

# Day Break

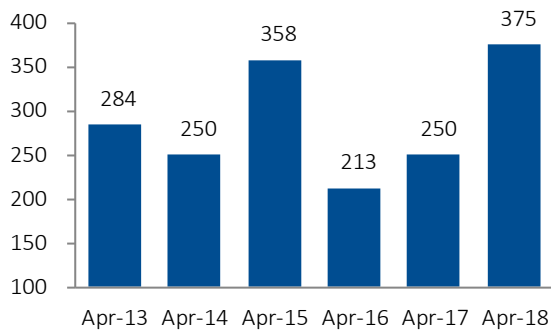
Monday, 28 May 2018

## Sector Update

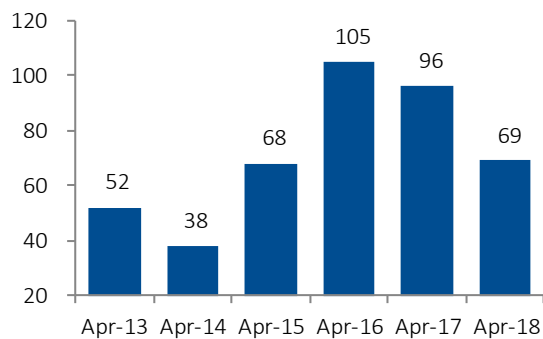
### UREA/DAP Offtake (Ktons)

	Apr-18	YoY	Mar-18	MoM
Urea	375	50%	342	10%
DAP	69	-28%	135	-49%

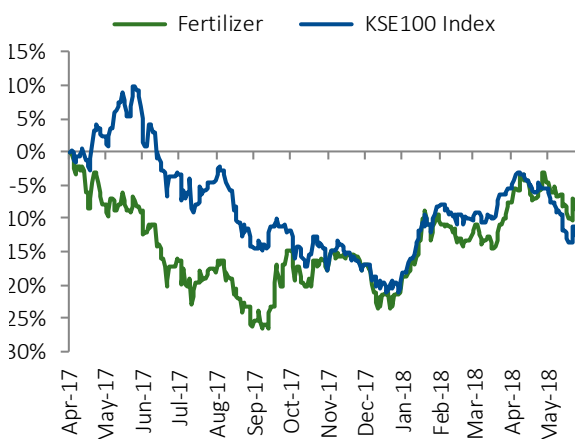
### Urea Industry Offtake (Ktons)



### DAP Industry Offtake (Ktons)



### Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

### Analyst

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## Fertilizer

### Apr-18: Urea demand keeping up the momentum; offtake up by +50%YoY

- As per the latest available data by NFDC for the month of Apr-18, urea offtake inched up by +10%MoM to 375k tons, gaining impressive growth of +50% on yearly basis.
- For DAP, monthly offtake witnessed a significant decline of 49%MoM to 69k tons as Rabi season approached its end with total offtake for 4MCY18 relatively flat at 418k tons.
- We expect demand for urea in the upcoming months to pick up momentum as Kharif season approaches along with pre-buying done by distributors in anticipation of price increase (given recent price hike)
- We have a **"BUY"** call on EFERT, based on our Dec-18 target price of PKR 84.3/share, offering +15% upside from its last closing. The company is currently trading at CY18E P/E of 8.9x and offers a dividend yield of 9.5.

### Urea sales recorded impressive growth of +50%YoY to 375 tons

As per the latest available data by NFDC for the month of Apr-18, urea offtake inched up by +10%MoM to 375k tons, gaining impressive growth of +50% on yearly basis. As a result on cumulative basis for 4MCY18, total offtake has now approached 1.6mn tons v/s 1.1mn tons in the corresponding period last year, marking a growth of +45%YoY. On individual basis, FFC achieved greatest offtake numbers, although slightly down by 6%MoM to 181k tons with 4MCY18 offtake cumulating at 754k tons (+58%YoY) as market share approached 46% (42% last year). For EFERT, offtake numbers took an upturn by +28%MoM to 115k tons taking cumulative sales for the four month period to 612k tons (+69%YoY) thereby grabbing a market share of 38% v/s 32% in the same period last year. Moreover, FFBL showcased impressive growth of +2.4x YoY to 139k tons for 4MCY18 as smooth production rolled in.

### DAP in hibernate mode: offtake down by 28%YoY to 69k tons

For DAP, monthly offtake witnessed a significant decline of 49%MoM to 69k tons as Rabi season approached its end with total offtake for 4MCY18 relatively flat at 418k tons. On individual basis, EFERT witnessed highest DAP offtake during the month, reported at 32ktons (+63%MoM) while FFBL and FFC reported a decline of 71%/91%MoM to 20k/3k tons. On cumulative basis for 4MCY18, FFBL lead the offtake at 162k tons (down by 31%YoY), followed by FFC/ EFERT, recording offtake at 108k/86k tons, up by +2.5x/46%YoY.

With respect to market share, FFBL remained dominant at 39% (compared to 57% in the same period last year) witnessing a decline as FFC and EFERT managed to grab a significant market share of 26% and 21%, respectively.

### Outlook

We expect demand for urea in the upcoming months to pick up momentum as Kharif season approaches along with pre-buying done by distributors in anticipation of price increase (given recent price hike). However, with prevailing water shortage issue possibility of demand going astray cannot be ruled out.

### Recommendation

We have a **"BUY"** call on EFERT, based on our Dec-18 target price of PKR 84.3/share, offering +15% upside from its last closing. The company is currently trading at CY18E P/E of 8.9x and offers a dividend yield of 9.5%.

Exhibit:

**Company wise off-take**

000'Tons	Apr-18	Mar-18	MoM	Apr-17	YoY	4MCY18	4MCY17	YoY
<b>FFC</b>								
Urea	181	193	-6%	99	82%	754	476	58%
Dap	3	31	-91%	-	n.m	108	43	148%
<b>EFERT</b>								
Urea	115	90	28%	92	25%	612	361	69%
Dap	32	20	63%	22	48%	86	59	46%
Np & Npk	6	6	-6%	14	-60%	17	43	-61%
<b>FFBL</b>								
Urea	51	47	8%	21	0%	139	58	138%
Dap	20	70	-71%	61	-67%	162	234	-31%
<b>FATIMA</b>								
Np	54	23	131%	25	119%	155	127	21%
Can	48	20	146%	19	150%	207	147	41%
<b>FATIMA (dhcl)</b>								
Urea	-	-	n.m	8	n.m	-	63.92	-100%
<b>Total</b>	-	-						
Urea	375	342	10%	250	50%	1,626	1,120	45%
Dap	69	135	-49%	96	-28%	418	409	2%
Np & Npk	60	31	94%	39	54%	178	170	5%

Source: NFDC, IGI Research

Exhibit:

**Product**

000'Tons	Apr-18	Mar-18	MoM	Apr-17	YoY	4MCY18	4MCY17	YoY
<b>UREA</b>								
Production	433	450	-4%	462	-6%	1,738	1,815	-4%
Offtake	375	342	10%	250	50%	1,626	1,120	45%
Export	-	-	n.m.		n.m.	13	54	n.m.
Est. Inventory	436	379	n.m.	1,672	-74%	-	-	n.m.
<b>DAP</b>								
Production	31	71	-56%	72	-57%	198	236	-16%
Offtake	69	135	-49%	96	-28%	418	409	2%
Import	45	51	-13%	22	102%	250	139	80%
Est. Inventory	200	187	n.m.	57	248%	-	-	n.m.

Source: NFDC, IGI Research

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**Time Horizon:** Dec – 2018

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