

Day Break

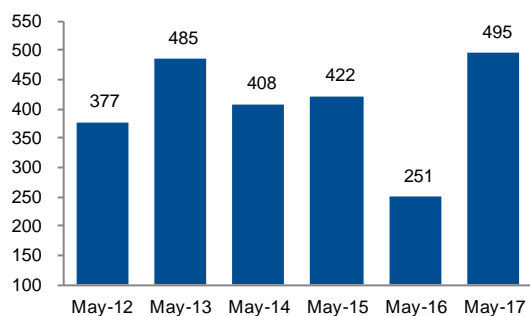
Wednesday, 07 June 2017

Sector Update

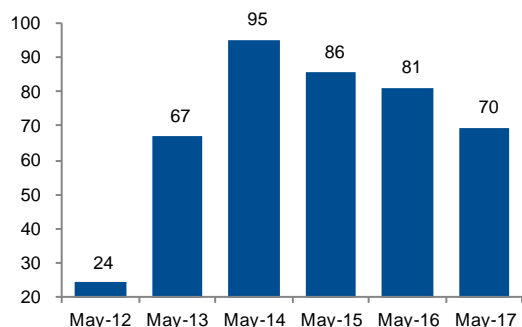
UREA/DAP Offtake (Ktons)

	May-17	YoY	5MCY17	YoY
Urea	495	18%	1,638	33%
DAP	70	-14%	476	69%

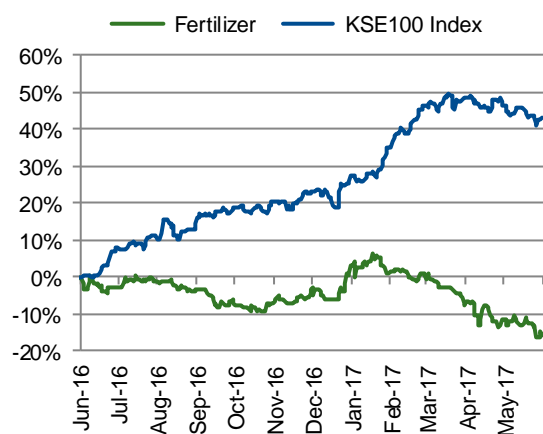
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Fertilizer Review

Urea Offtake clocks in at 495k tons, up by +98%YoY in May-17

- As per our market sources, Urea sales for the month of May-17 augmented by +98%YoY to clock in at 495k tons as compared to 251k tons in corresponding period last year. This brings 5MCY17 accumulated offtake to 1.6mn tons up by +33%YoY.
- DAP offtake declined by 14%YoY clocking in at 70k tons in May-17, due to bulk buying in preceding months over the expectations of increase in DAP prices
- Urea Inventory level has risen to 1.7mn tons in May-17 despite increase in urea offtake. To recall, Government of Pakistan has allowed increase in quantity for export of urea from 0.3 million metric tons to 0.6 million metric tons to save the fertilizer industry from supply glut.
- Fertilizer Sector (IGI Universe) has underperformed by 58% in CY17TD. We maintain a 'Buy' rating on EFERT amongst fertilizer sector based on sound fundamental with Dec-17 target price of PKR 86/share indicating +47.6% upside from last closing price

We review monthly offtake of fertilizer industry. As per our sources fertilizer offtake increased by +98%YoY to 495k tons whereas DAP offtake has decline by 14%YoY to 70k tons in May-17. Amongst our fertilizer sector, Fatima taking the lead recorded +3.0xYoY increases in urea sales whereas FFBL DAP sales showed major decline of 61%YoY.

Urea offtake surged by +98%YoY in May-17 due to continuation of subsidy

As per our market sources, Urea sales for the month of May-17 augmented by +98%YoY to clock in at 495k tons as compared to 251k tons in corresponding period last year. This brings 5MCY17 accumulated offtake to 1.6mn tons up by +33%YoY. This increase in offtake is due to continuation of subsidy on urea and lower base effect witnessed in 1HCY16 due to higher urea prices. During the month, urea production posted increase of +10%YoY to 529k tons. On cumulative basis, urea production depicted a decline of 3%YoY to 2.3mn tons in 5MCY17.

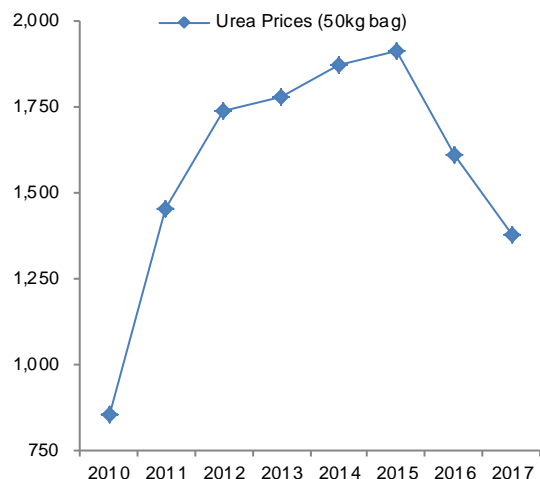
Company-wise Urea Offtake; FATIMA taking the Lead

For May-17, offtake went up for all manufacturers, where FATIMA witnessed highest volumetric growth of +3.0xYoY to 32k tons followed by FFBL (+2.0xYoY), FFC (+1.9xYoY), and EFERT (+1.7xYoY), compared to same period of last year. Moreover, NFML (imported urea) sales accelerated by +3.5xYoY during 5MCY17 due to lower prices than local urea prices.

