

Day Break

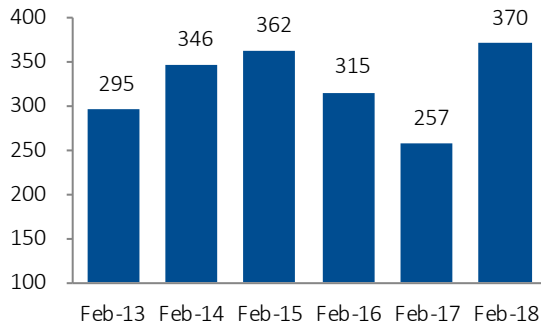
Tuesday, 27 March 2018

Sector Update

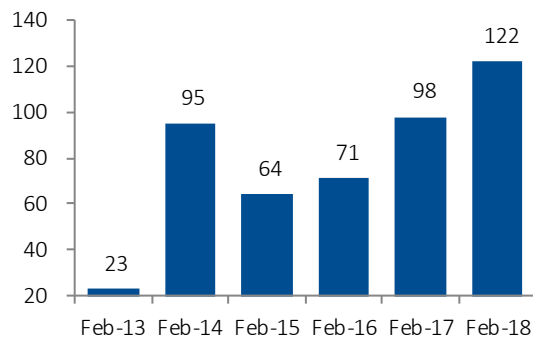
UREA/DAP Offtake (Ktons)

	Feb-18	YoY	Jan-18	MoM
Urea	370	44%	539	-31%
DAP	122	24%	92	33%

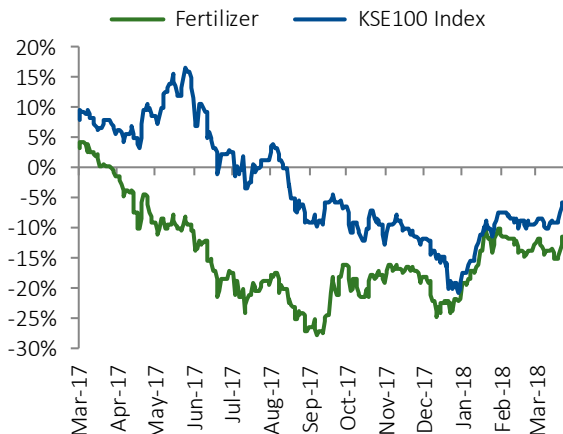
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Feb-18: Urea demand keeping up the momentum; offtake up by +44%YoY

- As per the latest available data by NFDC for the month of Feb-18, urea offtake declined by 31%MoM to 370k tons while DAP offtake increased moderately by +33%MoM to 122k tons.
- We expect sales of DAP to ease down in the upcoming months keeping in view the past trend followed (seasonal effect). For urea, smooth production will keep supply levels robust to meet upcoming demand during the Kharif season.
- We have a **"BUY"** call on EFERT, based on our Dec-18 target price of PKR 83/share, offering +23% upside from its last closing. The company is currently trading at CY18E P/E of 8.1x and offers a dividend yield of 11%

Monthly decline of 31% in urea sales to 370k tons

As per the latest available data by NFDC for the month of Feb-18, urea offtake declined by 31%MoM to 370k tons but on yearly basis witnessed significant growth of +44%YoY. For 2MCY18, total offtake has now approached 909k tons v/s 663k tons in the corresponding periods last year. On individual basis, FFC achieved greatest offtake numbers, down by 30%MoM to 157k tons but up by +45%YoY. However for EFERT, sales witnessed monthly decline of 45% to 145k tons, but on cumulative basis for 2MCY18 it achieved greatest offtake (407k tons; +2xYoY) amongst its peers, thereby grabbing a significant market share of 45%.

DAP offtake up by +33%MoM to 122k tons

For DAP, monthly offtake increased moderately by +33%MoM/+24%YoY to 122k tons, taking total offtake for 2MCY18 to 214k tons, up by +34%YoY. On individual basis, FFC witnessed highest DAP offtake during the month, reported at 48ktons while FFBL, although slightly below posted growth of +32%MoM to 41k tons. However for EFERT, offtake crawled up by +10%MoM to 18k tons. On cumulative basis for 2MCY18, FFC and FFBL led the offtake, recording at 74/72k tons.

Outlook

Inventory is now at moderate levels with supply and demand going relatively in balance. Although production of urea has now ceased to exist for LNG based power plant, nevertheless smooth production amidst major fertilizers manufacturers will keep supply levels robust to meet upcoming demand during the Kharif season. Moreover for DAP, we expect demand to taper off in the upcoming months as the Rabi season approaches its end.

Recommendation

We have a **"BUY"** call on EFERT, based on our Dec-18 target price of PKR 83/share, offering +23% upside from its last closing. The company is currently trading at CY18E P/E of 8.1x and offers a dividend yield of 11%.

Exhibit:

Company wise off-take

000'Tons	Feb-18	Jan-18	MoM	Feb-17	YoY	2MCY18	2MCY17	YoY
FFC								
Urea	157	223	-30%	109	45%	380	262	45%
Dap	48	26	87%	34	40%	74	36	105%
EFERT								
Urea	145	262	-45%	98	48%	407	206	98%
Dap	18	16	10%	12	51%	34	16	106%
Np & Npk	2	3	-34%	11	-82%	5	14	-66%
FFBL								
Urea	27	14	92%	14	0%	40	16	155%
Dap	41	31	32%	35	18%	72	69	5%
FATIMA								
Np	34	44	-23%	24	41%	78	67	17%
Can	65	74	-12%	52	25%	139	113	24%
FATIMA (dhcl)								
Urea	-	-	n.m	14	n.m	-	54.96	-100%
Total								
Urea	370	539	-31%	257	44%	909	663	37%
Dap	122	92	33%	98	24%	214	159	34%
Np & Npk	37	51	-27%	35	7%	88	81	9%

Source: NFDC, IGI Research

Exhibit:

Product

000'Tons	Feb-18	Jan-18	MoM	Feb-17	YoY	2MCY18	2MCY17	YoY
UREA								
Production	398	457	-13%	416	-4%	855	820	4%
Offtake	370	539	-31%	257	44%	909	663	37%
Export	13	-	n.m.	-	n.m.	13	-	n.m.
Import	-	-	n.m.	-	n.m.	-	-	n.m.
Est. Inventory	271	256	n.m.	1,194	-77%	-	-	n.m.
DAP								
Production	65	31	108%	66	-2%	96	90	7%
Offtake	122	92	33%	98	24%	214	159	34%
Export	-	-	-	-	-	-	-	n.m.
Import	89	65	37%	75	18%	154	98	57%
Est. Inventory	215	176	n.m.	119	80%	-	-	n.m.

Source: NFDC, IGI Research

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Time Horizon: Dec – 2018

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