

Day Break

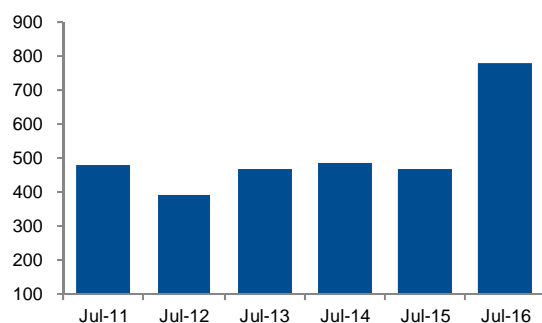
Monday, 29 August 2016

Sector Update

Industry Offtake (000'tons)

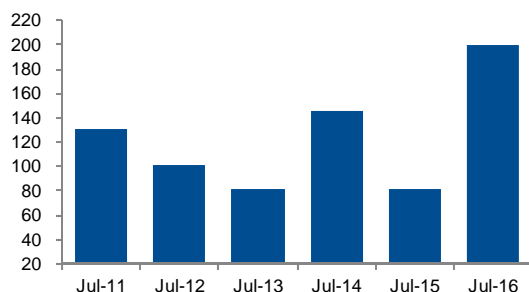
	Jun-16	YoY	7M CY 16	YoY
Urea	778	66%	2,602	-22%
Dap	199	144%	687	5%

Urea Industry Offtake (Ktons)



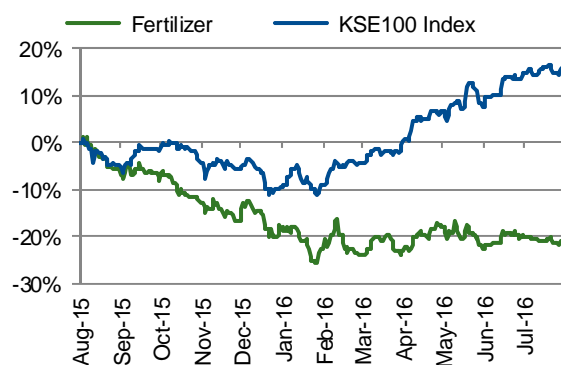
Source: NDFC & IGI Research

DAP Industry Offtake (Ktons)



Source: NDFC & IGI Research

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Fertilizer Review

Healthy Offtake Led by Fertilizer Price Decline

- Urea offtake rebounded by +66%YoY/+32%MoM to 770k tons for the month of Jul-16, highest growth reported in CY16TD and largest offtake in July for past 6 years, whereas production has gone up by +9%YoY to 528k tons.
- Continuing the trend in CY16TD, FFBL witnessed highest increase of +194%YoY in urea offtake to 85k tons Jul-16, followed by +73%YoY rise in EFERT's offtake. AGL and DAWH also witnessed healthy growth in offtake. However for FATIMA, urea sales declined by 29%YoY to mere 29k tons in Jul-16.
- Fertilizer Sector (IGI Universe) has negatively performed by 9% in CY16TD as compared to +22% returns by KSE-100. EFERT remains our favorite pick in the sector with Dec-16 target price of PKR 97/share, offering +33% upside from last close.

Urea Offtake bounced back by +66%YoY/+32%MoM in Jul-16

Urea offtake rebounded by +66%YoY/+32%MoM to 770k tons for the month of Jul-16, highest growth reported in CY16TD and largest offtake in July for past 6 years, whereas production has gone up by +9%YoY to 528k tons. Due to healthy offtake in Jul-16, ending inventory level is also down by 15%MoM to 1.4mn tons, lowest level in past 4 months. We conclude that the increase in offtake is led by a) decline in Urea prices to PKR 1,400/bag from PKR 1,810/bag earlier, b) post Ramadan period demand and, c) rebound in prices of some crops. Meanwhile, production increased as a result of a) better gas supply, b) import of LNG by fertilizer sector and, c) increased production by Dawood Hercules.

For 7M CY16, Urea offtake declined by 22%YoY to 2.6mn tons whereas production increased by +18%YoY to 3.5mn tons.

FFBL taking the Lead

Continuing the trend in CY16TD, FFBL witnessed highest increase of +194%YoY in urea offtake to 85k tons Jul-16, followed by +73%YoY rise in EFERT's offtake. AGL and DAWH also witnessed healthy growth in offtake. However for FATIMA, urea sales declined by 29%YoY to mere 29k tons in Jul-16. For 7M CY16, AGL, DAWH, and FFBL reported healthy growth in urea sales, whereas FFC, EFERT and FATIMA posted negative trend in offtake.

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DAP Offtake Surging up

DAP offtake surged by +2.4xYoY/+4.6xMoM to 199k tons in Jul-16, on the back of pickup in demand led by PKR 300/bag subsidy announced in the Federal Budget-17, implemented from Jul-16 onwards. Sales augmented by +26%YoY to 687k tons in 7MCY16.

Exhibit: Company wise Offtake

kTons	Jun-16	Jun-15	YoY	MoM	6MCY16	6MCY15	YoY
FFC							
Urea	351	220	59%	197%	941	1,219	-23%
FFBL							
Urea	77	26	200%	191%	155	87	78%
DAP	17	66	-74%	-60%	167	242	-31%
EFERT							
Urea	119	182	-35%	72%	528	934	-43%
NP & NPK	4	13	-70%	-59%	30	64	-52%
DAP	15	32	-52%	-52%	122	119	2%
Fatima							
Urea	8	74	-89%	-24%	74	213	-65%
NP	37	8	362%	-31%	208	169	23%
CAN	14	79	-83%	-59%	128	235	-46%
AGL							
Urea	15	4	292%	-36%	81	8	868%
NFML							
Urea	-	55	-100%	-100%	14	347	-96%

Source: NFDC & IGI Research

Outlook

With urea prices at PKR 1400/bag, where sales tax on urea has been slashed by 12% to 5% from Jul-16 and heavy discounts on imported urea by NFML, we expect offtake to pick up further in 2HCY16. However, DAP offtake is foreseen to jack up in 4QCY16 owing to higher demand during the quarter. We assume gas prices to remain at current levels for rest of CY16.

Recommendation

Fertilizer Sector (IGI Universe) has negatively performed by 9% in CY16TD as compared to +22% returns by KSE-100. EFERT remains our favorite pick in the sector with Dec-16 target price of PKR 97/share, offering +33% upside from last close.

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Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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