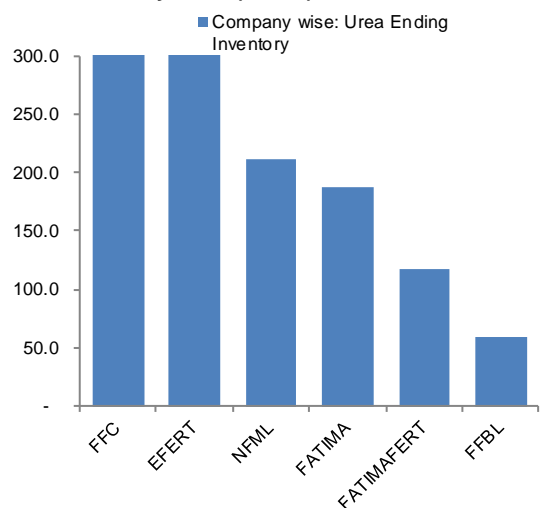
Bulk Buying in preceding months led to decline in DAP Offtake by 14%YoY

DAP offtake declined by 14%YoY clocking in at 70k tons in May-17, due to bulk buying in preceding months over the expectations of increase in DAP prices. FFBL and EFERT showed decline of 61%YoY and 72%YoY to 17k tons and 9k tons

Urea Local Price (PKR/bag)



Urea inventory Level(ktons)



respectively; however FFC recorded growth of +5.5xYoY to 32k tons during May-17. For 5MCY17, DAP offtake improved by +69%YoY to 476k tons. FFBL showed rise of +68%YoY whereas sales for EFERT deteriorated by 36%YoY.

Export allocation double to ease inventory level:

Urea Inventory level has risen to 1.7mn tons in May-17 despite increase in urea offtake. To recall, Government of Pakistan has allowed increase in quantity for export of urea from 0.3 million metric tons to 0.6 million metric tons to save the fertilizer industry from supply glut. Further, it has also extended the deadline for export of urea from April 28, 2017 to October 31, 2017. We believe this increase in export allocation will ease off inventory level but decrease in international urea prices are likely to reduce margins for manufacturers as international urea has come down to USD 210/ton from high of 275/ton reported in Mar-17.

Exhibit:

Company wise export allocation

	300K tons	600Ktons	Exported
FFC	140	280	10
EFERT	101	202	44
FFBL	32	64	-
FATIMA	27	54	-
Total	300	600	54

Source: IGI Research

Budget: subsidy rationalization to continue

Government has decided to continue PKR 156/bag cash subsidy on urea along with reduced GST of 5% in FY18. We are of the view; this will lead to better urea sales along with improvement in farmer’s income led by reduction in interest on agri-loans to 9.9% from 14-15%. Moreover cash subsidy on DAP and other fertilizers has been replaced by reduction in tax (from PKR 400/bag to PKR 100/bag) while GST applicable on NP/NPK/CAN has also been revised to PKR165-168/251-341/31/98 per bag, respectively. We believe this will resolve cashflow problem (delay in disbursement) for manufacturers.

Recommendation

Fertilizer Sector (IGI Universe) has underperformed by 58% in CY17TD. We maintain a ‘Buy’ rating on EFERT amongst fertilizer sector based on sound fundamental with Dec-17 target price of PKR 86/share indicating +47.6% upside from last closing price; combined with a dividend yield of 10%. Total return stands at +56%.

Exhibit

Company wise Offtake

KTons	May-17	May-16	YoY	MoM	5MCY17	5MCY16	YoY
FFC							
Urea	223	118	189%	124%	699	590	18%
DAP	32	6	451%	NA	75	27	180%
FFBL							
Urea	53	26	101%	158%	111	78	43%
DAP	17	44	-61%	-72%	251	149	68%
EFERT							
Urea	120	69	74%	30%	481	409	18%
DAP	9	32	-72%	-59%	68	106	-36%
Fatima							
Urea	32	11	202%	24%	157	66	138%
DAWH							
Urea	37	4	-	379%	96	9	-
AGL							
Urea	5	23	-78%	1463%	6	66	-92%
NFML							
Urea	22	0	73233%	937%	50	14	250%

Source: IGI Research

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Time Horizon: Dec - 2017

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