

Day Break

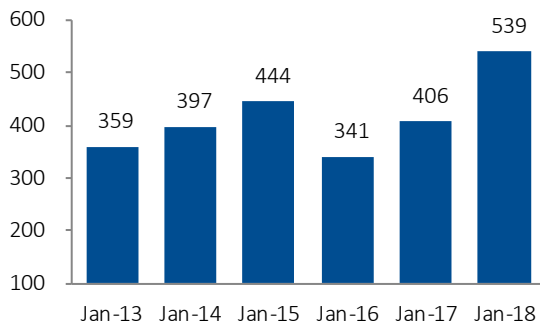
Monday, 26 February 2018

Sector Update

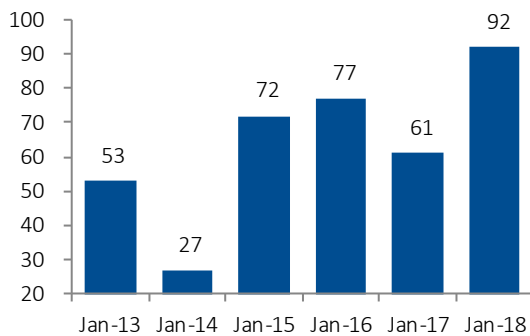
UREA/DAP Offtake (Ktons)

	Jan-18	YoY	Dec-17	MoM
Urea	539	33%	717	-25%
DAP	92	51%	322	-71%

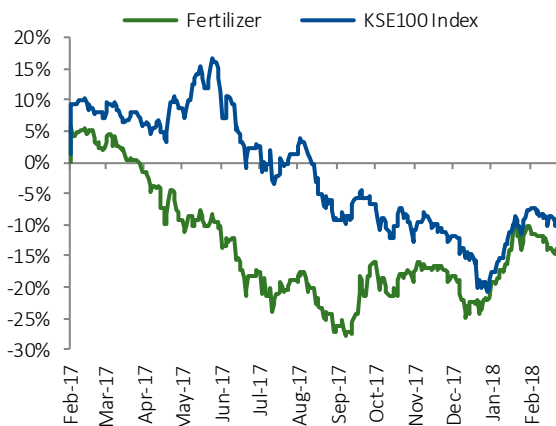
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Analyst

Suleman Ashraf

suleman.ashraf@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

Fertilizer

Jan-18: Slowdown in urea/DAP demand, offtake down by 25%/71%MoM

- As per the latest available data by NFDC for the month of Jan-18, urea offtake declined by 25%MoM to 539k tons but on yearly basis witnessed significant growth of +33%YoY.
- For DAP, monthly sales decreased substantially by 71%MoM to 92ktons owing to aggressive purchasing done in the previous months (peak Rabi season).
- We expect sales of DAP to ease down in the upcoming months keeping in view the past trend followed (seasonal effect). For urea, sales may remain stable, depending on the demand.
- We have a **"BUY"** call on EFERT, based on our Dec-18 target price of PKR 83/share, offering +24% upside from its last closing. The company is currently trading at CY18E P/E of 8.8x and offers a dividend yield of 7.4%

Monthly decline of 25% in urea sales to 539ktons

As per the latest available data by NFDC for the month of Jan-18, urea offtake declined by 25%MoM to 539k tons but on yearly basis witnessed significant growth of +33%YoY. On individual basis, EFERT achieved greater offtake numbers, jumping by +40%MoM/2.4xYoY to 262ktons. However for FFC, sales witnessed monthly decline of 39% to 223ktons but on yearly basis posted a growth of +45%.

DAP offtake down by 71%MoM to 92ktons

For DAP, monthly sales decreased substantially by 71%MoM to 92ktons owing to aggressive purchasing done in the previous months (peak Rabi season). However, on yearly basis offtake numbers showed positive growth of +51%YoY led by government subsidy scheme. On individual basis, FFBL recorded decline in its sales of 53%MoM to 31k tons, followed by EFERT at 16ktons, also down by 48%MoM. However, FFC witnessed positive growth of +83%MoM to 26k tons.

Outlook

We expect sales of DAP to ease down in the upcoming months keeping in view the past trend followed (seasonal effect). For urea, sales may remain stable, depending on the demand, which is susceptible to any changes in the pricing of urea (new fertilizer policy underway wherein proposal for subsidy removal and sales tax reduction in circulation). Furthermore, urea inventory is now at moderate levels and the supply glut situation remains soft owing to limited production (closure of LNG based plant) and with exports providing some relief.

Recommendation

We have a **"BUY"** call on EFERT, based on our Dec-18 target price of PKR 83/share, offering +24% upside from its last closing. The company is currently trading at CY18E P/E of 8.8x and offers a dividend yield of 7.4%.

Exhibit:

Company wise off-take

000'Tons	Jan-18	Dec-17	MoM	Jan-17	YoY
FFC					
Urea	223	364	-39%	153	45%
Dap	26	14	83%	2	16.4x
EFERT					
Urea	262	187	40%	107	144%
Dap	16	31	-48%	5	3.4x
Np & Npk	3	10	-71%	4	-17%
FFBL					
Urea	14	70	-80%	2	6.3x
Dap	31	66	-53%	34	-8%
FATIMA					
Np	44	36	23%	43	3%
Can	74	78	-5%	60	23%
FATIMA (dhcl)					
Urea	-	5	n.m	41	n.m
Total					
Urea	539	717	-25%	406	33%
Dap	92	322	-71%	61	51%
Np & Npk	54	52	2%	46	16%

Source: NFDC, IGI Research

Exhibit:

Product

000'Tons	Jan-18	Dec-17	MoM	Jan-17	YoY
UREA					
Production	457	485	-6%	404	13%
Offtake	539	717	-25%	406	33%
Export	-	-	-	-	-
Est. Inventory	256	338	-	1,035	-75%
DAP					
Production	31	65	-53%	24	29%
Offtake	92	322	-71%	61	51%
Import	65	103	-37%	23	4.5x
Est. Inventory	176	172	n.m.	76	n.m

Source: NFDC, IGI Research

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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Time Horizon: Dec – 2018

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)

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Tel: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarak Pura, Sialkot.
Tel: (+92-52) 3258437, 3258762