

Day Break

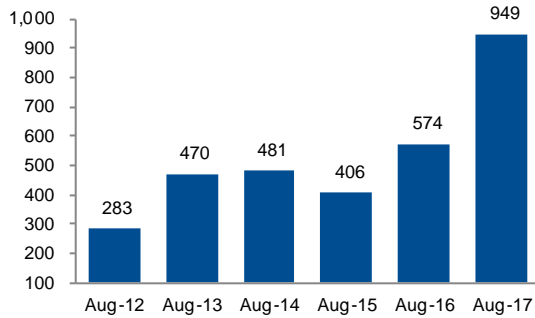
Thursday, 28 September 2017

Sector Update

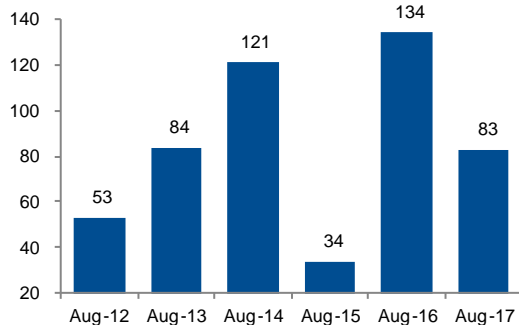
UREA/DAP Offtake (Ktons)

	Aug-17	YoY	8MCY17	YoY
Urea	468	65%	3,989	26%
DAP	34	-38%	956	16%

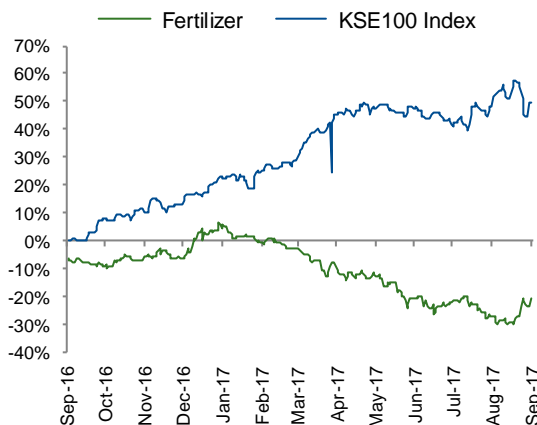
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Aug-17; Higher Urea sales comes as a surprise moderating inventory levels

- As per latest available NFDC data for the month of Aug-17, total Urea offtake increased substantially to 949k tons (excluding exports of 67ktons), with FFC leading the sales chart. We attribute the increase in Urea offtake owing to dealers purchasing in anticipation of price increase.
- For the month of Aug-17, Urea sales on a monthly basis almost doubled to 949ktons compared to 339ktons in Jul-17 and 574ktons in Aug-16 last year.
- For DAP, off-season pulled down overall sales number for during the month. Total sales registered a drop of 70.6%MoM to 83k tons; with FFBL offtake down by 63% to 21ktons; while imports stood at 131ktons down by 57%.
- In coming months, we expect domestic Urea offtake to moderate end of aggressive dealer purchases. On exports, higher international prices would certainly help elevate margins, and manufacturers to flush off majority of the export order (600,000 tons by Dec-17) by Oct-17.

Aug-17: Urea offtake closed to 1mnton; DAP sales down on off-season demand

As per latest available NFDC data for the month of Aug-17, total Urea offtake increased substantially to 949ktons (excluding exports of 67ktons), with FFC leading the sales chart. We attribute the increase in Urea offtake owing to dealers purchasing in anticipation of price increase. For DAP off-season sales were relatively disappointing at 83ktons, down by 70.6%MoM.

Urea driving industrial offtake

For the month of Aug-17, Urea sales on a monthly basis almost doubled to 949ktons compared to 339ktons in Jul-17 and 574ktons in Aug-16 last year. As per our understanding Urea sales during the month were high due to aggressive purchasing by fertilizer dealer anticipating a price hike in response to government reducing subsidy by PKR 56/bag on Urea. Nevertheless, Urea exports during the period declined by 28%MoM to 67ktons owing to lower international prices (prices recovered in Sep-17). As result of higher offtake and moderate production, Urea inventory finally settled at 652ktons.

