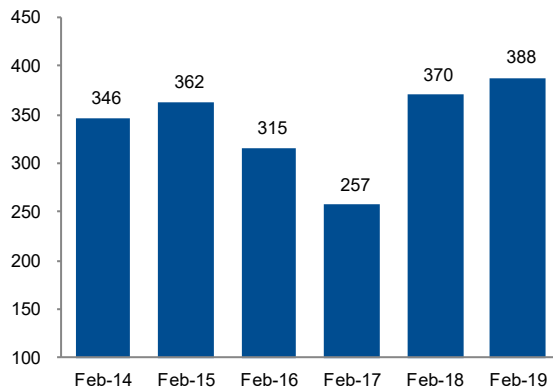


Day Break

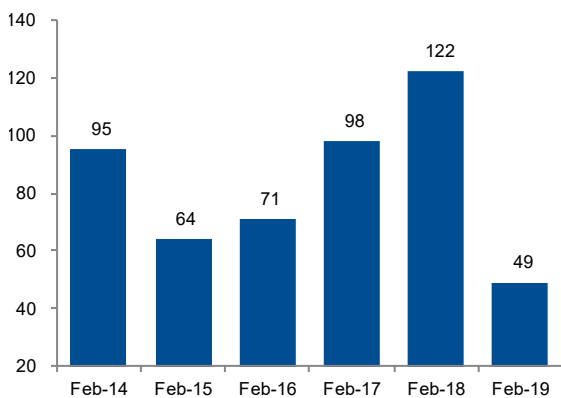
Monday, 25 March 2019

Sector Update

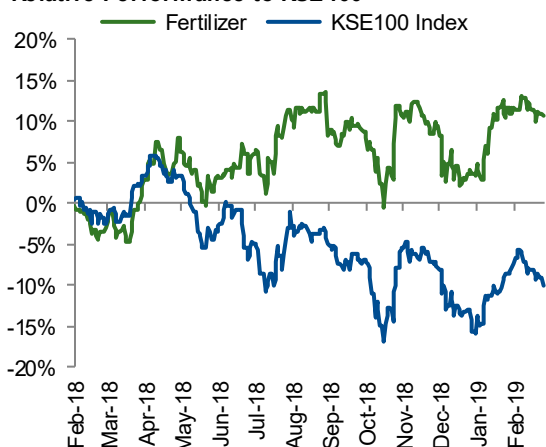
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Feb-19: Strong demand keeping urea offtake afloat; inventory closing at 54k tons

- As per the latest available data by NFDC for the month of Feb-19, urea offtake rose by +5%YoY to 388k tons. On a sequential basis, offtake was down by 31%MoM owing to high base effect. For 2MCY19, total industry offtake inched down by 2%YoY to 834k tons.
- For DAP, offtake witnessed a significant decline of 60%YoY to 49k tons owing to price increase following PKR depreciation. On a cumulative basis for 2MCY18, total industry sales have gone down by 42%YoY to 124k tons.
- We expect demand for urea to remain intact with Kharif season approaching. While other manufacturers haven't increased prices yet, we believe distributors will resort to pre-buying in anticipation of further price hike. For DAP, subdued demand and weak offtake will pose rather challenging situation for FFBL
- We have a "BUY" call on EFERT, based on our Dec-19 target price of PKR 80.2/share, offering +11% upside from its last closing. The company is currently trading at CY19E P/E of 6.00x and offers a dividend yield of 15.3%.

Urea offtake increased by +5%YoY to 388k tons

As per the latest available data by NFDC for the month of Feb-19, urea offtake rose by +5%YoY to 388k tons while on a sequential basis, offtake was down by 31%MoM. For 2MCY19, total industry offtake inched down by 2%YoY to 834k tons.

On an individual basis, FFC led the industry offtake at 170k tons, up by +8%YoY. EFERT came second with an offtake of 131k tons, falling by 10%YoY. Similarly, FFBL's urea offtake witnessed a substantial decline of 60%YoY to 11k tons with Fatima (DHCL) also reporting decline of 42%MoM to 16k tons owing to interrupted gas supply. With respect to market share, FFC's share decreased to 38% during 2MCY19 with EFERT witnessing a hefty drop to 31% compared to 45% during the same period last year.

