

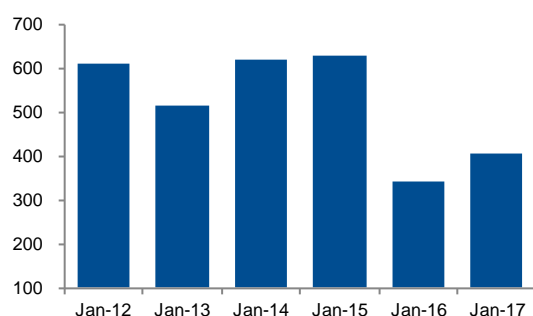
# Day Break

Monday, 27 February 2017

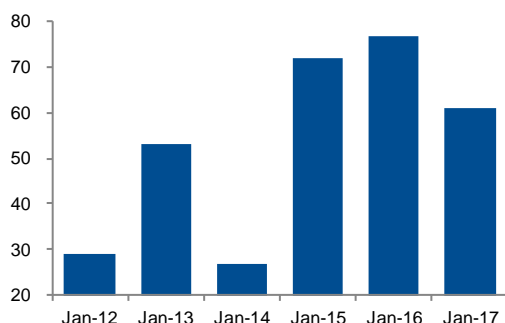
## Sector Update

Industry Offtake (Ktons)				
	Jan-17	YoY	Dec-16	MoM
Urea	406	19%	898	-55%
Dap	61	-20%	155	-61%

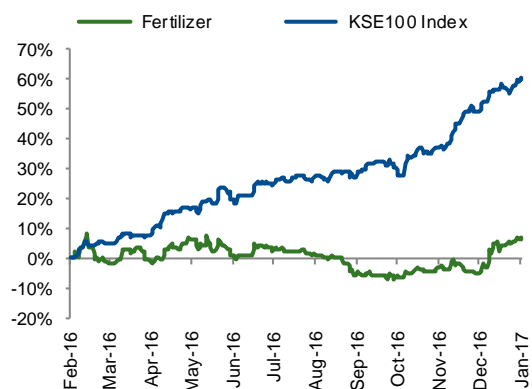
### Urea Industry Offtake (Ktons)



### 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 406k tons, uptick by +19%YoY in Jan-17

- Urea offtake improved by +19%YoY to 406k tons in Jan-17 as compared to 341k tons in corresponding period due to low base effect and lower prices. During the month, urea production posted a decline of 9%YoY to 404k tons.
- As per our estimates, industry will be holding 1.1mn tons on inventory till April-17. We expect more exports (~0.25-0.3mn tons) are likely to be allowed to ease off inventory level. Moreover, we believe the industry offtake to pick up as GoP has continued the subsidy on the urea/DAP and we see favorable demand with improvement in farmers income led by an increase in crop prices.
- Fertilizer Sector (IGI Universe) has underperformed by 57% in FY17TD compared to KSE100 Index. Our top pick in the sector remains EFERT with Dec-17 target price of PKR 86/share, offering +23% upside from last close offering +19% upside from last close.

### Urea offtake opened on a positive note in Jan-17

Urea offtake improved by +19%YoY to 406k tons in Jan-17 as compared to 341k tons in corresponding period last year due to low base effect and lower prices. During the month, urea production posted a decline of 9%YoY to 404k tons. Whereas on monthly basis, urea offtake depicted a decline of 55%MoM. This decline in sales is on the back of aggressive discount policy adopted by fertilizer producers in Dec-16 to meet their yearly offtake target and uncertainty in urea prices due to discontinuity of subsidy for a week during the month of Jan-17.

### Company-wise Urea Offtake

FATIMA witnessed highest offtake growth by +2.8xYoY to 85k tons in Jan-17 compared to last year due to large discounts provided by company, followed by FFC posting growth of +1%YoY to 153k tons. However, EFERT's and FFBL's offtake dropped by 22%YoY and 71%YoY to 107k tons and 8k tons, respectively. On sequential basis, FFBL recorded largest fall of 93%MoM, followed by EFERT and FFC posting decline of 69%MoM and 46%MoM, respectively.

