

Day Break

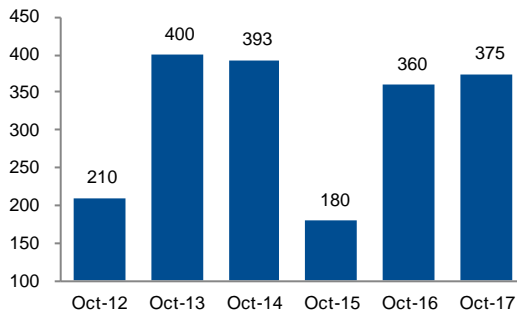
Tuesday, 28 November 2017

Sector Update

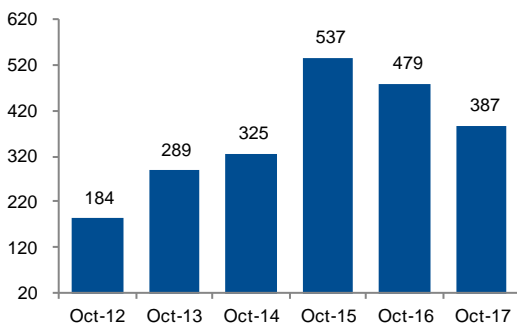
UREA/DAP Offtake (Ktons)

	Oct-17	YoY	10MCY17	YoY
Urea	375	4%	4,543	-5%
DAP	387	1%	1,727	23%

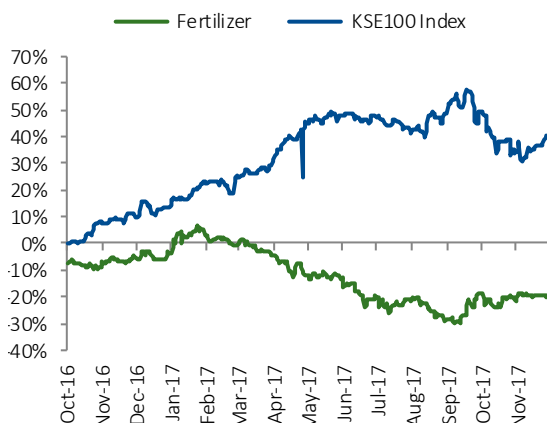
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

Oct-17: Urea and DAP sales kick in at 375ktons and 387ktons

- As per the latest available NFDC data for the month of Oct-17, urea offtake rebounded by 109%MoM to 375ktons (excluding exports of 108ktons) on the back of seasonal demand, improving slightly by +4% on yearly basis.
- For DAP, monthly sales remained flat, ticking by +2%MoM to 387k tons. The cumulative sales for the 10MCY17 stands at 1.7mtons (+23%YoY).
- We expect urea and DAP offtake to sustain at these levels with latter having more demand during the Rabi season in addition to government announcing subsidy of PKR150/bag for the farmers.
- We have a **"BUY"** call on EFERT, based on our Dec-17 target price of PKR 87/share, offering +31% upside from its last closing. The company is currently trading at CY17E P/E of 8.47x and offers a dividend yield of 10.6%.

Urea sales surging by 109%MoM to 375ktons

As per the latest available NFDC data for the month of Oct-17, urea offtake rebounded by +109%MoM to 375ktons (excluding exports of 108ktons) on the back of seasonal demand, improving slightly by +4% on yearly basis. Company wise, FFC topped at being the leading off taker, reporting sales of 187ktons (+4xMoM), followed by EFERT, attaining sales of 125ktons (+95%MoM). Overall sales for the 10MCY17 climbs by +19%YoY to 4.5mtons.

....while demand for DAP seems to normalize at 387ktons by 1%MoM

For DAP, monthly sales remained flat, ticking by +2%MoM to 387k tons. On individual basis, FFBL has a major share in the offtake, clocking in at 146ktons by +73%MoM, followed by FFC down by 50%MoM to 83ktons with EFERT chasing by +40%MoM to 77ktons. The cumulative sales for the 10MCY17 stands at 1.7mtons (+23%YoY).

Outlook

We expect urea and DAP offtakes to sustain at these levels with latter having more demand during the Rabi season in addition to government announcing subsidy of PKR150/bag for the farmers. For urea on export front, according to our channel checks nothing conclusive has been reached in the extension of the deadline (Dec-17) and hence we expect urea exports to shelve for a period. With regards to production, initiation of LNG supply will keep the production outflow smooth during the winter season, thereby keeping capacity utilization at optimal levels.

Recommendation

We have a **"BUY"** call on EFERT, based on our Dec-17 target price of PKR 87/share, offering +31% upside from its last closing. The company is currently trading at CY17E P/E of 8.47x and offers a dividend yield of 10.6%.

Exhibit:

Company wise off-take

000'Tons	Oct-17	Sep-17	MoM	Oct-16	YoY	10MCY17	10MCY16	YoY
FFC								
Urea	187	51	264%	197	-5%	1,838	1,793	2%
Dap	83	165	-50%	29	187%	420	74	6x
EFERT								
Urea	125	64	95%	63	98%	1,421	1,086	31%
Dap	77	55	40%	122	-37%	383	358	7%
Np & Npk	13	7	102%	12	11%	109	81	35%
FFBL								
Urea	48	25	92%	28	72%	392	339	16%
Dap	146	84	73%	218	-33%	571	526	9%
FATIMA								
Np	63	18	253%	29	121%	329	338	-3%
Can	18	16	12%	24	-26%	423	279	51%
FATIMA (dhcl)								
Urea	1.38	0.02	0%	20.26	-93%	199.12	141.49	41%
Total								
Urea	375	179	109%	360	4%	4,543	3,833	19%
Dap	77	55	40%	122	-37%	383	358	7%
Np & Npk	46	49	-6%	6	8x	366	62	6x

Source: NFDC, IGI Research

Exhibit:

Product

000'Tons	Oct-17	Sep-17	MoM	Oct-16	YoY	10MCY17	10MCY16	YoY
UREA								
Production	440	433	2%	497	-11%	4,750	4,994	-5%
Offtake	375	179	109%	360	4%	4,543	3,833	19%
Export	108	124	-13%	-	n/a	552	-	n/a
Est. Inventory	689	732	n.m	1,702	-60%	-	-	n/a
DAP								
Production	74	74	0%	72	2%	673	651	3%
Offtake	387	384	1%	479	-19%	1,727	1,408	23%
Import	241	147	n.m	201	n/a	1,237	488	154%
Est. Inventory	288	359	n.m	295	-2%	-	-	n/a

Source: NFDC, IGI Research

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

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

DCF (Discounted Cash Flow)

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