

Flash Note

Tuesday, 10 January 2017

Fertilizers

Discontinuation of Fertilizer Subsidy

- As per news reports, Government of Pakistan has abruptly decided to discontinue subsidy on fertilizers which was provided in Federal Budget-16. We expect fertilizer manufacture to increase urea and DAP prices by PKR 165/bag and PKR 300/bag, respectively.
- We believe, Government will continue to charge 5% GST on urea/bag.
- To recall that GoP in Budget'16 announced urea price reduction to PKR 1,400/bag from PKR 1,790 through a combination of price reduction mechanism, PKR 50/bag price cut by manufacturers, 156/bag cash subsidy and GST reduction from 17% to 5%, while for DAP cash subsidy of PKR 300/bag was awarded to reduce MRP to PKR 2,500/bag.
- Keeping in mind, subsidy is only to benefit the farmers, subsidy removal will increase farmer's purchase cost which will lead to slow down in urea/DAP offtake for CY17.

Recommendation

We maintain "**BUY**" call on EFERT with our Dec-17 target price of PKR 86/share, offering +21% upside from its last closing. The company is currently trading at FY17E P/E of 6.8x and offers a healthy dividend yield of 10%.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

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

DCF (Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

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