

Day Break

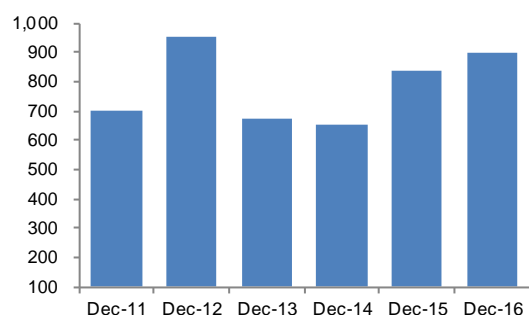
Thursday, 26 January 2017

Sector Update

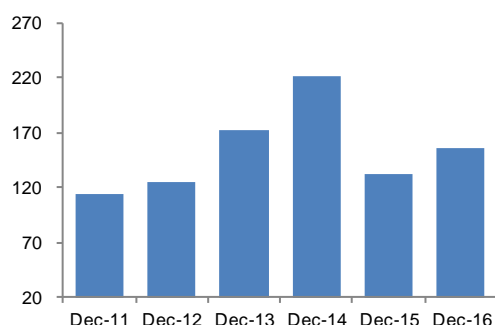
Industry Offtake (ktons)

	Dec-16	YoY	CY16	YoY
Urea	898	7%	5,495	-2%
Dap	155	17%	2,194	22%

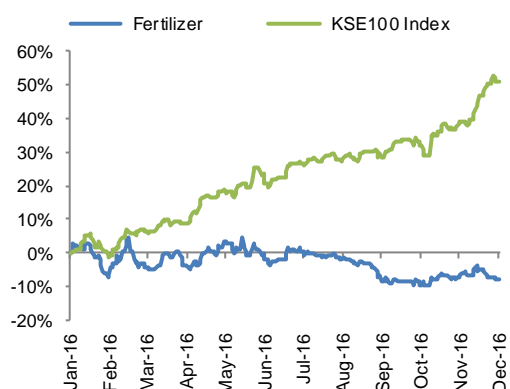
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

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Fertilizer Review

Urea Offtake clocks in at 5.5mn tons, down by 2%YoY in CY16

- For the month of Dec-16, urea offtake augmented by +7%YoY to 898k tons, whereas production increased by +4%YoY to 486k tons, whereas offtake dropped by 2%YoY to 5.5mn tons for CY16
- According to our channel checks, FFC & FFBL have increased prices by PKR 20/bag effective from 1st-Feb-17, after giving heavy discounts of 50-70/bag for the month of Dec-16 in order to reduce piled up inventory and to meet year-end sales target. As Government of Pakistan (GOP) has approved export of 0.3mn tons, we are of the view that export of urea will benefit manufacturers in reducing overall inventory level.
- Fertilizer Sector (IGI Universe) has underperformed by 26% in FY17TD as compared to +32% return by KSE-100. Our favorite pick in the sector remains EFERT with Dec-17 target price of PKR 86/share, offering +19% upside from last close.

Offtake decline by 2%YoY in CY16 -Even after Subsidy

Urea production increased by +13%YoY to 5.9mn tons in CY16 as a result of availability of better gas/LNG to manufactures whereas offtake dropped by 2%YoY to 5.5mn tons. To recall, offtake fell sharply in 1HCY16 due to weak farmer economy. For the month of Dec-16, urea offtake augmented by +7%YoY to 898k tons, whereas production increased by +4%YoY to 486k tons. This increase in sales is primarily owing to price discounts given by urea manufactures.

Company-wise Urea Offtake

FFBL witnessed highest offtake growth by +46%YoY to 442k tons in CY16 compared to last year followed by FFC posting +1%YoY rise to 2,428k tons. However EFERT's offtake dropped by 12%YoY to 1,653k tons. Moreover during the month of Dec-16, offtake for FFBL and FFC slowed down by 57%MoM and 18%MoM, respectively, on account of heavy discount offered by EFERT and FATIMA.

Uptick in DAP Offtake in CY16

DAP offtake surged by +22%YoY to 2,194k tons in CY16, primarily on the back of subsidy announced by government in Oct-15 & Jun-16. This is also the highest reported offtake for the last decade. For the month of Dec-16, DAP sales went up by +17%YoY mainly led by EFERT posted healthy growth of +2.86xYoY, followed by FFBL (+6%YoY).

Outlook

According to our channel checks, FFC & FFBL have increased prices by PKR 20/bag effective from 1st-Feb-17, after giving heavy discounts of 50-70/bag for the month of Dec-16 in order to reduce piled up inventory and to meet year-end sales target. As Government of Pakistan (GOP) has approved export of 0.3mn tons, we are of the view that export of urea will benefit manufacturers in reducing overall inventory level.

Exhibit: Urea Prices (Local/International)

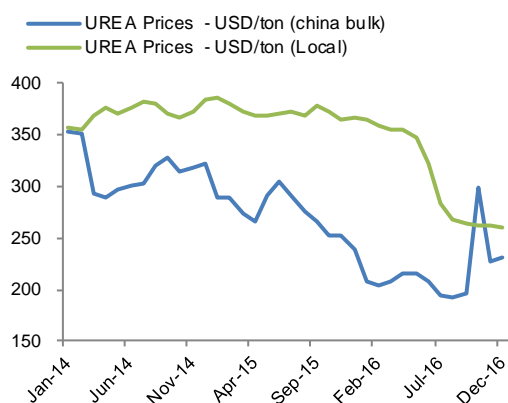
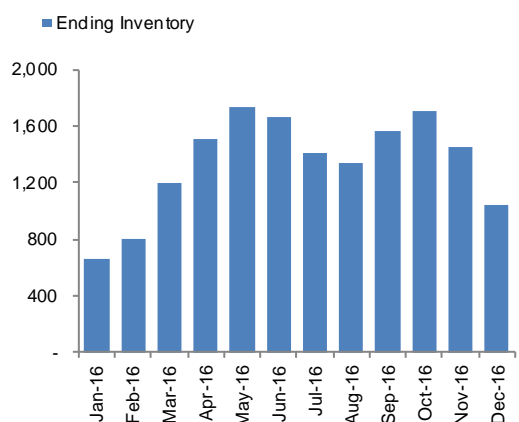


Exhibit: Urea Inventory - Monthly (kTons)



Source: NFDC & IGI Research

Exhibit:

Company wise Offtake

kTons	Dec-16	Dec-15	YoY	MoM	12MCY16	12MCY15	YoY
FFC							
Urea	285	316	-10%	-18%	2,428	2,408	1%
FFBL							
Urea	31	57	-46%	-57%	442	303	46%
DAP	55	52	6%	-74%	791	748	6%
EFERT							
Urea	351	346	2%	63%	1,653	1,879	-12%
NP & NPK	13	12	6%	-24%	111	137	-19%
DAP	44	15	186%	-65%	528	391	35%
Fatima							
Urea	110	71	54%	210%	391	444	-12%
NP	41	23	77%	-28%	435	282	54%
CAN	80	30	169%	303%	379	351	8%
DAWH							
Urea	76	11	581%	101%	255	42	507%
AGL							
Urea	26	22	23%	-26%	255	74	242%
NFML							
Urea	6	16	-59%	12%	30	520	-94%

Source: NFDC & IGI Research

Recommendation

Fertilizer Sector (IGI Universe) has underperformed by 26% in FY17TD as compared to +32% return by KSE-100. Our favorite pick in the sector remains EFERT with Dec-17 target price of PKR 86/share, offering +19% upside from last close.

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Time Horizon: Dec - 2017

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DCF (Discounted Cash Flow)

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