

Day Break

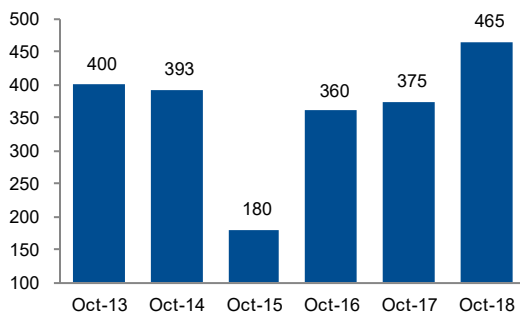
Monday, 26 November 2018

Sector Update

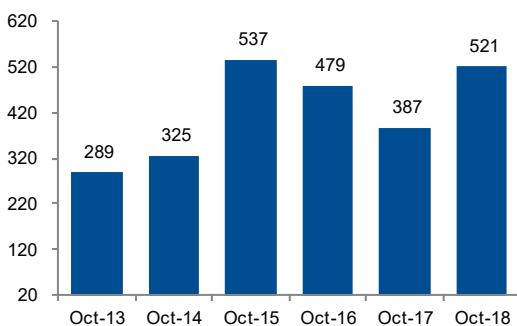
UREA/DAP Offtake (Ktons)

	Oct-18	YoY	Sep-18	MoM
Urea	465	24%	503	-8%
DAP	521	35%	112	4.7x

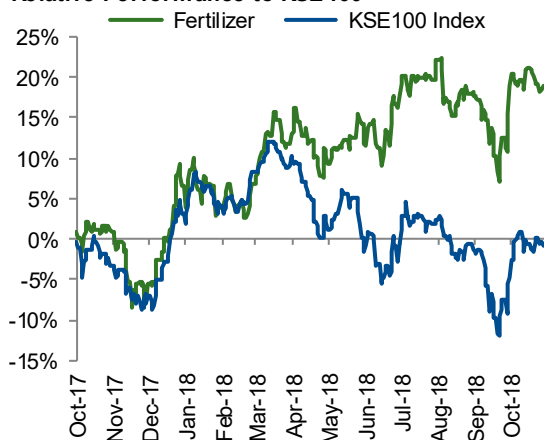
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Oct-18: Demand remains upbeat; Urea/DAP offtake up by +24%/35% YoY

- As per the latest available data by NFDC for the month of Oct-18, urea offtake rose by +24%YoY to 465k tons. On a sequential basis offtake was down by 8%YoY owing to pre-buying done by dealers in the previous months. On cumulative basis for 10MCY18, industry offtake inched up by +2%YoY as Agritech and Fatimafert poured in their share (plants become operationalize in Oct-18).
- For DAP, offtake witnessed a significant increase of +35%YoY to 521k tons as Rabi season kicked in. On a cumulative basis, for the 10MCY18 offtake inched down by 3%YoY to 1.7k tons owing to decrease in demand following price increases
- We expect demand for urea and DAP to sustain at these levels with the start of Rabi season. For DAP, increase prices, however will keep its growth rather restricted. In case of urea, demand will remain upbeat for which necessary arrangements have been made to overcome any downfall in supply.
- We have a "BUY" call on EFERT, based on our Dec-19 target price of PKR 84.3/share, offering +11% upside from its last closing. The company is currently trading at CY19E P/E of 6.48x and offers a dividend yield of 14%.

Urea offtake increased by +24%YoY to 465k tons

As per the latest available data by NFDC for the month of Oct-18, urea offtake rose by +24%YoY to 465k tons. On a sequential basis, however offtake was down by 8%YoY owing to pre-buying done by dealers in the previous months. On cumulative basis for 10MCY18, industry offtake inched up by +2%YoY as Agritech and Fatimafert poured in their share (plants become operationalize in Oct-18).

