

# Day Break

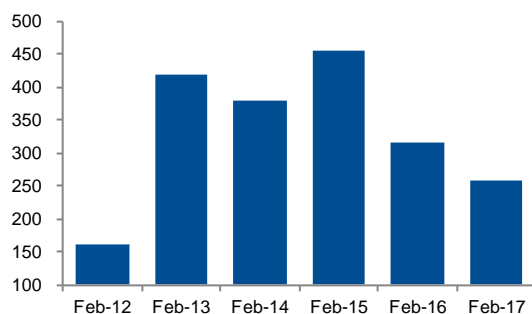
Thursday, 09 March 2017

## Sector Update

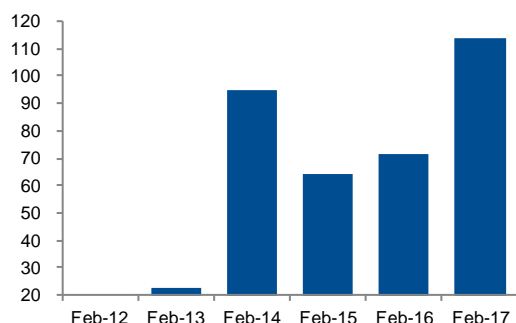
### Industry Offtake (Ktons)

	Feb-17	YoY	2MCY17	YoY
Urea	257	-18%	663	1%
Dap	114	171%	175	84%

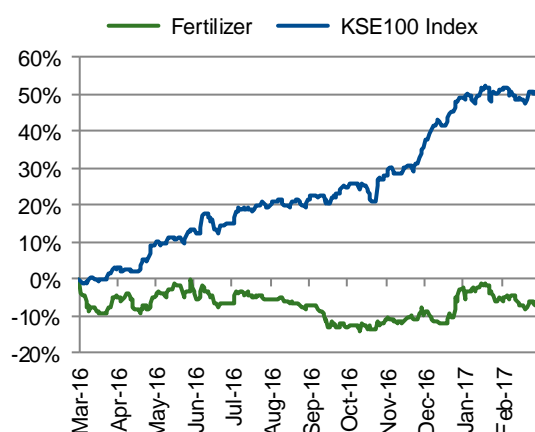
### Urea Industry Offtake (Ktons)



### DAP Industry Offtake (Ktons)



### Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

### Analyst

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## Fertilizer Review

### Urea Offtake clocks in at 257k tons, down by 18%YoY in Feb-17

- Urea offtake decline by 18%YoY to 257k tons in Feb-17 as compared to 315k tons in corresponding period of last year. On monthly basis, urea offtake depicted a decline of 37%MoM.
- International prices of DAP have increased to USD 375/ton, up by +17% from low of USD 320/ton back in Dec-16. This has increased DAP landed cost for the importers. Keeping in view increase in DAP international prices, DAP importers/manufacturer has arranged a meeting on 13<sup>th</sup> March-17 with Govt to increase DAP prices by PKR 150-300/bag. We believe, decision will most likely be in favor of importers/manufacturer. Increase in DAP prices will bode well for FFBL (sole manufacturer of DAP).
- Fertilizer Sector (IGI Universe) has underperformed by 45% in FY17TD. Our top pick in the sector remains EFERT with Dec-17 target price of PKR 86/share, offering +24% upside from last close.

### Urea offtake dropped by 18%YoY in Feb-17

Urea offtake decline by 18%YoY to 257k tons in Feb-17 as compared to 315k tons in corresponding period of last year. On monthly basis, urea offtake depicted a decline of 37%MoM. As of Feb-17, inventory stands at 1.19mn tons as compared to 0.8mn tons in same period last year. This high inventory level is expected to decline until Apr-17 as companies are allowed to export urea of 0.3mn tons.

### Company-wise Urea Offtake

Among the urea manufactures, FFBL, FFC and EFERT recorded decline of 27%YoY, 26%YoY and 23%YoY respectively. Whereas, FATIMA (including DAWH and Pak Arab) posted a growth of +86% to 29k tons. For 2MCY17, FATIMA witnessed highest offtake increase of +3.4xYoY to 157k tons in Feb-17 compared to last year primarily owing to large discounts provided by company, whereas FFBL, FFC and EFERT offtake dropped by 39%YoY, 23%YoY and 12%YoY to 16k tons, 205k tons and 261k tons, respectively.

