

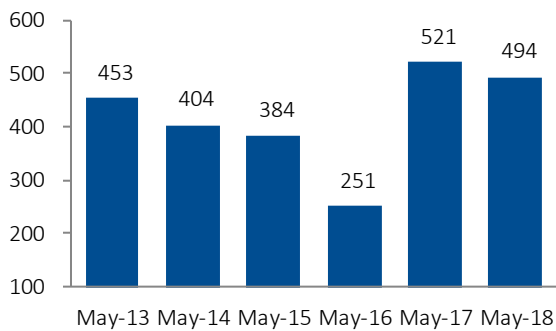
Day Break

Wednesday, 27 June 2018

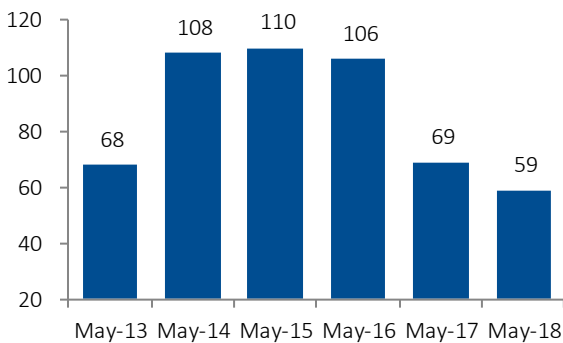
Sector Update

UREA/DAP Offtake (Ktons)				
	May-18	YoY	Apr-18	MoM
Urea	494	-5%	375	32%
DAP	59	-14%	69	-14%

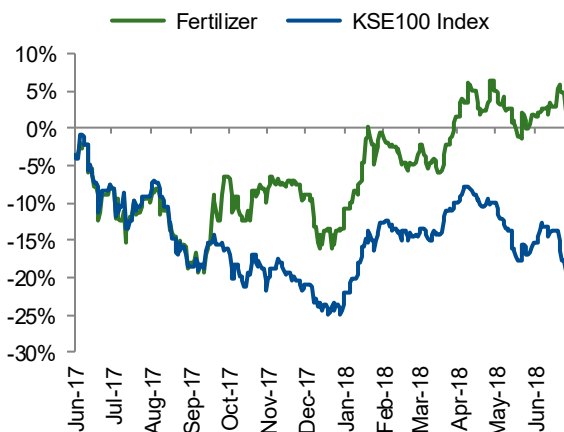
Urea Industry Offtake (Ktons)



DAP Industry Offtake (Ktons)



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

May-18: Slowdown in urea demand; offtake down by 5%YoY

- As per the latest available data by NFDC for the month of May-18, urea offtake posted growth of +32%MoM to 494k tons; however, on yearly basis witnessed decline of 5% owing to demand slowdown amid water crisis and increase in prices by manufacturers following removal of subsidy.
- For DAP, offtake witnessed a decline of 14%MoM/14%YoY to 59k tons with total offtake for 5MCY18 relatively flat at 477k tons.
- We expect demand during the month (Jun-18) to witness sluggish growth amid ongoing water crisis. In addition, with inventory reaching at low levels relative to last year and in the preceding month, possibility of price hike cannot be ruled out.
- We have a **"BUY"** call on EFERT, based on our Dec-18 target price of PKR 84.3/share, offering +14% upside from its last closing. The company is currently trading at CY18E P/E of 8.9x and offers a dividend yield of 9.4%.

Urea offtake declined by 5%YoY to 494k tons

As per the latest available data by NFDC for the month of May-18, urea offtake posted growth of +32%MoM to 494k tons; however, witnessed decline of 5%YoY owing to demand slowdown amid water shortage and increase in prices by manufacturers following removal of subsidy. On cumulative basis for 5MCY18, total offtake has now approached 2.1mn tons v/s 1.6mn tons in the corresponding period last year, witnessing a growth of +29%YoY.