...while DAP sales are on a declining trajectory

For DAP, offtake witnessed a significant decline of 60%YoY to 49k tons owing to price increase following PKR depreciation. On a cumulative basis for 2MCY18, total industry sales have gone down by 42%YoY to 124k tons. On an individual basis, EFERT witnessed highest DAP offtake of 14k tons during the month with a decline of 22%YoY. FFBL's DAP offtake inched up slightly by +2%MoM to 12k tons, while witnessing a drop of 72%YoY. For FFC DAP sales have slowed down considerably to 8k tons (down by 84%YoY) with bulk of inventory piled up (200k tons), highest amongst other players in the industry.

With respect to market share, EFERT grabbed a share of 39% (compared to 18% in the same period last year) with FFC's share weakened to 10% from 34%. Similarly, FFBL witnessed decline in its share to 18% as against 34% last year.

Outlook

Urea inventory levels have been on a declining trend since the last three months despite added production (NFML, Agritech and Fatimafert) coming in the system. Strong demand has therefore kept supply situation rather tight which may give manufacturers an edge over pricing power. As such, FFC has increased its prices (PKR 80/bag) given limited supply (Agritech and Fatimfert's production is on hold owing to gas supply issues). Although other players haven't increased prices yet, we expect distributors will resort to pre-buying in anticipation of price hike. Moreover, with Kharif season round the corner, this will keep demand of urea intact. For DAP, demand remains bleak (high prices) with inventory having picked up pace. This poses challenging situation for FFBL

being the sole producer of DAP and we therefore expect 1HCY19 to be trickier for the company.

Recommendation

We have a “BUY” call on EFERT, based on our Dec-19 target price of PKR 80.2/share, offering +11% upside from its last closing. The company is currently trading at CY19E P/E of 6.00x and offers a dividend yield of 15.3%.

Exhibit:

Product

000'Tons	Feb-19	Jan-19	MoM	Feb-18	YoY	2MCY19	2MCY18	YoY
UREA								
Production	373	460	-19%	398	-6%	834	855	-2%
Offtake	388	564	-31%	370	5%	952	909	5%
Est. Inventory	54	71	-23%	271	-80%	-	-	-
DAP								
Production	61	31	99%	65	-6%	92	96	-4%
Offtake	49	75	-35%	122	-60%	124	214	-42%
Import	7	39	-81%	89	-92%	1,589	1,671	-5%
Est. Inventory	508	488	4%	215	136%	-	-	-

Source: NFDC, IGI Research

Exhibit:

Company wise off-take

000'Tons	Feb-19	Jan-19	MoM	Feb-18	YoY	2MCY19	2MCY18	YoY
FFC								
Urea	170	196	-13%	157	8%	365	380	-4%
Dap	8	5	49%	48	-84%	13	74	-83%
EFERT								
Urea	131	161	-19%	145	-10%	291	407	-28%
Dap	14	34	-59%	18	-22%	48	34	42%
Np & Npk	2	5	-66%	2	-14%	7	5	35%
FFBL								
Urea	11	3	279%	27	-60%	14	40	-67%
Dap	12	11	2%	41	-72%	23	72	-68%
FATIMA								
Np	13	49	-73%	34	-61%	62	78	-20%
Can	44	77	-43%	65	-32%	122	139	-13%

Source: NFDC, IGI Research

Exhibit:

Company wise urea inventory levels

000'Tons	Feb-19	Jan-19	MoM	Feb-18	YoY
FFC	4.6	6.0	-24%	22.5	-80%
EFERT	9.2	13.7	-33%	109.8	-92%
FFBL	0.5	0.0	n.m	2.5	-79%
FATIMA	32.0	32.7	-2%	127.1	-75%
FATIMA (DHCL)	4.7	3.6	33%	3.4	38%
AGRITECH-PAFL	0.2	0.6	-74%	0.5	-69%

Source: NFDC, IGI Research

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Time Horizon: Dec – 2019

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