

Day Break

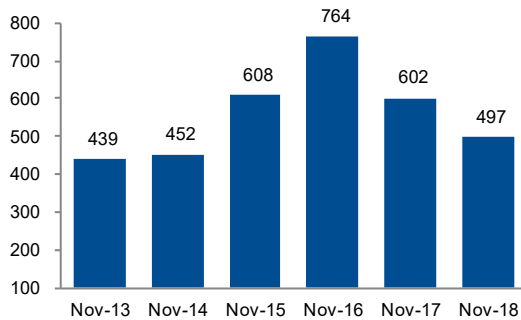
Monday, 24 December 2018

Sector Update

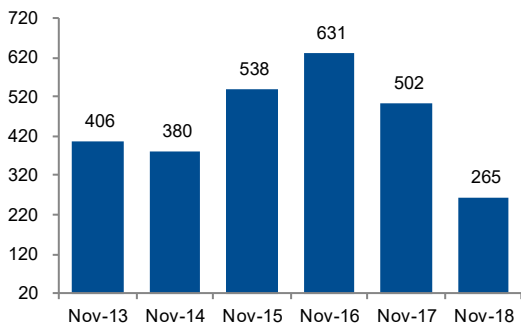
UREA/DAP Offtake (Ktons)

	Nov-18	YoY	Oct-18	MoM
Urea	497	-17%	465	7%
DAP	265	-47%	521	-49%

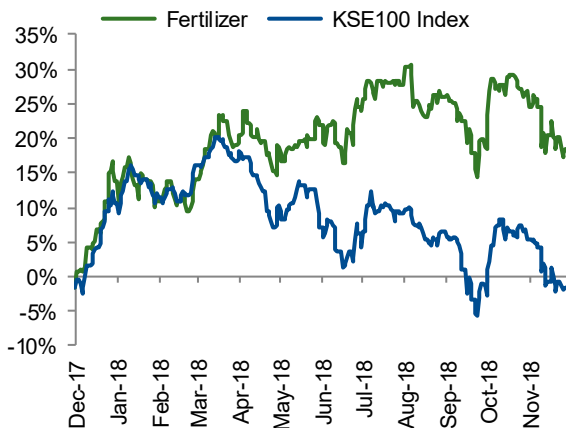
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Nov-18: Slowdown in Urea/DAP demand as offtake declines by 17%/47%YoY

- As per the latest available data by NFDC for the month of Nov-18, urea offtake inched up by +7%MoM to 497k tons. On yearly basis, however offtake was down by 17%YoY owing to pre-buying done by dealers in the previous months. As a result for the 11MCY18, offtake remains relatively flat at 5.1mntons with inventory closing down at 245k tons (down by 51%YoY).
- For DAP, offtake witnessed a significant decline of 47%YoY to 265k tons, taking total offtake for 11MCY18 to 1.95k tons (down by 13%YoY) owing to decrease in demand following price increases.
- With the demand for the next year expected to hover around 5.8mn tons (and inventory level down by 51%YoY), ensuing additional supply do not pose any significant risk in our view to pricing power as the additional supply will be for limited period and is short-lived. Hence, we expect price levels to maintain during next year.
- We have a "BUY" call on EFERT, based on our revised 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 6.40x and offers a dividend yield of 14%.

Urea offtake increased by +7%MoM to 497k tons

As per the latest available data by NFDC for the month of Nov-18, urea offtake inched up by +7%MoM to 497k tons. On a yearly basis, however offtake was down by 17%YoY owing to pre-buying done by dealers in the previous months. As a result, for the 11MCY18, offtake remains relatively flat at 5.1mntons with inventory closing down at 245k tons (down by 51%YoY).

On an individual basis, FFC led the offtake at 206k tons, down by 24%YoY as Fatimafert and Agritech became operationalized, grabbing the market share of existing players during the month. On a cumulative basis, for 11MCY18 market share increased to 44% as offtake increased by +7%YoY to 2.3mn tons. EFERT's offtake was down by 28%YoY to 139k tons during the month with market share for 11month period improved to 35% (total offtake 1.7mn tons during CY18).

...while DAP offtake declined by 49%MoM to 265k tons

For DAP, offtake witnessed a significant decline of 47%YoY to 265k tons, taking total offtake for 11MCY18 to 1.95k tons (down by 13%YoY) owing to decrease in demand following price increases. On an individual basis, decline was witnessed across all players with EFERT reporting a decline of 33%YoY to 82k tons, followed by FFC by 49%YoY to 32k tons. Similarly, FFBL's offtake substantially decreased by 55%YoY to 87k tons. On a cumulative basis for 11MCY18, EFERT attained highest offtake at 580k tons (+15%YoY), followed by FFBL at 559k tons (down by 26%YoY) while FFC DAP offtake dropped down by 7%YoY to 450k tons.

Outlook: Pricing levels for urea to maintain; additional supply does not pose any risk

To curb supply shortfall, the government imported 100k tons of urea, and has set the price to PKR 1,712/bag. Also, the government allowed to run two fertilizer plants (Fatimafert and Agritech) on RLNG for the period of 2 months, at a subsidized rate (in the form of subsidy to SNGPL). The additional urea supply in the system could reach ~150k tons given these plants to run in full capacity for the two months surpassing existing industry capacity of 6mn tons. With the demand for the next year expected to hover around 5.8mn tons (and inventory level down by 51%YoY), ensuing additional supply does not pose any significant risk in our view to pricing power as the additional

supply will be for limited period and is short-lived. Hence, we expect price levels to maintain during next year.

Recommendation

We have a **“BUY”** call on EFERT, based on our revised 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 6.40x and offers a dividend yield of 14%.

Exhibit:

Company wise off-take

000'Tons	Nov-18	Oct-18	MoM	Nov-17	YoY	11MCY18	11MCY17	YoY
FFC								
Urea	206	206	0%	272	-24%	2,267	2,110	7%
Dap	32	119	-73%	63	-49%	450	483	-7%
EFERT								
Urea	139	143	-3%	195	-28%	1,774	1,616	10%
Dap	82	178	-54%	122	-33%	580	505	15%
Np & Npk	9	17	-45%	7	38%	109	116	-6%
FFBL								
Urea	42	42	0%	83	-49%	493	475	4%
Dap	87	103	-16%	194	-55%	569	765	-26%
FATIMA								
Np	23	42	-45%	48	-51%	369	377	-2%
Can	21	31	-31%	38	-43%	468	460	2%
FATIMA (dhcl)								
Urea	42	14	3.0x	8	5.1x	75	207	-64%

Source: NFDC, IGI Research

Exhibit:

Product

000'Tons	Nov-18	Oct-18	MoM	Nov-17	YoY	11MCY18	11MCY17	YoY
UREA								
Production	528	559	-6%	418	26%	5,110	5,168	-1%
Offtake	497	465	7%	602	-17%	5,120	5,145	0%
Est. Inventory	245	218	13%	505	-51%	-	-	n.m
DAP								
Production	66	56	19%	72	-8%	619	754	-18%
Offtake	265	521	-49%	502	-47%	1,946	2,229	-13%
Import	221	239	-8%	289	-24%	1,764	1,526	16%
Est. Inventory	528	505	5%	248	2.2x	-	-	n.m

Source: NFDC, IGI Research

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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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