

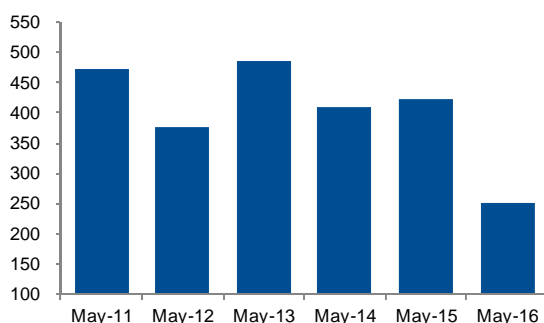
# Day Break

Monday, 27 June 2016

## Sector Update

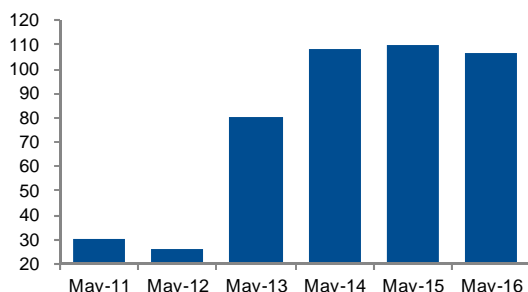
Industry Offtake (000'tons)				
	May-16	YoY	5MCY16	YoY
Urea	114	-41%	1,233	-46%
Dap	106	-3%	445	23%

### Urea Industry Offtake (Ktons)



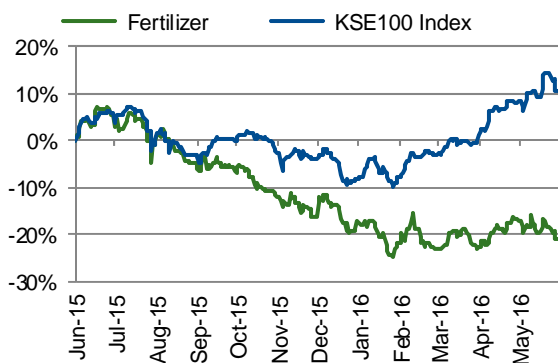
Source: NDFC & IGI Research

### DAP Industry Offtake (Ktons)



Source: NDFC & IGI Research

### Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

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## Fertilizer Review

### Dullness in Offtake Continued in May-16

- Urea offtake continued the downward trend for the consecutive 5 months and declined by 41%YoY to 251k ton in May-16. For 5MCY16, sales are down to 1.2mn tons depicting a decline of 46%YoY.
- DAP offtake narrowed by 3%YoY by +27%Yo to 106k tons in May-16, however surging by +23%YoY in 5MCY16 to 445k tons. This growth is primarily on the back of PKR 500/bag DAP subsidy announced by government in Oct-15 and discounts offered by producers to reduce the inventory level.
- With 12% reduction in GST on urea and subsidy announced by government, urea prices are expected to come down to 1400/bag from Jul-16 onwards, which we believe would boost urea offtake in 2HCY16 and reduce the inventory level from current 1.73mn tons. DAP inventories have also risen by +63%YoY to 267k ton in May-16 due to higher imports and weak farm economics. However with PKR 300/bag DAP subsidy from Jul-16 and seasonal demand in 4QCY16, we believe offtake would pick up in 2HCY16

### Urea Offtake declined by 41%YoY in May-16

Urea offtake continued the downward trend for the consecutive 5 months and declined by 41%YoY to 251k ton in May-16. For 5MCY16, sales are down to 1.2mn tons depicting a decline of 46%YoY. On monthly basis, offtake improved by +18%YoY, likely on the back of seasonal demand and discounts offered by manufacturers. Production on the other hand kept rising since start of CY16 and augmented by +19%YoY to 2.4mn tons in 5MCY16. We attribute this offtake decline largely to weak farm economies due to weakening of commodity prices.

### Company-wise Urea Offtake

EFERT and FATIMA witnessed major decrease of 54%YoY and 53%YoY in urea offtake in May-16. For the period 5MCY16, FFBL managed to post a positive growth, going up by +13%YoY whereas FATIMA dived the highest decline of 53%YoY in same period.

### DAP Offtake declined for first time in CY16TD

DAP offtake narrowed by 3%YoY by +27%Yo to 106k tons in May-16, however surging by +23%YoY in 5MCY16 to 445k tons. This growth is primarily on the back of PKR 500/bag DAP subsidy announced by government in Oct-15 and discounts offered by producers to reduce

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the inventory level. It is pertinent to mention here that above mentioned DAP subsidy has exhausted in mid-May and manufacturers have increased the DAP prices to PKR 3000-3200/bag. EFERT posted +22%YoY/+13%MoM growth in sales whereas FFBL witnessed 15%YoY/24%MoM drop in 5MCY16.

<b>Exhibit: Company wise Offtake</b>								
kTons	May-16	May-15	Apr-16	YoY	MoM	5MCY16	5MCY15	YoY
<b>FFC</b>								
Urea	118	180	115	-34%	2%	590	999	-41%
<b>FFBL</b>								
Urea	26	30	16	-11%	64%	78	69	13%
DAP	44	57	35	-24%	25%	149	176	-15%
<b>EFERT</b>								
Urea	69	151	54	-54%	27%	409	753	-46%
NP & NPK	9	14	8	-33%	16%	35	51	-32%
DAP	32	28	16	13%	99%	106	87	22%
<b>Fatima</b>								
Urea	11	22	6	-53%	67%	66	139	-53%
NP	55	32	52	69%	5%	170	161	6%
CAN	33	51	21	-35%	57%	114	157	-27%
<b>NFML</b>								
Urea	0	37	0	-100%	-83%	14	337	-96%
<b>DAWH</b>								
Urea	4	-	4	N/M	0%	9	-	N/M

Source: NFDC & IGI Research

### Subsidies to the Rescue

With 12% reduction in GST on urea and subsidy announced by government, urea prices are expected to come down to 1400/bag from Jul-16 onwards, which we believe would boost urea offtake in 2HCY16 and reduce the inventory level from current 1.73mn tons. DAP inventories have also risen by +63%YoY to 267k ton in May-16 due to higher imports and weak farm economics. However with PKR 300/bag DAP subsidy from Jul-16 and seasonal demand in 4QCY16, we believe offtake would pick up in 2HCY16.

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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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<sup>^</sup> 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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