Exhibit:

Urea

000'Tons	Aug-17	Jul-17	Aug-16	8MCY17	8MCY16	YoY
PRODUCTION	515	501	503	3,877	3,978	-3%
OFFTAKE	949	339	574	3,989	3,175	26%
EXPORT	67	93	-	268	-	N/A
IMPORT	-	-	-	-	-	N/A
EST. Inventory	652	1,153	1,343	-	-	

Source: NFDC, IGI Research

Exhibit: Company wise off-take

000'Tons	Aug-17	Jul-17	8MCY17	YoY
FFC				
UREA	377	137	1,599	8%
DAP	12	72	160	272%
EFERT				
UREA	338	74	1,231	30%
DAP	22	133	251	20%
NP & NPK	14	16	109	3%
FFBL				
UREA	78	42	318	8%
DAP	21	57	341	20%
FATIMA				
UREA	50	20	299	71%
NP	24	35	248	-16%
CAN	56	54	502	65%
FATIMA (DHCL)				
UREA	7	5	198	106%

DAP offtake dropped by 70.6%MoM to 83ktons

For DAP, off-season pulled down overall sales number for during the month. Total sales registered a drop of 70.6%MoM to 83ktons; with FFBL offtake down by 63% to 21ktons; while imports stood at 131ktons down by 57%.

Exhibit:

DAP

000'Tons	Aug-17	Jul-17	Aug-16	8MCY17	8MCY16	YoY
PRODUCTION	74	70	71	525	509	3%
OFFTAKE	83	283	134	956	822	16%
EXPORT	-	-	-	-	-	N/A
IMPORT	131	303	29	849	248	243%
EST. Inventory	509	387	395			

Source: NFDC, IGI Research

FFC: Urea leading the overall fertilizer volumes by +86%MoM to 389ktons

For FFC, total fertilizer off-take registered at 389ktons up by, +86%MoM, dominated by strong off-take of Urea at 377ktons as oppose to 137k tones last month. According to our estimates, Urea exports during the month clocked in at ~38ktons, thereby bringing total exports to 51ktons during last three months. However, DAP sales during the month declined by 83%MoM to 12ktons.

FFBL: Total offtake remained at stagnant levels of 99ktons

Being the sole producer of DAP, the fertilizer offtake during the month clocked in at 21ktons down by 63.2%MoM with UREA showing healthy offtake of 78ktons, up by +86%MoM. This brings total offtake during the period 8MCY17 to 659ktons, up by 14% YoY.

EFERT: Total offtake reported at 375ktons up by +68%MoM

In case of EFERT, total fertilizer offtake clocked in by +68%MoM to 375ktons, primarily driven by sales of Urea registering at 338ktons, bringing total fertilizer offtake to 1,231 k tones for 8MCY17. However, on monthly basis sales of DAP/ NP & NPK declined to 22/14 ktons relative to 133/16ktons offtake in July-17.

FATIMA: Total domestic offtake clocked in at 131ktons up by +120%MoM

For FATIMA overall fertilizer offtake during Aug-17 was 131ktons up by +120% MoM whereby sales of CAN stood at 56ktons, followed by Urea offtake at 50ktons (+150%MoM), while NP sliding down by 31.4%MoM to 24ktons. This brings total off-take during 8MCY17 to 1,049ktons, up by +35%YoY. The exports however remained in line with last month's offtake, reporting at 28k tones.

Outlook

In coming months, we expect domestic Urea offtake to moderate end of aggressive dealer purchases. On exports, higher international prices would certainly help elevate margins, and manufacturers to flush off majority of the export order (600,000 tons by Dec-17) by Oct-17. Moreover, on supply side production halts at PakArab and upcoming winter season will keep

Source: NFDC, IGI Research

overall domestic supply situation rather tight. This combined with low inventory levels will reduce current discounts offered by manufacturers on Urea sales helping to elevate Urea market margins. We believe EFERT to be strong beneficiary of current market dynamics due to excess capacity (utilization level ~75%) during 8MCY17. However for FFC, it would be stringent to achieve favorable export levels with plant already tied up with high utilization level of ~117% during 8MCY17.

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