On individual basis, FFC led the offtake at 257k tons, reflecting growth of +15%YoY/+42%MoM with market share attained at 48% (43% last year) as cumulative sales approached ~1.0mn tons (+45%YoY) for the 5MCY18. For EFERT, offtake was up by +19%MoM to 137k tons taking cumulative sales for 5MCY18 to 749k tons (+50%YoY) thereby grabbing a market share of 35% v/s 30% in the same period last year. Moreover, FFBL continued its offtake momentum, up by +14%YoY to 60k tons as utilization levels crossed 100%.

DAP offtake in a declining trend, down by 14%YoY to 59k tons

For DAP, offtake witnessed a decline of 14%MoM/14%YoY to 59k tons with total offtake for 5MCY18 relatively flat at 477k tons. On individual basis, EFERT witnessed highest DAP offtake during the month, reported at 24k tons (down by 26%MoM) while FFBL reported a decline of 63%MoM to 8k tons. On cumulative basis for 5MCY18, FFBL lead the offtake at 169k tons (down by 33%YoY), followed by FFC/ EFERT, recording offtake at 120k/110k tons, up by +58%/62%YoY.

With respect to market share, FFBL maintained its strong foothold at 36%, although declining from 53% on yearly basis. However, FFC and EFERT grabbed market share, each by 25% and 23% respectively.

Outlook

We expect demand during the month (Jun-18) to witness sluggish growth amid ongoing water crisis. In addition, with inventory (0.36mn tons) at low levels relative to last year (1.7mn tons) and in the preceding month (0.43mn tons), possibility of price hike cannot be ruled out. Moreover, we expect dealers resorting to pre-buying in anticipation of price increase, given hike in gas price (provisional price determined by OGRA under estimated revenue requirement for SSGC/SNGPL companies) and subsequent price-pass over by the manufacturers.

Recommendation

We have a “BUY” call on EFERT, based on our Dec-18 target price of PKR 84.3/share, offering +14% upside from its last closing. The company is currently trading at CY18E P/E of 8.9x and offers a dividend yield of 9.4%.

Exhibit:

Company wise off-take

000'Tons	May-18	Apr-18	MoM	May-17	YoY	5MCY18	5MCY17	YoY
FFC								
Urea	257	181	42%	223	15%	1,118	699	60%
Dap	12	3	320%	32	-63%	122	76	61%
EFERT								
Urea	137	115	19%	139	-2%	799	500	60%
Dap	24	32	-26%	9	166%	117	68	72%
Np & Npk	7	6	22%	11	-39%	27	54	-51%
FFBL								
Urea	60	51	18%	53	0%	209	111	88%
Dap	8	20	-63%	17	-56%	228	251	-9%
FATIMA								
Np	32	54	-40%	24	34%	191	151	26%
Can	49	48	1%	51	-5%	285	198	44%
FATIMA (dhcl)								
Urea	12	-	n.m	51	n.m	-	115.40	-100%
Total								
Urea	494	375	32%	521	-5%	2,120	1,641	29%
Dap	59	69	-14%	69	-15%	477	478	0%
Np & Npk	40	60	-33%	36	12%	218	206	6%

Source: NFDC, IGI Research

Exhibit:

Product

000'Tons	May-18	Apr-18	MoM	May-17	YoY	5MCY18	5MCY17	YoY
UREA								
Production	389	433	-10%	548	-29%	2,127	2,364	-10%
Offtake	494	375	32%	521	-5%	2,120	1,641	29%
Export	-	-	n.m.	-	n.m.	13	54	n.m.
Est. Inventory	329	436	n.m.	1,701	-81%	1,671	-	n.m.
DAP								
Production	62	31	101%	74	-16%	260	310	-16%
Offtake	59	69	-14%	69	-15%	477	478	0%
Import	183	45	308%	194	-5%	433	333	30%
Est. Inventory	386	200	n.m.	255	51%	-	-	n.m.

Source: NFDC, IGI Research

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Time Horizon: Dec – 2018

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