

Day Break

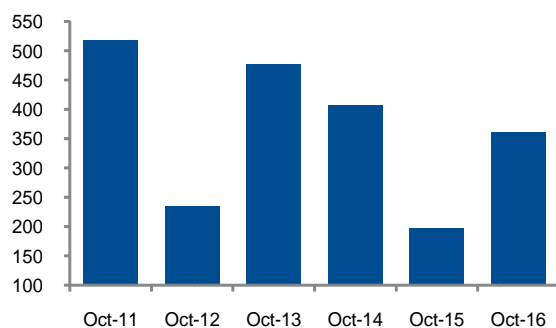
Friday, 25 November 2016

Sector Update

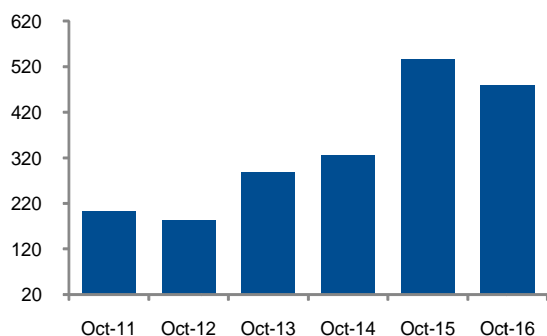
Industry Offtake (000'tons)

	Oct-16	YoY	10MCY16	YoY
Urea	360	83%	3,833	-8%
Dap	479	-11%	1,408	25%

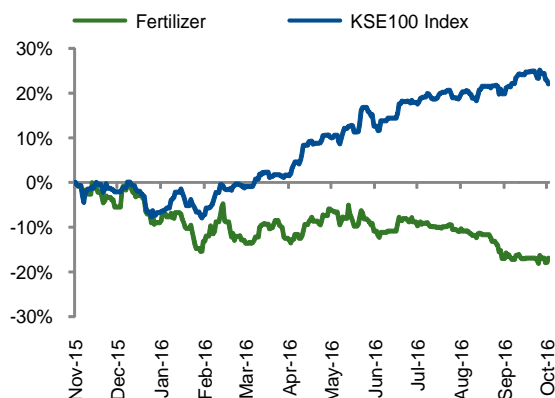
Urea Industry Offtake (Ktons)



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 360k tons, up by +83%YoY in Oct-16

- For the month of Oct-16, urea offtake augmented by +83%YoY to 360k tons, however production decreased by 2%YoY to 497k tons.
- The approval of urea export by Government of Pakistan (GOP) is still pending. However, we are of the view that recent increasing trend in international urea prices – Urea prices up by +18%MoM in Nov-16 to USD 250/ton compared to local price PKR 1,371/bag, or USD 261/ton – export of urea seems likely in near term, benefiting manufacturers in reducing overall inventory level.
- Fertilizer Sector (IGI Universe) has underperformed by 15% in CY16TD as compared to +29% returns by KSE-100. Our favorite pick in the sector remains EFERT with Jun-17 target price of PKR 96/share, offering +50% upside from last close.

Uptick in Urea Offtake in Oct-16

For the month of Oct-16, urea offtake augmented by +83%YoY to 360k tons, however production decreased by 2%YoY to 497k tons. This increase in sales is on the back of lower base effect witnessed in Oct-15 as urea prices were higher due to rise in feed and fuel gas prices by +63%MoM and +23%MoM in Sep-15 to PKR 200/mmbtu and PKR 600/mmbtu (which was unchanged since Jan-13), respectively. On monthly basis, urea offtake surged by +21%MoM largely on the back of seasonal demand and lower urea prices, whereas production decreased by 4%MoM due to higher inventory level.

Company-wise Urea Offtake

FFC witnessed highest offtake growth by +102%YoY to 197k tons in Oct-16, followed by +69%YoY and +10%YoY rise in EFERT's and FFBL's offtake to 63k ton and 28k ton, respectively. Whereas, on monthly basis, offtake for FFBL and FFC accelerated by +86%MoM and +73%MoM in Oct-16, respectively.

