

# Day Break

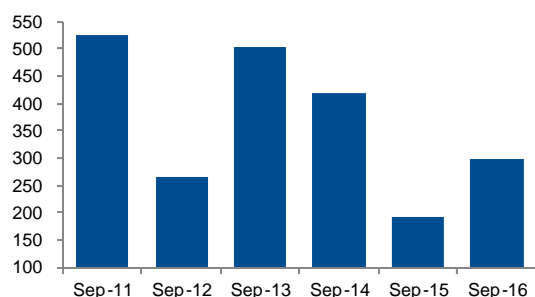
Thursday, 27 October 2016

## Sector Update

### Industry Offtake (000'tons)

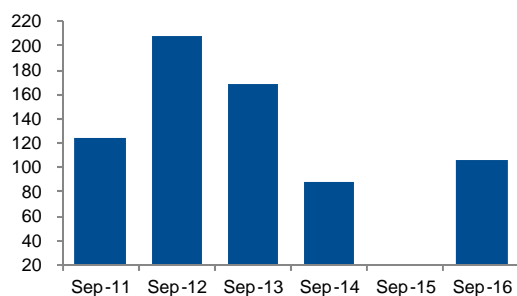
	Sep-16	YoY	9M CY 16	YoY
Urea	298	54%	3,483	-12%
Dap	107	1261%	822	57%

### Urea Industry Offtake (Ktons)



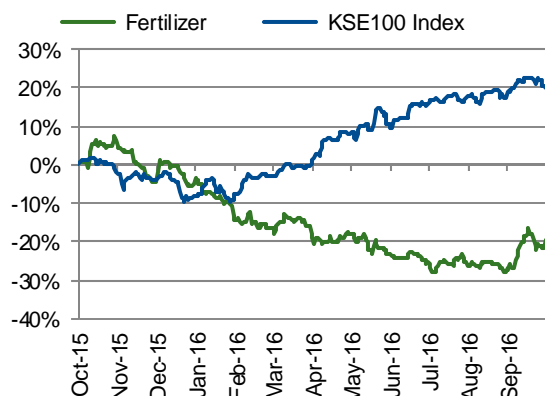
Source: NDFC & IGI Research

### 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

### Lower Offtake leading to Higher Inventories

- Urea offtake surged by +54%YoY to 298k tons for the month of Sep-16, where production increased by +12%YoY to 519k tons. This growth in sales is primarily due to lower base effect witnessed in Sep-15 on account of higher urea prices as government raised the feed and fuel gas prices by +63% and +23%, respectively.
- Urea inventory has gone up by +16%MoM to 1.6mn tons in Sep-16, after dropping to 1.3mn tons in Aug-16. We believe, this pile up in inventory is because of higher production and lower offtake amid feeble demand. With increasing inventory pressure along with depressed crops prices, we think manufacturers might offer discounts in 4QCY16.
- Fertilizer Sector (IGI Universe) has negatively performed by 20% in CY16TD as compared to +23% returns by KSE-100. Our favorite pick in the sector remains EFERT with Jun-17 target price of PKR 96/share, offering +53% upside from last close.

### Urea Offtake augmented by 54%YoY in Sep-16

Urea offtake surged by +54%YoY to 298k tons for the month of Sep-16, where production increased by +12%YoY to 519k tons. This growth in sales is primarily due to lower base effect witnessed in Sep-15 on account of higher urea prices as government raised the feed and fuel gas prices by +63% and +23%, respectively. During the month of Sep-16, production increased as a result of a) better gas supply, b) import of LNG by fertilizer sector and, c) +173%YoY, +124%YoY and +100%YoY increased production by DAWH, AGL and Pak Arab, respectively. On monthly basis, urea offtake declined by 48%MoM whereas production increased by +3%MoM.

### Company-wise Urea Offtake

FFBL witnessed highest offtake growth of +230%YoY to 15k tons, followed by +54%YoY and +29%YoY rise in FFC's and EFERT's offtake to 114k ton and 73k ton, respectively. However, on monthly basis, offtake for FFBL, EFERT, FFC and FATIMA declined by 73%MoM, 52%MoM, 51%MoM and 32%MoM, respectively. We believe this monthly decline is largely on the back of high base effect, which was led by reduction in urea prices and slowdown in demand.

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### Hike in DAP Offtake in Sep-16

DAP offtake accelerated by +13xYoY to 107k tons in Sep-16, due to base effect where delay in subsidy announcement by Prime Minister caused decline of sales in Sep-15. EFERT and FFBL posted growth of +15xYoY and +8xYoY to 27k tons and 25k tons, respectively. On monthly basis, EFERT's offtake surged by +44%MoM due to discount offered to the tune of PKR 150/bag. However, FFBL's offtake dropped by 48%MoM.

#### Exhibit: Company wise Offtake

kTons	Sep-16	Sep-15	YoY	MoM	9MCY16	9MCY15	YoY
<b>FFC</b>							
Urea	114	74	54%	-51%	1,597	1,696	-6%
<b>FFBL</b>							
Urea	15	5	230%	-73%	310	169	83%
DAP	25	3	669%	-48%	308	317	-3%
<b>EFERT</b>							
Urea	73	57	29%	-52%	1,023	1,295	-21%
NP & NPK	13	6	109%	67%	69	79	-12%
DAP	27	2	1389%	44%	236	151	57%
<b>Fatima</b>							
Urea	49	74	-34%	-32%	224	343	-35%
NP	13	3	382%	-43%	309	197	57%
CAN	46	4	1170%	-14%	255	299	-15%
<b>DAWH</b>							
Urea	26	0	N/a		121	6	1859%
<b>AGL</b>							
Urea	15	6	160%	-53%	172	29	484%
<b>NFML</b>							
Urea	1	49	-98%	851%	15	484	-97%

Source: NFDC & IGI Research

### Urea Inventory piled up again in Sep-16:

Urea inventory has gone up by +16%MoM to 1.6mn tons in Sep-16, after dropping to 1.3mn tons in Aug-16. We believe, this pile up in inventory is because of higher production and lower offtake amid feeble demand. With increasing inventory pressure along with depressed crops prices, we think manufacturers might offer discounts in 4QCY16.

### Recommendation

Fertilizer Sector (IGI Universe) has negatively performed by 20% in CY16TD as compared to +23% returns by KSE-100. Our favorite pick in the sector remains EFERT with Jun-17 target price of PKR 96/share, offering +53% upside from last close.

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**Time Horizon:** Jun - 2017

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