FDM FOCUS

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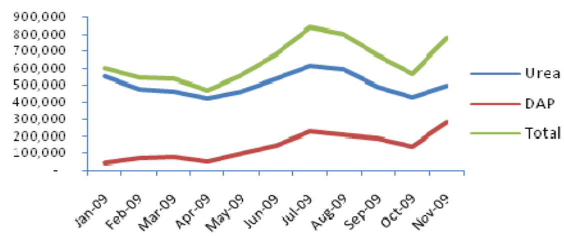
FERTILIZER REVIEW

DAP outperforms Urea growth

The demand of Urea and DAP off take in November has remained constantly high. Especially DAP, which outperformed its historic movements. Statistically compared on YOY basis, demand of both Urea and DAP has competently risen throughout the year. Especially, DAP has succeeded to outperform its last year performance in the wake of plunging international prices, lower DAP-Urea price differential, stable and higher crop support prices and better availability of the product.

According to the data released by NFDC, DAP has been the most successful growing fertilizer in the agricultural sector and has achieved exceptional growth in the wake of lower prices than previous years'. It has achieved 11 months sales of 1,513k tonnes which is 120% higher than the previous years'. And it is expected that by the end of this year, DAP would cross the 1.6 Million tonnes mark easily. Urea has consolidated its growth and attained 13% growth by achieving 5,564k tonnes 11 months total sales. It is expected that it could easily cross 06 million tonnes level at the close of the year 2009.

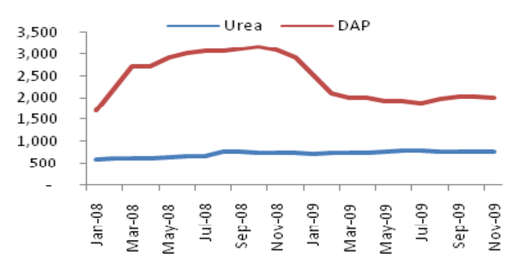
Figure 1- Fertilizer Offtake (Source-NFDC)



Fuel Gas price increased18%

Urea prices kept increasing as feedstock gas prices were again increased by the GOP by 18% effective from Jan 2010 and hence passed to the consumers by the manufacturers who raised their product prices by Rs20 per bag. Hence, 0.5% higher margins for the players. DAP prices rallied from early 2008 for almost an year and then witnessed some decline in international market on the back of Phos-acid prices which decreased from an all time high of USD 2,065 per ton to USD 420 per ton, but last month these prices have again rallied and have touched USD 650 per ton. Also, 18% jump in fuel gas price is seriously affecting the only manufacturer's (FFBL) margins.

Figure 2- Fertilizer Rates (Source-NFDC)



Still one of the most attractive sectors

Considering all the factors discussed above, we have concluded the following fair values of the top 3 companies of fertilizer sector:

According to our research, ENGRO is the most attractive company out of the four in the sector with an upside potential of 25% at current rate. FFC is a high yield stock and is less volatile than the others which is trading at 10% discount to its fair value. FFBL provides an upside potential of 18% at current market price.

	FV	MP	Discount	Stance
Engro	235	188.55	25%	Buy
FFC	115	104.20	10%	Buy
FFBL	31	26.35	18%	Buy

FATIMA FERTILIZER

A new but impressive entrant in the high profile fertilizer business:

Karachi stock exchange is soon going to witness a strong and impressive company on its screen with huge number of shares listed (200 million shares). The public subscription rate is undecided and will open after the book building process. 150 million shares (75% of total issue) are being offered to the high net worth investors and institutions whereas remaining 50 million shares are for public subscription.

Sector Standings:

Fertilizer policy 2001 has always supported the new entrants and expansions not only because it is vital for the growth of agriculture sector but can also save millions of rupees of foreign exchange. Also, there is always been a supply demand gap for the fertilizers in the country which is supported by the stern imports throughout the year.

Imports

`000 tonnes	2009	2008	2007
Urea	1,180	410	260
% of Offtake	20%	7%	5%
DAP	850	470	1,030
% of Offtake	54%	60%	74%

Assessment of Fatima Fertilizer:

Fatima's Key Financials:

(PKR Million except Ratios)	
Paid up Capital	89,35
Total Liability	28,938
Total Assets	48,783
Finance Cost	5
Equity	19,884
Turnover	18,887
Gross Profit	12,509
Debt to Equity Ratio	56:44
Current Ratio	0.12
Net Profit Margin	38%

Fatima vs Peers:

(All figures in Million PKR except Ratios)	Fatima	Engro	FFC	FFBL	DAWH
Paid up Capital	8,935	2,970	6,790	9,341	1,094
Total Liability	28,938	9,125	19,634	36,285	8,247
Total Assets	48,783	60,289	31,919	46,772	25,630
Finance Cost	5	1,509	3,847	2,792	901
Equity	19,884	25,609	14,140	10,486	17,382
Cash & Bank Balances	235	1,872	8,873	7,942	934
Debt to Equity Ratio	56:44	55:45	30:70	49:51	32:68
Current Ratio	0.12	2.55	0.82	1.09	1.28

Current Capacity and Future Plans of the Industry:

Engro's huge expansion, FFC's and Pak American Fertilizer's de-bottlenecking will convert the industry into net exporter of Urea from importers. Engro's expansion is expected to become operational from 3Q10 and will enhance its production capacity from 2.048 million tonnes to 2.275 million tonnes. FFC's B.M.R.E. will come online from 1Q11 and Pak American's de-bottlenecking will be operational from 2Q10. And alone, Fatima is going to contribute around 500,000 tonnes to the Urea market.

Fatima is also going to cater other fertilizer products such as NP and NPK with handsome production capacities, greater than its competitors. It will be producing NPK 300,000 tonnes per annum, almost double than the Engro. This plant would be operational from 4Q10.

Fatima will also be producing Calcium Ammonium Nitrate (CAN) with a available capacity of 420,000 tonnes per year.

`000 tonnes	Current	Expansion	Total
Urea			
Fatima	500	-	500
Engro	975	1,300	2,275
FFC	2,048	186	2,234
FFBL	551	-	551
DAWH	446	-	446
Pk Arab	92	-	92
Pk Amer.	358	125	483
NPK			
Fatima	300	-	300
Engro	160	-	160
CAN			
Fatima	420	-	420
Pk Arab	340	-	340
NP			
Fatima	360	-	360
Pk Arab	350	-	350

Our Stance: BUY!

We are advising subscribe on Fatima Fertilizer on the following basis:

1. Fatima Fertilizer is a joint venture between the two most reliable and experienced groups; Fatima Group and Arif Habib Group.
2. First IPO after 1996 in a highly valued and stable Fertilizer sector.
3. The issue is coming during an ongoing rally.
4. Our DCF based value is calculated to be PKR 13.5 per share and
5. We expect strike price to be close at PKR 14-16 per share.

CONTACT US

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