Depressed DAP Offtake in Oct-16

DAP offtake declined by 11%YoY to 479k tons in Oct-16 due to base effect, where announcement of subsidy by Prime Minister caused higher offtake in Oct-15. FFBL's offtake deteriorated by 3%YoY to 218k tons. However, EFERT's offtake posted a growth of +54%YoY due to discount offered to the tune of PKR150/bag. On monthly basis, FFBL's and EFERT's offtake surged by +9xMoM and +4.5xMoM, respectively.

Exhibit: Urea Prices (Local/International)

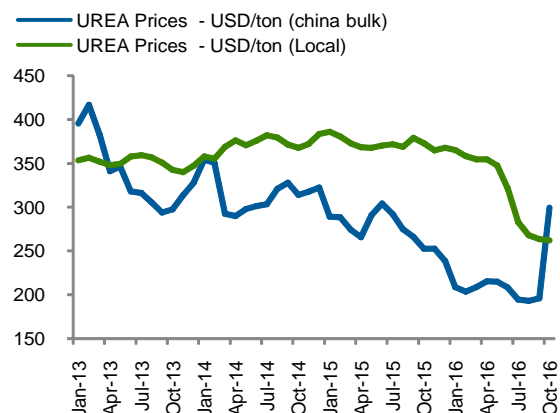
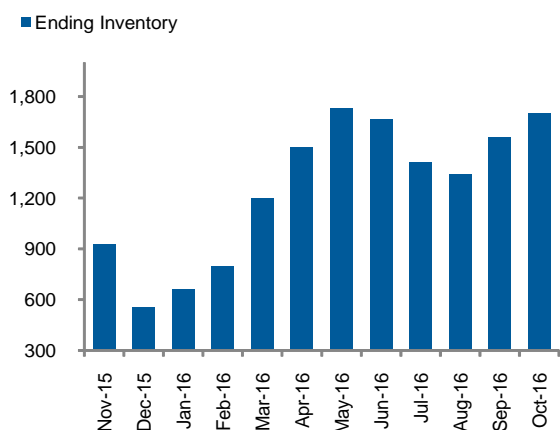


Exhibit: Urea Inventory - Monthly (kTons)



Outlook

According to our channel checks, Urea manufacturers have given discounts of 50-70/bag for the month of Nov-16 in order to reduce piled up inventory which has increased by +9%MoM to 1.7mn tons in Oct-16 and to meet year-end sales target. The approval of urea export by Government of Pakistan (GOP) is still pending. However, we are of the view that recent increasing trend in international urea prices – Urea prices up by +18%MoM in Nov-16 to USD 250/ton compared to local price PKR 1,371/bag, or USD 261/ton – export of urea seems likely in near term, benefiting manufacturers in reducing overall inventory level.

Exhibit: Company wise Offtake

kTons	Oct-16	Oct-15	YoY	MoM	10MCY16	10MCY15	YoY
FFC							
Urea	197	97	102%	73%	1,793	1,793	0%
FFBL							
Urea	28	26	10%	86%	339	195	74%
DAP	218	223	-3%	765%	308	317	-3%
EFERT							
Urea	63	37	69%	-13%	1,086	1,332	-18%
NP & NPK	12	29	-58%	-5%	81	107	-25%
DAP	122	79	54%	351%	358	230	56%
Fatima							
Urea	21	16	32%	-56%	245	359	-32%
NP	29	41	-30%	118%	338	238	42%
CAN	24	9	180%	-48%	279	307	-9%
DAWH							
Urea	20	0	N/a	-21%	141	6	2186%
AGL							
Urea	21	3	517%	43%	193	33	487%
NFML							
Urea	3	6	-60%	218%	18	490	-96%

Source: NFDC & IGI Research

Recommendation

Fertilizer Sector (IGI Universe) has underperformed by 15% in CY16TD as compared to +29% returns by KSE-100. Our favorite pick in the sector remains EFERT with Jun-17 target price of PKR 96/share, offering +50% upside from last close.

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Time Horizon: Jun - 2017

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