

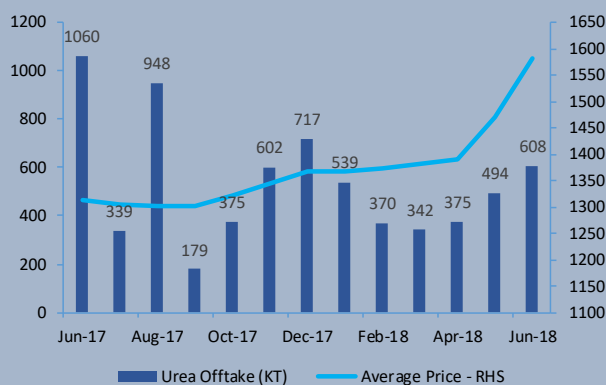
July 31, 2018

Industry Offtake

	June-18	May-18	MoM%	Jun-17	YoY%
UREA	608	494	23%	1060	-43%
DAP	190	59	222%	112	70%
CAN	43	58	-26%	130	-67%
NP	25	45	-44%	120	-79%
OTHER	11	14	-24%	14	-19%
TOTAL	670	877	18%	718	-39%

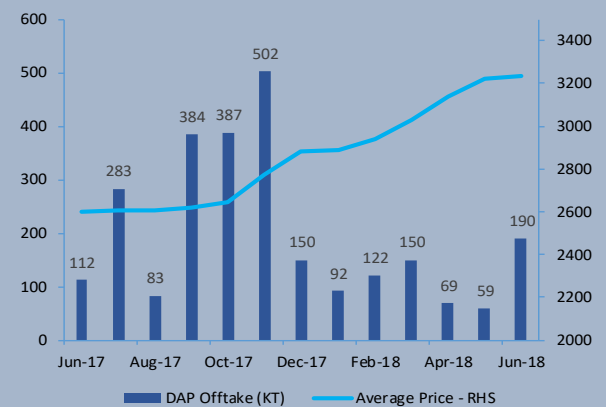
Source: NFDC & WE Research

Urea Offtake and Average Price



Source: NFDC & WE Research

DAP Offtake and Average Price



Source: NFDC & WE Research

- As per data compiled by NFDC for Jun'18, the industry's total fertilizer offtake declined by 39% YoY.
- Urea offtake recorded at 608KT declined by 43% YoY as opposed to 1,060KT in SPLY. Whereas it surged by 23% MoM (494KT in May'18) in Jun'2018.
- DAP offtake recorded tremendous growth of 70% YoY/222% MoM to arrive at 190KT in Jun'18 while CAN and NP depict a decline of 67% YoY & 79% YoY clocking at 43KT and 25KT respectively.
- EFERT a star performer with 40% of market share in urea segment in Jun'18 while FFC captured 41 % market share in DAP segment
- Inventory levels declined by 85% YoY in the period under review standing at 167 KT
- Urea and DAP prices follow upward trajectory to record at PKR 1,583/bag and PKR 3,238/bag respectively in the period under review.

Urea offtake depicts a drop of 43% YoY clocking at 608 KT during Jun'18 primarily due to base effect, wherein the offtake was recorded at 1,060KT SPLY on account of pre-buying by dealers to take advantage of lower prices prevailing at that time. MoM growth of 23% is attributed to kharif season demand. On cumulative basis, urea offtake registered meager growth of 1% YoY during 6MCY18 recording at 2,728KT as opposed to 2,701 KT SPLY. On the other hand, Industry DAP offtake witnessed tremendous growth of 70%YoY/222% MoM. This hefty surge is attributed to pre-buying by dealer on the anticipation of further prices hike during the month. Cumulatively, DAP registered a marginal growth of 16% YoY during 6MCY18 arriving at 682KT. Urea production declined 10% due to absence of production from LNG based players.

Company Wise Performance

Engro Fertilizers Ltd. (EFERT) outshined in the industry by grabbing 40% market share of urea in Jun'18 (recorded offtake 245KT), followed by FFC holding 35% (offtake 215KT), FATIMA at 15% (offtake 91KT) and FFBL at 9% with offtake of 56KT. While in DAP segment, FFC remained in limelight as it captured 35% market share by registering 66KT offtake followed by EFERT at 34% with 64KT offtake, FFBL at 20% with 39KT and FATIMA at 1% with 2KT offtake in period under review.