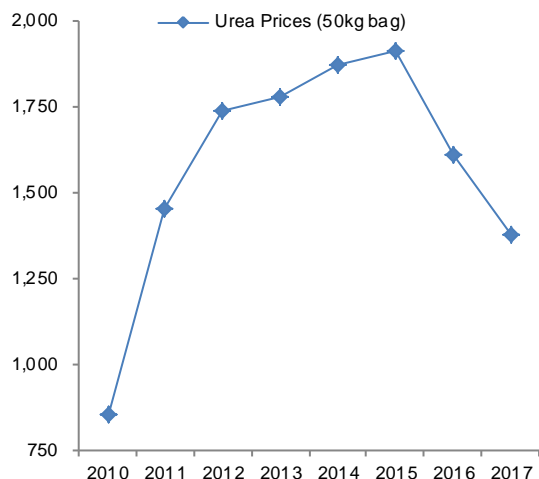
### DAP Offtake increased by +2.7xYoY

DAP offtake surged by +2.7xYoY to 114k tons in Feb-17, primarily on the back of market expectations to hike in prices from March-17 as international DAP prices have started showing upward trend. FFC has showed massive growth of +6.1xYoY to 34k tons followed by FFBL and EFERT up by +40%YoY and +3%YoY.

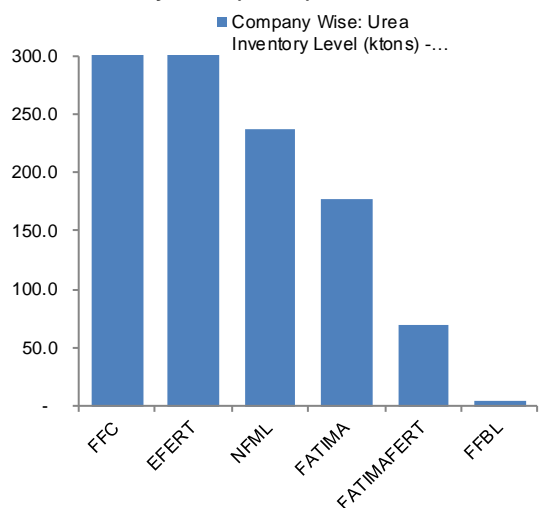
### Outlook

International prices of DAP have increased to USD 375/ton, up by +17% from low of USD 320/ton back in Dec-16. This has increased DAP landed cost for the importers. Keeping in view increase in DAP international prices, DAP importers/manufacturer has arranged a meeting on 13<sup>th</sup> March-17 with Govt to increase DAP prices by PKR 150-300/bag. We believe, decision will most likely be in favor of importers/manufacturer. Increase in DAP prices will bode well for FFBL (sole manufacturer of DAP).

**Urea Local Price (PKR/bag)**



**Urea inventory Level(ktons)**



Source: IGI Research

Exhibit:

**Company wise Offtake**

KTons	Feb-17	Feb-16	YoY	MoM	2MCY17	2MCY16	YoY
<b>FFC</b>							
Urea	108	146	-26%	-30%	261	298	-12%
DAP	34	6	515%	2075%	36	7	383%
<b>FFBL</b>							
Urea	14	19	-27%	538%	16	27	-39%
DAP	35	25	40%	4%	69	37	87%
<b>EFERT</b>							
Urea	98	128	-23%	-9%	205	266	-23%
DAP	12	11	3%	152%	67	50	33%
<b>Fatima</b>							
Urea	15.00	15.4	-2%	-82%	100	46	119%
<b>DAWH</b>							
Urea	14	0	-	-66%	55	0	-
<b>AGL</b>							
Urea	-	5	-100%	-100%	0	5	-96%
<b>NFML</b>							
Urea	8	2	422%	-47%	23	14	70%

Source: NFDC & IGI Research

**Recommendation**

Fertilizer Sector (IGI Universe) has underperformed by 45% in FY17TD. Our top pick in the sector remains EFERT with Dec-17 target price of PKR 86/share, offering +24% upside from last close.

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**Time Horizon:** Dec - 2017

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