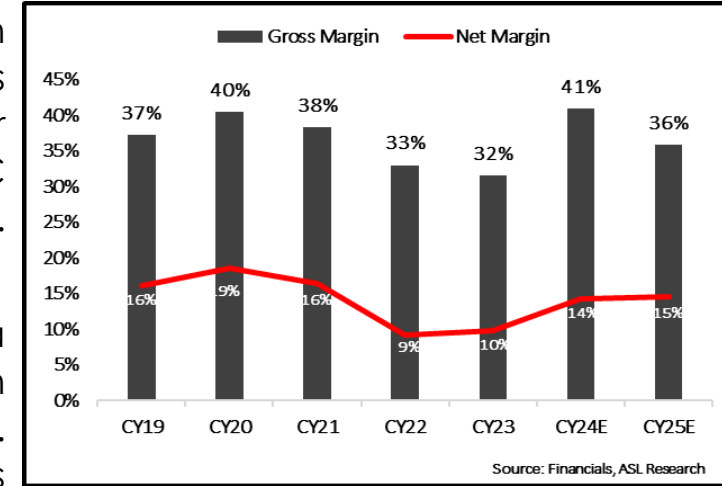
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# High margins on back of high fertilizer price & low cost.

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- Company's Sdiqabad plant runs operations on Mari network gas, which accounts for 51% of company's total urea capacity. Due to unchanged prices for Mari based network, company is receiving gas at cost of Rs.580/1,580 per mmbtu for feed and fuel stock respectively. To recall, in Feb'24, SNGPL and SSGC network witnessed hike in gas prices to Rs.1,597/MMBTU for feed and fuel stock. While, Mari based network remain out of price hike,
- Despite unchanged gas prices for Mari based network, manufactures raised urea prices, including FATIMA. As a result, we witnessed company's gross margin improve to 40% in 1HCY24, compared to 34% in same period of last year. However, we believe that by end of this year Mari will revise gas prices upwards and will reach at unified level.
- Company's Pak Arab Plant gets gas supply from Mari network based on PP-12 policy, we expect that with increase in price this plant will remain out of gas hike shock. With this, We anticipate that company gross margins will come to 36% in CY25E compared to 41% in CY24E, it is mainly due to revised gas prices.
- In 1HCY24, company posted net margin of 13% compared to 6% in same period of last year. This was mainly due to improved gross margin and massive increase in other income.
- With this, we believe that company will close CY24 with net margin of 14%.







# Offering attractive payout amid growing earnings and better cash generation



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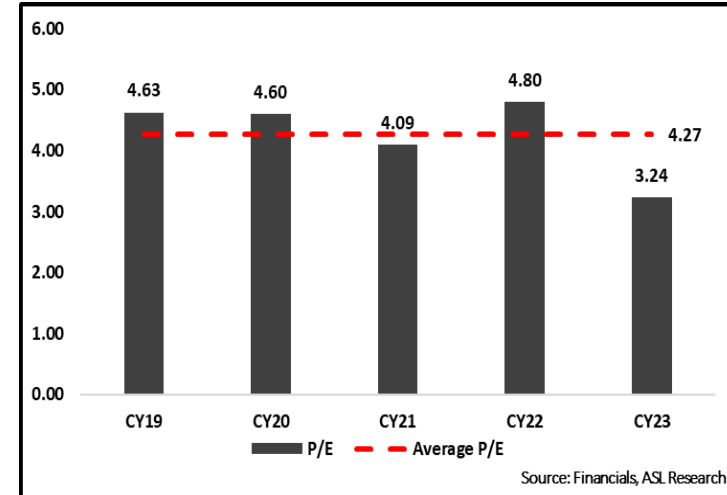
- FATIMA fertilizer performance has witnessed a substernal growth on back of favorable fertilizer prices and improved gas availability. This has resulted in company's financial performance, where revenue and earnings have grown with 3-years CAGR of 49% and 20% respectively. With this company 5 years average dividend payout ratio stand at 41%. And we expect company will continue with this momentum and will close this year with payout ratio of 45%, resulting in attractive dividend yield of 11%.
- The company has also reduced its debt-to-asset ratio from 12% in CY22 to 4% in CY23. However, as of Jun'24, company's debt-to asset ratio stands at 8%, which is still lower than five years average of 12%. Increase in ratio was mainly due to short-term finance secured to fulfill working capital requirements.

Key Ratios	CY23	CY24E	CY25E
EPS	11.0	16.7	21.6
DPS	4.5	7.5	13.0
BVPS	57	69	83
P/E	3.2	4.2	3.3
Gross margin	32%	41%	36%
Operating Margin	24%	30%	26%
Net Margin	10%	14%	15%

Source: Financials, ASL Research

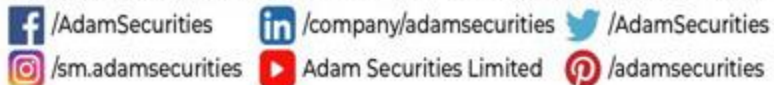
## Company Investments Thesis

- To diversify its portfolio company is heavily investing in new avenues including mining and minerals, real state, corporate farming and the financial sector.
- FATIMA fertilizer in collaboration with other fertilizer manufacturers will invest \$300 million in Gas Pressure Enhancement Facility (GPEF) project at Mari network to ensure availability of gas for domestic urea production.
- Risk to our assumption are climate change, hike in gas prices more than expectations and Biotic disasters can affect the company's earning
- With strengthening of company's financials we initiate our target price Rs.70/share with upside return of 35% and Div. yield of 11%.



Source: Financials, ASL Research

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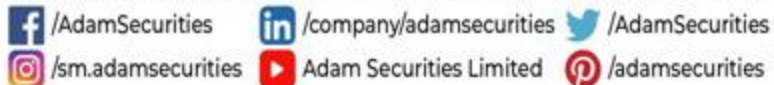
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Stance Criterion	
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Hold	Between - 10.0% to 15.0%

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