

Day Break

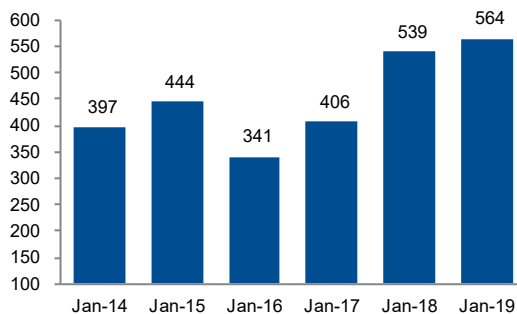
Tuesday, 26 February 2019

Sector Update

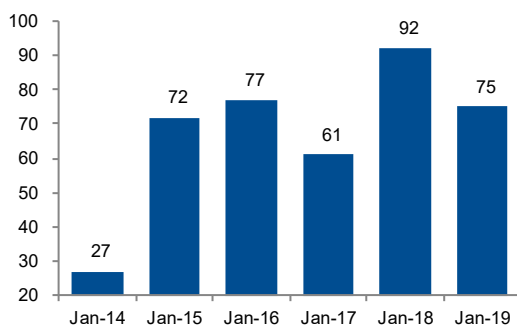
UREA/DAP Offtake (Ktons)

	Jan-19	YoY	Dec-18	MoM
Urea	564	5%	711	-21%
DAP	75	-18%	189	-60%

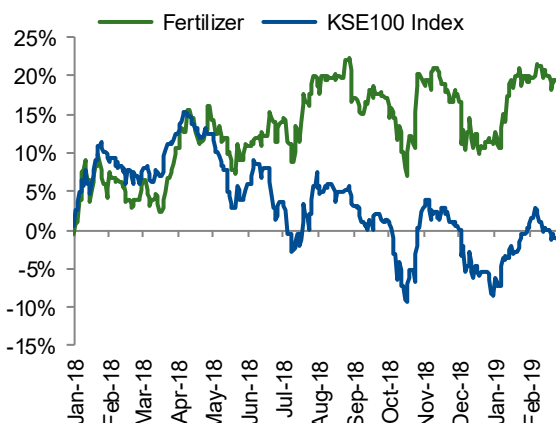
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Jan-19: Sluggish demand post Rabi season; urea offtake up by +5%YoY to 564k tons

- As per the latest available data by NFDC for the month of Jan-19, urea offtake rose by +5%YoY to 564k tons. On a sequential basis, however offtake was down by 21%MoM owing to end of Rabi season. However, industry production remained flat at 460k tons as Fatima (DHCL) and Agritech resumed their production.
- For DAP, offtake witnessed a significant decline of 18%YoY to 75k tons owing to price increase following PKR depreciation. On an individual basis, EFERT witnessed highest DAP offtake during the month, at 34k tons (up by +2.1xYoY) while FFBL reported a decline of 64%YoY to 11k tons. Similarly FFC followed the trail with an offtake of 5k tons.
- We expect demand for urea and DAP to remain muted following end of Rabi season. While inventory levels have bogged down to 71k tons, but with added production in the system this may lead to build up in inventory
- We have a "HOLD" call on EFERT, based on our Dec-19 target price of PKR 80.2/share, offering +8% upside from its last closing. The company is currently trading at CY19E P/E of 6.69x and offers a dividend yield of 13.4%.

Urea offtake increased by +5%YoY to 564k tons

As per the latest available data by NFDC for the month of Jan-19, urea offtake rose by +5%YoY to 564k tons. On a sequential basis, offtake was down by 21%MoM owing to end of Rabi season. However, industry production remained flat at 460k tons as Fatima (DHCL) and Agritech resumed their production.

On an individual basis, FFC led the industry offtake at 196k tons, although down by 12%YoY. EFERT came second with an offtake of 161k tons, falling by 39%YoY. FFBL's urea offtake witnessed a substantial decline of 80%YoY to 3k tons, while Fatima (DHCL) reported an offtake of 28k tons.

With respect to market share, FFC's share decreased by 600bps to 35% as Agritech and Fatima (DHCL) grabbed their own share. Similarly, EFERT/FFBL share also declined to 29%/1% compared to 49%/9% in the same month last year.

...while DAP offtake declined by 18%YoY to 75k tons

For DAP, offtake witnessed a significant decline of 18%YoY to 75k tons owing to price increase following PKR depreciation. On an individual basis, EFERT witnessed highest DAP offtake during the month of Jan-19 at 34k tons (up by +2.1xYoY) while FFBL reported a decline of 64%YoY to 11k tons. Similarly FFC followed the trail with a drop of 80%YoY (5k tons) in its offtake.

With respect to market share, EFERT grabbed a share of 46% (compared to 18% in the same month last year) with FFBL's share weakened to 15% from 34%. Similarly FFC witnessed decline in its share to 7% as against 28% last year.

Outlook

We expect demand for urea and DAP to remain muted following end of Rabi season. While inventory levels have bogged down to 71k tons, but with added production entered (resumption of two plants) in the system this may lead to build up of inventory in the coming months (recently ECC directed operation of two plants till October). However we think this may normalize as Kharif season kicks in. More so, with the resumption of two plants it would be challenging for FFC and EFERT to maintain their share.

Recommendation

We have a “**HOLD**” call on EFERT, based on our Dec-19 target price of PKR 80.2/share, offering +8% upside from its last closing. The company is currently trading at CY19E P/E of 6.69x and offers a dividend yield of 13.4%.

Exhibit:

Company wise off-take

000'Tons	Jan-19	Dec-18	MoM	Jan-18	YoY	CY18	CY17	YoY
FFC								
Urea	196	260	-25%	223	-12%	2,526	2,473	2%
Dap	5	28	-82%	26	-80%	478	497	-4%
EFERT								
Urea	161	212	-24%	262	-39%	1,984	1,802	10%
Dap	34	22	53%	16	2.1x	603	536	12%
Np & Npk	5	10	-53%	3	67%	52	126	-59%
FFBL								
Urea	3	66	-96%	14	-80%	559	546	2%
Dap	11	77	-85%	31	-64%	647	831	-22%
FATIMA								
Np	49	15	3.2x	44	11%	384	413	-7%
Can	77	40	94%	74	5%	508	539	-6%
FATIMA (DHCL)								
Urea	28	50	-43%	-	n.m.	126	158	-20%
Total								
Urea	564	711	-21%	539	5%	5,831	5,862	-1%
Dap	75	189	-60%	92	-18%	2,137	2,551	-16%
Np & Npk	54	25	2.2x	51	6%	444	604	-27%

Source: NFDC, IGI Research

Exhibit:

Product

000'Tons	Jan-19	Dec-18	MoM	Jan-18	YoY	CY18	CY17	YoY
UREA								
Production	460	512	-10%	457	1%	5,622	5,653	-1%
Offtake	564	711	-21%	539	5%	5,831	5,862	-1%
Export	-	-	n.m.	-	n.m.	13	552	-98%
Est. Inventory	71	174	-59%	256	-72%	174	338	-49%
DAP								
Production	31	64	-52%	31	-1%	684	820	-17%
Offtake	75	189	-60%	92	-18%	2,137	2,551	-16%
Import	39	90	-56%	65	-40%	1,854	1,629	14%
Est. Inventory	488	493	-1%	176	2.77x	493	172	2.87x

Source: NFDC, IGI Research

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Time Horizon: Dec – 2019

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(Discounted Cash Flow)

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