

Day Break

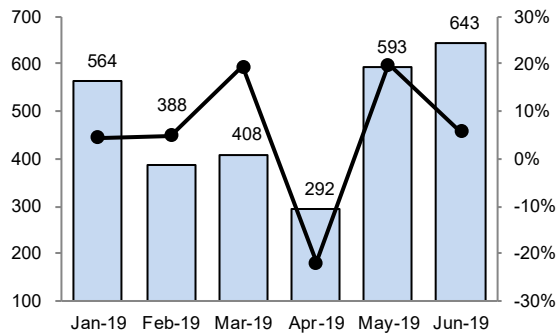
Friday, 26 July 2019

Sector Update

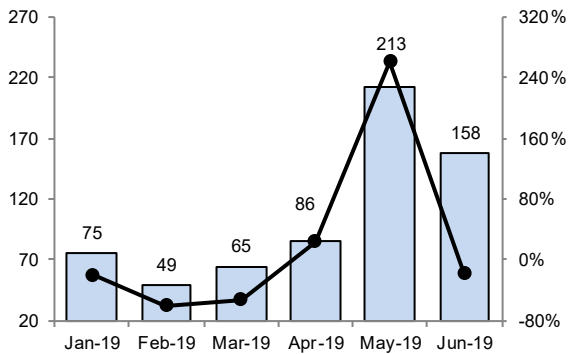
UREA/DAP Offtake (Ktons)

	6MCY19	YoY	5MCY19	YoY
Urea	2,888	6%	2,245	6%
DAP	646	-3%	488	2%

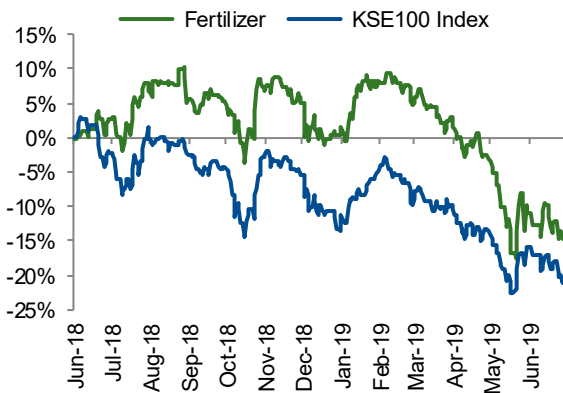
Urea Industry Offtake (Ktons) & YoY change



DAP Industry Offtake (Ktons) & YoY change



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Jun-19: Strong demand keeping urea offtake afloat; 6MCY19 sales up by +6%YoY to 2.9mntons

- As per the latest available data by NFDC for the month of Jun-19, urea offtake rose by +6%YoY to 643k tons while on a sequential basis, increased by +8%MoM.
- For DAP, offtake witnessed a decline of +67%YoY to 158k tons with total sales for 6MCY19 inching down by 3%YoY to 646k tons.
- We have a **"HOLD"** call on EFERT, based on our Dec-19 target price of PKR 71.6/share, offering +9% upside from its last closing. The company is currently trading at CY19E P/E of 5.46 x and offers a dividend yield of 16.8%.

Urea offtake increased by +6%YoY to 643k tons

As per the latest available data by NFDC for the month of Jun-19, urea offtake rose by +6%YoY to 643k tons while on a sequential basis increased by +8%MoM. We attribute the increase in offtake owing to pre-buying done by dealers in anticipation of price hike, resulting from proposed gas price increase and start of Kharif season. On a cumulative basis for 6MCY19, total industry offtake increased by +6%YoY to 2.89mn tons.

On an individual basis, FFC led the industry offtake at 263k tons, up by +22%YoY. However, EFERT's offtake declined by 28%YoY to 176k tons while witnessing a rebound of +24%MoM. Similarly, FFBL's urea offtake witnessed an increase of +5%MoM to 83k tons and increasing substantially by +47%YoY.

With respect to market share, FFC's share decreased to 41% during 6MCY19 with EFERT witnessing a hefty drop to 31% compared to 36% during the same period last year. Similarly, FFBL's share also declined to 7% compared to 9% during the 6months period. We attribute the decline in share of our coverage companies owing to resumption of production by Fatima (DHCL) and Agritech, contributing 11% to the total industry sales.

...while DAP sales retreated by 67%YoY

For DAP, offtake reduced by 67%YoY/26%MoM to 158k tons with cumulative sales for 6MCY19 inching down by 3%YoY to 646k tons. For our coverage companies, offtake was down on sequential basis with EFERT/FFC/FFBL, reporting a drop of 50%/34%/20% to 30k/23k/61k tons. However, for the same period last year, FFBL reported an incline of +59%YoY while EFERT and FFC's sales declined by 53%/66%YoY.

With respect to market share, EFERT grabbed a share of 28% (compared to 26% in the same period last year) with FFC's share weakened to 13% from 28%. FFBL's share, however, remained intact at 31% during 6MCY19.

Exhibit:

Industry data

000'Tons	Jun-19	May-19	MoM	Jun-18	YoY	6MCY19	6MCY18	YoY
UREA								
Production	558	527	6%	446	25%	2,904	2,591	12%
Offtake	643	593	8%	608	6%	2,888	2,728	6%
Est. Inventory	178	266	-33%	237	-25%	-	-	n.m
DAP								
Production	71	76	-6%	72	0	387	331	17%
Offtake	158	213	-26%	190	-67%	646	667	-3%
Import	83	21	3.95x	142	-42%	267	575	-54%
Est. Inventory	504	503	0%	406	24%	-	-	n.m

Source: NFDC, IGI Research

Exhibit:

Company wise off-take

000'Tons	Jun-19	May-19	MoM	Jun-18	YoY	6MCY19	6MCY18	YoY
FFC								
Urea	263	271	-3%	215	22%	1,183	1,226	-4%
Dap	23	34	-34%	66	-66%	83	186	-55%
EFERT								
Urea	176	141	24%	245	-28%	897	994	-10%
Dap	30	60	-50%	64	-53%	181	174	4%
Np & Npk	7	10	-30%	4	74%	29	27	5%
FFBL								
Urea	83	79	5%	56	47%	214	255	-16%
Dap	61	77	-20%	39	59%	202	208	-3%
FATIMA								
Np	18	58	-68%	21	-14%	214	208	3%
Can	22	45	-52%	24	-9%	255	280	-9%
Urea	25	36	-31%	91	-73%	204	244	-16%

Source: NFDC, IGI Research

Exhibit:

Company wise urea inventory levels

000'Tons	Jun-19	May-19	MoM	Jun-18	YoY
FFC	29.7	77.4	-62%	20.3	1.47x
EFERT	14.8	3.0	5.0x	90.1	-84%
FFBL	1.4	18.5	-92.4%	0.5	2.71x
FATIMA	44.5	39.9	12%	118.0	-62%
FATIMA (DHCL)	48.9	49.1	0%	3.4	14.28x
AGRITECH-PAFL	38.9	18.6	2.0x	0.5	74.36x

Source: NFDC, IGI Research

Recommendation

We have a **“HOLD”** call on EFERT, based on our Dec-19 target price of PKR 71.6/share, offering +9% upside from its last closing. The company is currently trading at CY19E P/E of 5.46x and offers a dividend yield of 16.9%.

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Time Horizon: Dec – 2019

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(Reserve Based DCF Valuation)

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