Lower Inventory and Higher Prices

As per NFDC, industry UREA inventory closes at 167KT, down 85% YoY in comparison to 1,085KT in Jun'18 primarily due to higher demand and lower production due to absence of production from LNG based players. Moreover, it depicts a decline of 49% MoM on the back of higher seasonal demand as Kharif season kicks in and manufacturer took an opportunity to raise the prices recorded between RS. 1480-Rs.1583 during the month.

Recommendation

We have a neutral stance on the back of better fundamentals as the sector outperforms the benchmark KSE -100 index by 8.82% CY18TD. We expect the sector will continue to perform better on account of lower inventory levels and higher seasonal demand.

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Offtake (KT)

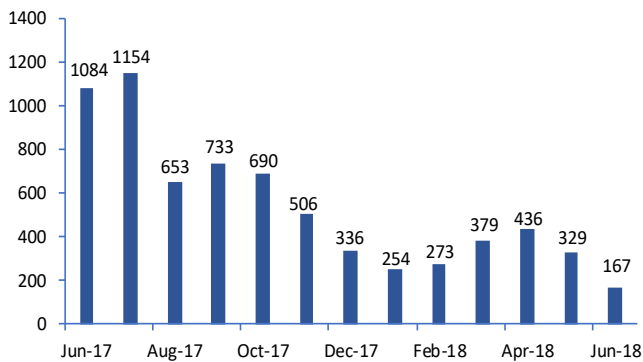
Urea	Jun-18	May-18	MoM%	Jun-17	YoY%	6MCY18	6MCY17	YoY
FFC	215	257.454	-16%	386	-44%	1227	1085	13%
FFBL	56	60	-6%	87	-35%	255	199	28%
FATIMA	91	39	133%	82	11%	244	229	6%
EFERT	245	137	79%	318	-23%	994	818	21%
Others	0	0	NM	186	-100%	8	369	-98%
TOTAL	608	494	23%	1,060	-43%	2728	2701	1%

DAP	Jun-18	May-18	MoM%	Jun-17	YoY%	6MCY18	6MCY17	YoY
FFC	66	12	464%	13	428%	186	88	112%
FFBL	39	8	413%	12	213%	208	264	-21%
FATIMA	2	2	17%	19	-90%	7	33	-79%
EFERT	64	24	169%	28	133%	174	97	80%
Others	19	14	34%	40	-52%	107	109	-2%
Total	190	59	222%	112	70%	682	590	16%

Source: NFDC & WE Research

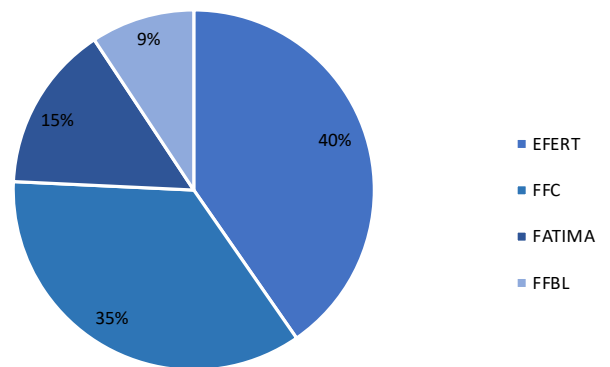
Urea Closing Inventory (KT)

Source: NFDC & WE Research



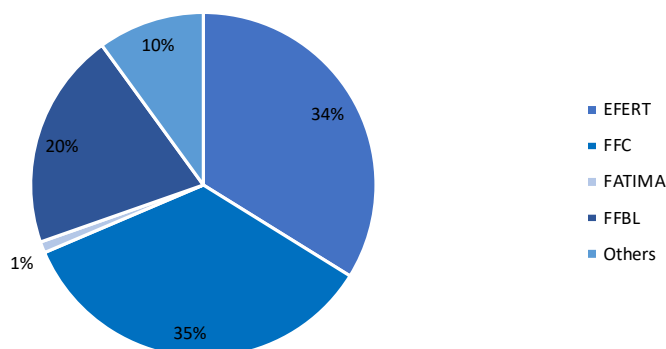
Market Share—Urea Segment

Source: NFDC & WE Research



Market Share—DAP Segment

Source: NFDC & WE Research



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Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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