On an individual basis, FFC led the offtake at 206k tons, reflecting a growth of +10%YoY while maintaining its market share of 45% as total offtake for 10MCY18 approached to 2.06k tons (+12%YoY). For EFERT, offtake decreased by 10%YoY to 143k tons taking cumulative sales for 10MCY18 to 1.64k tons (+15%YoY) thereby grabbing a market share of 35% v/s 31% in the same period last year. %.

...while DAP offtake surged by +35%YoY to 521k tons

For DAP, offtake witnessed a significant increase of +35%YoY to 521k tons as Rabi season kicked in. On a cumulative basis, 10MCY18 offtakes inched down by 3%YoY to 1.68k tons owing to decrease in demand following price increases. On an individual basis, EFERT witnessed highest DAP offtake during the month, at 178k tons (up by +2.3xYoY) while FFBL reported a decline of 29%YoY to 103k tons. For FFC, offtake rose by +44%YoY to 119k tons. On a cumulative basis for 10MCY18, EFERT attained highest offtake at 499k tons (+30%YoY), followed by FFBL at 482k tons (down by 16%YoY) while FFC DAP offtake remained flat at 418k tons.

With respect to market share, EFERT grabbed a share of 30% (compared to 22% in the same period last year) with FFBL's share declined to 29% from 33%. FFC had its market share maintained at 24%.

Outlook

We expect demand for urea and DAP to sustain at these levels with the start of Rabi season. Demand for urea will remain upbeat for which necessary arrangements have been made to overcome any downfall in supply (inventory levels have decreased by +70%YoY). As such, import of urea remains in process while two idle plants (Fatimafert and Agritech) will remain operationalize for four months. For DAP, increased prices, however will keep its growth rather restricted.

Recommendation

We have a “BUY” call on EFERT, based on our Dec-19 target price of PKR 84.3/share, offering +11% upside from its last closing. The company is currently trading at CY19E P/E of 6.48x and offers a dividend yield of 14%.

Exhibit:

Company wise off-take

000'Tons	Oct-18	Sep-18	MoM	Oct-17	YoY	10MCY18	10MCY17	YoY
FFC								
Urea	206	224	-8%	187	10%	2,061	1,838	12%
Dap	119	30	3.0x	83	44%	418	420	0%
EFERT								
Urea	143	160	-10%	125	14%	1,635	1,421	15%
Dap	178	50	3.6x	77	2.3x	499	383	30%
Np & Npk	5	2	2.5x	13	-64%	41	109	-62%
FFBL								
Urea	42	69	-38%	48	-12%	451	392	15%
Dap	103	32	3.2x	146	-29%	482	571	-16%
FATIMA								
Np	42	14	3.0x	63	-33%	346	329	5%
Can	1	20	-96%	18	-95%	416	423	-2%
FATIMA (dhcl)								
Urea	14	6	2.3x	1	14.0x	33	199	-84%
Total								
Urea	465	503	-8%	375	24%	4,623	4,543	2%
Dap	521	112	4.7x	387	35%	1,681	1,727	-3%
Np & Npk	47	15	3.1x	94	-50%	395	492	-20%

Source: NFDC, IGI Research

Exhibit:

Product

000'Tons	Oct-18	Sep-18	MoM	Oct-17	YoY	10MCY18	10MCY17	YoY
UREA								
Production	559	486	15%	440	27%	4,582	5,168	-11%
Offtake	465	503	-8%	375	24%	4,623	5,145	-10%
Export	-	-	n.m.	108	n.m.	13	552	-98%
Est. Inventory	212	129	65%	689	-69%	212	505	-58%
DAP								
Production	56	31	80%	85	-34%	552	754	-27%
Offtake	521	112	4.7x	387	35%	1,681	2,229	-25%
Import	239	273	-12%	241	-1%	1,543	1,526	1%
Est. Inventory	505	618	-18%	288	75%	505	248	2.03x

Source: NFDC, IGI Research

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Time Horizon: Dec – 2019

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