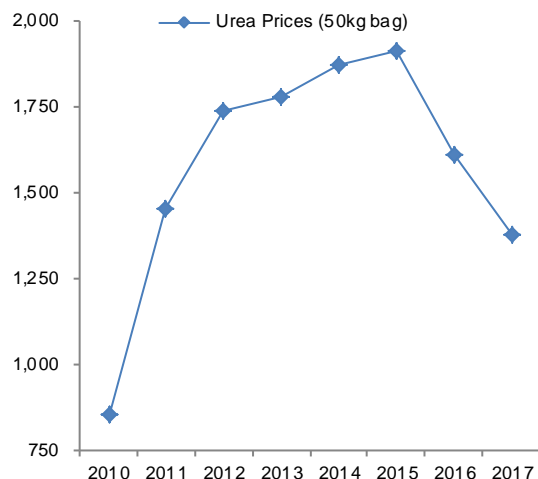
### 20%YoY decline in DAP Offtake

DAP offtake declined by 20%YoY to 61k tons in Jan-17, primarily on the back of uncertainty over DAP prices as subsidy was suspended for a week during the month. However, FFBL showed growth of +2.8xYoY to 34k tons. On MoM basis, DAP offtake was down by 61%MoM. EFERT recorded decline of 89%MoM, followed by FFBL (38%MoM).

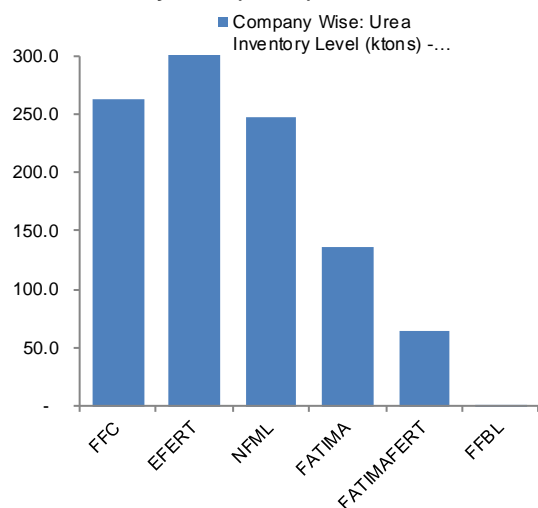
### Outlook

Government of Pakistan (GOP) has approved urea exports of 0.3mn tons where we are of the view that export of urea will benefit manufacturers in reducing overall inventory.

### Urea Local Price (PKR/bag)



### Urea inventory Level(ktons)



Source: NFDC & IGI Research

As per our estimates, industry will be holding 1.1mn tons on inventory till April-17. We expect more exports (~0.25-0.3mn tons) are likely to be allowed to ease off inventory level. Moreover, we believe the industry offtake to pick up as GoP has continued the subsidy on the urea/DAP and we see favorable demand with improvement in farmers income led by an increase in crop prices.

Exhibit:

#### Company wise Offtake

kTons	Jan-17	Jan-16	YoY	MoM
<b>FFC</b>				
Urea	153	152	1%	-46%
<b>FFBL</b>				
Urea	2	8	-71%	-93%
DAP	34	12	183%	-38%
<b>EFERT</b>				
Urea	107	138	-22%	-69%
NP & NPK	4	2	81%	-72%
DAP	5	39	-88%	-89%
<b>FATIMA</b>				
Urea	85	30	180%	-23%
NP	43	7	498%	4%
CAN	60	21	193%	-25%
<b>DAWH</b>				
Urea	41	0	0%	-46%
<b>AGL</b>				
Urea	0	-	0%	-99%
<b>NFML</b>				
Urea	15	12	26%	135%

Source: NFDC & IGI Research

#### Recommendation

Fertilizer Sector (IGI Universe) has underperformed by 57% in FY17TD compared to KSE100 Index. Our top pick in the sector remains EFERT with Dec-17 target price of PKR 86/share, offering +23% upside from last close.

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**Time Horizon:** Dec - 2017

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