

Day Break

Thursday, 26 September 2019

Sector Update

Exhibit: Urea Industry Offtake & Inventory (Ktons)

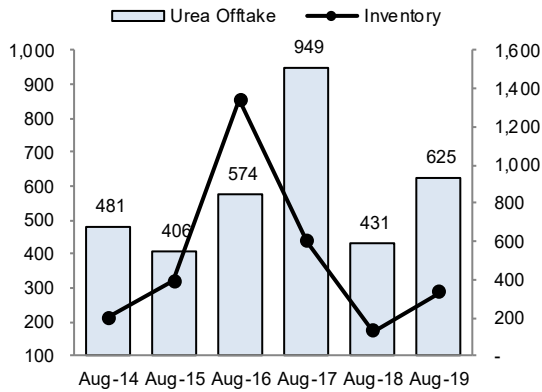


Exhibit: DAP Industry Offtake & Inventory (Ktons)

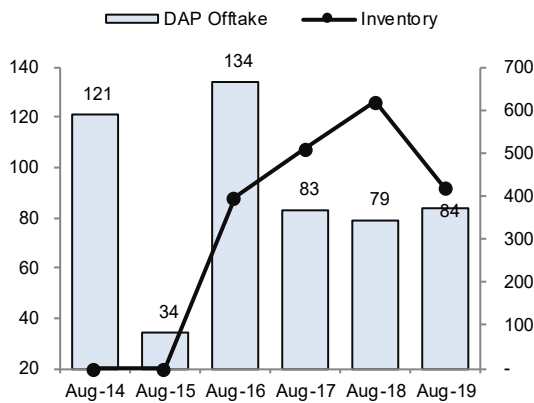
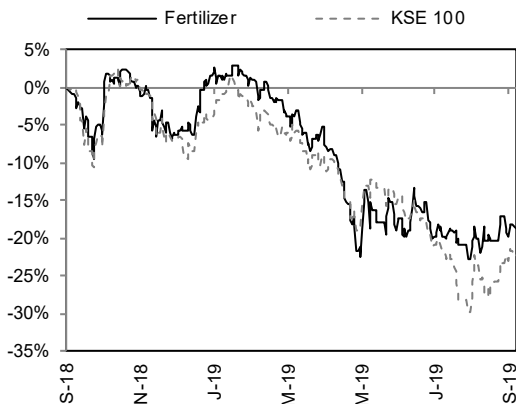


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Aug-19: Urea sales continue to climb; offtake for 8MCY19 recording at ~4mntons

- As per the latest available data by NFDC for the month of Aug-19, urea offtake rose by +45%YoY to 625k tons while on a sequential basis, increased by +35%MoM. On a cumulative basis for 8MCY19, total industry offtake increased by +9%YoY to 3.98mn tons.
- For DAP, offtake picked up by +6%YoY to 84k tons, receding 54% on sequential basis. On a cumulative basis for the 8-month period total sales have decreased by 11%YoY to 932ktons
- We have a **"HOLD"** call on EFERT, based on our Jun-20 target price of PKR 70/share, offering +3% upside from its last closing. The company is currently trading at CY19E P/E of 5.60x and offers a dividend yield of 16.3%.

Urea sales on upward trajectory, offtake increased by +45%YoY to 625k tons

As per the latest available data by NFDC for the month of Aug-19, urea offtake rose by +45%YoY to 625k tons while on a sequential basis increased by +35%MoM. We attribute the increase in offtake owing to pre-buying done by dealers in anticipation of price hike. On a cumulative basis for 8MCY19, total industry offtake increased by +9%YoY to 3.98mn tons.

Company wise, FFC led the industry offtake at 233k tons, up by +22%YoY for the month of Aug-19. FFBL's offtake witnessed a massive increase of +32%YoY to 44k tons, followed by EFERT's offtake, increasing by +13%YoY to 186k tons. Alongside, similar trend was observed on sequential basis as companies recorded double digit growth in offtake.

With respect to market share, FFC's share decreased to 40% during 8MCY19 while EFERT witnessed a hefty drop to 32% compared to 36%. FFBL's share also declined to 7% compared to 9% during the 8months period

DAP sales picked up pace, witnessing +6% growth to 84k tons

For DAP, industry offtake picked up by +6%YoY to 84k tons, receding by 59%MoM. On a cumulative basis for the 8-month period total sales have decreased by 11%YoY to 932ktons. For our coverage companies, offtake was down on sequential basis with EFERT/FFC/FFBL, reporting a drop of 55/54%/53% to 18k/19k/47k tons. On a comparative basis during same period last year, sales of FFBL and FFC witnessed an increase of 2.65x/3.33x while EFERT recorded 54%YoY decline.

With respect to market share for the 8MCY19, EFERT's share remained intact at 26% while share of FFBL increased to 37%. FFC, however managed to attain 15% share versus 26%, compared to last year.

Exhibit:

Product

	19-Aug	19-Jul	MoM	18-Aug	YoY	8MCY19	8MCY18	YoY
UREA								
Production	569	566	1%	486	17%	4,039	3,555	14%
Offtake	625	464	35%	431	45%	3,977	3,656	9%
Est. Inventory	330	382	-14%	129	156%	-	-	n.m
DAP								
Production	75	77	-2%	61	22%	538	466	16%
Offtake	84	202	-59%	79	6%	932	1,048	-11%
Import	-	101	n.m	273	n.m	368	1,031	-64%
Est. Inventory	418	412	1%	618	-32%	-	-	n.m

Source: NFDC, IGI Research

Exhibit:

Company wise off-take

000'Tons	Aug-19	Jul-19	MoM	Aug-18	YoY	8MCY19	8MCY18	YoY
FFC								
Urea	233	176	33%	191	22%	1,592	1,631	-2%
Dap	18	39	-55%	5	3.3x	140	269	-48%
EFERT								
Urea	186	175	7%	165	13%	1,258	1,331	-6%
Dap	19	41	-54%	41	-54%	241	270	-11%
Np & Npk	6	8	-30%	0	17.1x	43	35	24%
FFBL								
Urea	44	32	38%	33	32%	290	339	-15%
Dap	47	100	-53%	18	2.7x	348	347	0%
FATIMA								
Np	35	65	-46%	33	7%	314	290	8%
Can	42	51	-17%	44	-4%	349	395	-12%
Urea	41	43	-5%	41	-1%	287	408	-30%

Source: NFDC, IGI Research

Exhibit:

Company wise urea inventory levels

000'Tons	Aug-19	Jul-19	MoM	Aug-18	YoY
FFC	55.7	69.6	-20%	26.5	2.1x
EFERT	22.6	17.3	31%	85.8	-74%
FFBL	30.2	23.3	30%	26.7	1.1x
FATIMA	37.7	41.2	-9%	40.2	-6%
FATIMA (DHCL)	54.9	74.9	-27%	3.4	16.1x
AGRITECH-PAFL	42.6	49.7	-14%	0.5	91.9x

Source: NFDC, IGI Research

Recommendation

We have a **“HOLD”** call on EFERT, based on our Jun-20 target price of PKR 70/share, offering +3% upside from its last closing. The company is currently trading at CY19E P/E of 5.60x and offers a dividend yield of 16.3%.

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Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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