

Day Break

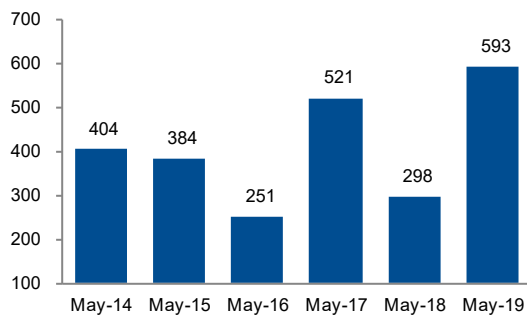
Wednesday, 26 June 2019

Sector Update

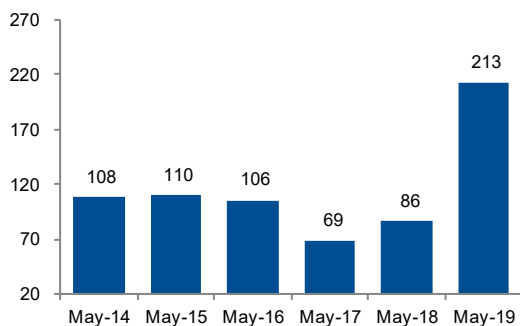
UREA/DAP Offtake (Ktons)

	5MCY19	YoY	4MCY19	YoY
Urea	2,245	6%	1,653	2%
DAP	488	2%	275	-34%

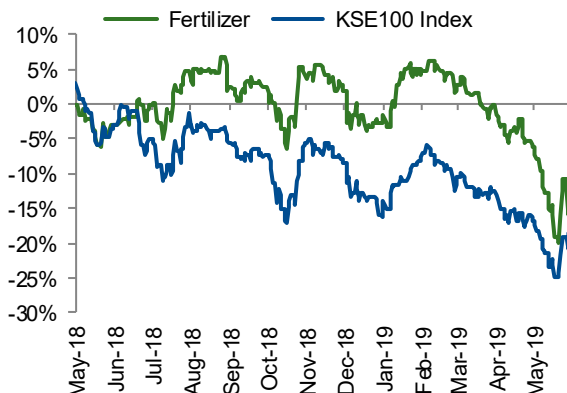
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

May-19: Demand remains upbeat; strong rebound recorded in DAP sales

- As per the latest available data by NFDC for the month of May-19, urea offtake rose by +20%YoY to 593k tons while on a sequential basis, recorded hefty surge by +2.03xMoM. We attribute the increase in offtake owing to pre-buying done by dealers in anticipation of price hike, resulting from gas price increase and start of Kharif season.
- For DAP, offtake recorded significant increase of +4.0x YoY to 213k tons with total sales for 5MCY19 inching up by +2%YoY to 488k tons.
- We have a **"HOLD"** call on EFERT, based on our Dec-19 target price of PKR 71.6/share, offering +10% upside from its last closing. The company is currently trading at CY19E P/E of 5.44x and offers a dividend yield of 16.8%.

Urea offtake increased by +20%YoY to 593k tons

As per the latest available data by NFDC for the month of May-19, urea offtake rose by +20%YoY to 593k tons while on a sequential basis recorded hefty surge of +2.03xMoM. We attribute the increase in offtake owing to pre-buying done by dealers in anticipation of price hike, resulting from proposed gas price increase and start of Kharif season. On a cumulative basis for 5MCY19, total industry offtake increased by +6%YoY to 2.25mn tons.

On an individual basis, FFC led the industry offtake at 270k tons, up by +5%YoY. EFERT's offtake remained flat at 141k tons on sequential basis while inching up by +3%YoY. Similarly, FFBL's urea offtake witnessed an increase of +31%YoY to 79k tons, improving almost three folds on sequential basis.

With respect to market share, FFC's share decreased to 41% during 5MCY19 with EFERT witnessing a hefty drop to 32% compared to 35% during the same period last year. Similarly, FFBL's share also declined to 6% compared to 9% during the 5 months period

...with DAP sales witnessing a strong rebound

For DAP, offtake recorded a significant increase of +4.0xYoY to 213k tons with total sales for 5MCY19 inching up by +2%YoY to 488k tons. On an individual basis, FFBL led the industry offtake by 77k tons (+10.2xYoY), followed by EFERT witnessing sales of 60k tons (+2.5xYoY). FFC also followed the trail with offtake recorded at 34k tons. With respect to market share, EFERT grabbed a share of 31% (compared to 23% in the same period last year) with FFC's share weakened to 12% from 25%. Similarly, FFBL witnessed decline in its share to 29% as against 36% last year.

Exhibit: Industry Data

000'Tons	May-19	Apr-19	MoM	May-18	YoY	5MCY19	5MCY18	YoY
UREA								
Production	527	495	7%	389	35%	2,347	2,145	9%
Offtake	593	292	2.0x	494	20%	2,245	2,120	6%
Est. Inventory	266	337	-21%	329	-19%	-	-	n.m
DAP								
Production	76	73	4%	62	23%	315	260	21%
Offtake	213	86	2.5x	59	3.6x	488	477	2%
Import	21	34	-39%	183	-89%	184	433	-57%
Est. Inventory	503	620	-19%	386	30%	-	-	n.m

Source: NFDC, IGI Research

Exhibit:

Company wise off-take

000'Tons	May-19	Apr-19	MoM	May-18	YoY	5MCY19	5MCY18	YoY
FFC								
Urea	271	89	3.17x	257	5%	920	1,011	-9%
Dap	34	5	7.4x	12	2.91x	61	120	-49%
EFERT								
Urea	141	141	-	137	3%	721	749	-4%
Dap	60	14	4.2x	24	2.5x	151	110	37%
Np & Npk	10	3	3.2x	7	40%	22	24	-6%
FFBL								
Urea	79	28	2.8x	60	31%	131	199	-34%
Dap	77	26	3.0x	8	10.2x	141	169	-17%
FATIMA								
Np	58	61	-6%	32	80%	196	187	5%
Can	45	46	-2%	49	-7%	234	256	-9%

Source: NFDC, IGI Research

Exhibit:

Company wise urea inventory levels

000'Tons	May-19	Apr-19	MoM	May-18	YoY
FFC	78.8	132.7	-41%	23.3	3.4x
EFERT	13.0	15.5	-16%	127.8	-90%
FFBL	30.5	52.3	n.m	4.2	7.3x
FATIMA	29.8	34.6	-14%	165.6	-82%
FATIMA (DHCL)	76.2	68.4	11%	(9.0)	n.m
AGRITECH-PAFL	34.7	30.4	14%	0.5	66.2x

Source: NFDC, IGI Research

Recommendation

We have a **“HOLD”** call on EFERT, based on our Dec-19 target price of PKR 71.6/share, offering +10% upside from its last closing. The company is currently trading at CY19E P/E of 5.44x and offers a dividend yield of 16.8%.

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Time Horizon: Dec – 2019

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(Reserve Based DCF Valuation)

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