

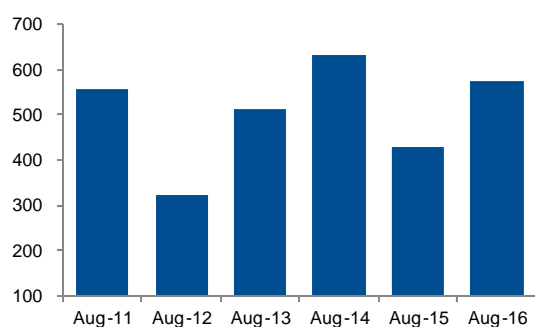
Day Break

Friday, 30 September 2016

Sector Update

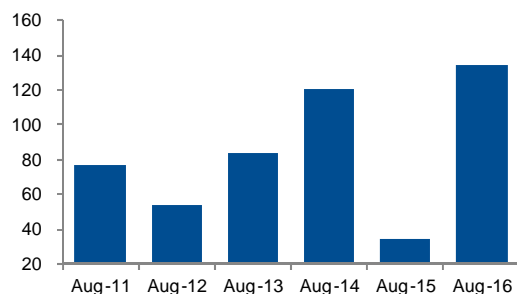
Industry Offtake (000'tons)				
	Aug-16	YoY	8MCY16	YoY
Urea	574	34%	3,175	-16%
Dap	134	291%	822	41%

Urea Industry Offtake (Ktons)



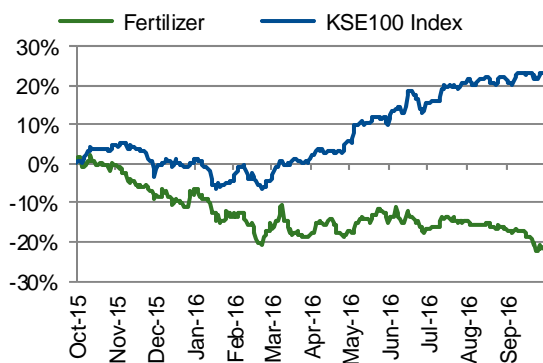
Source: NDFC & IGI Research

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

Monthly slowdown in Offtake Amid Slow Demand

- Urea offtake for the month of Aug-16 went up by +34%YoY to 574k, whereas it declined by 26%MoM. Production leaped up by +8%YoY to 503k tons. With increased momentum of urea sales, inventory level has eased off at 1.3mn tons in Aug-16 from a high of 1.7mn tons in May-16.
- DAP offtake surged by +3.9xYoY to 134k tons in Aug-16, on the back of lower prices of DAP (PKR 2600/bag in Aug-16 as compared to PKR 3700/bag in Aug-15) and seasonal demand pickup. DAP offtake has soared by +41%YoY to 822k tons in 8MFY16.
- Fertilizer Sector (IGI Universe) has negatively performed by 15% in CY16TD as compared to +23% 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 went up by +34%YoY in Aug-16

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For 8MCY16, Urea offtake faltered by 16%YoY to 3.2mn tons from 3.8mn tons in same period last year. This decline can be attributed to weak agri-economics on the back of higher urea prices in 1HCY16 and feeble international crop prices. On the other hand, production jumped up by +16%YoY to ~4mn tons in 8MCY16, from 3.4mn tons in same period last year.

FATIMA posted the highest growth in Aug-16

FATIMA has recorded the highest growth of 4.9xYoY in urea offtake, whereas sales for FFC, FFBL and EFERT increased by +19%YoY, +34%YoY and +2%YoY in Aug-16, respectively. For 8MCY16, DAWH and AGL came out as star performers due to +16xYoY and +7xYoY rise in urea sales, on the back of better availability of gas to their plants.

Higher DAP offtake-Subsidy and Seasonal Demand

DAP offtake surged by +3.9xYoY to 134k tons in Aug-16, on the back of lower prices of DAP (PKR 2600/bag in Aug-16 as compared to PKR 3700/bag in Aug-15) and seasonal demand pickup. DAP offtake has

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soared by +41%YoY to 822k tons in 8MFY16. However, average DAP Margins for 8MCY16 have declined to USD 154/ton from USD 234/ton in same period last year. Currently DAP margin is hovering around USD 110/ton as compared to USD 220/ton in Sept-15.

Exhibit: Company wise Offtake

K tons	Aug-16	Aug-15	YoY	MoM	8MCY16	8MCY15	YoY
FFC							
Urea	230	194	19%	-34%	1,483	1,622	-9%
FFBL							
Urea	55	41	34%	-28%	295	165	79%
DAP	49	24	105%	179%	283	314	-10%
EFERT							
Urea	150	147	2%	27%	950	1,238	-23%
NP & NPK	8	3	143%	99%	56	71	-21%
DAP	19	6	236%	22%	209	149	40%
Fatima							
Urea	72	15	390%	790%	175	269	-35%
NP	23	4	437%	-39%	296	195	52%
CAN	54	27	102%	293%	209	295	-29%
DAWH							
Urea	32	0	N/a		96	6	1462%
AGL							
Urea	31	-	N/a	206%	157	24	561%
NFML							
Urea	0	17	-99%	N/a	14	434	-97%

Source: NFDC & IGI Research

Outlook

With urea prices at PKR 1400/bag, where sales tax on urea has been slashed from 17% to 5% from July-16 and heavy discounts on imported urea by NFML, we expect offtake to pick up further in last 4MCY16. 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 15% in CY16TD as compared to +23% 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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Time Horizon: Dec - 2016

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