

Oct 02, 2018

Industry Offtake

	Aug-18	Jul-18	MoM%	Aug-17	YoY%
UREA	431	497	-13%	948	-55%
DAP	79	302	-74%	83	-4%
CAN	58	99	-42%	56	3%
NP	33	56	-41%	52	-37%
OTHER	16	26	-39%	14	9%
TOTAL	617	980	-37%	1155	-47%

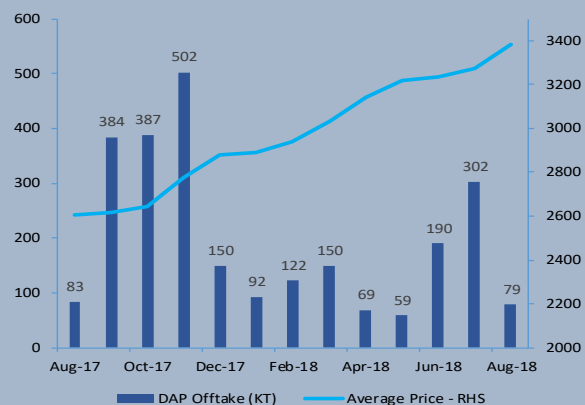
Source: NFDC & WE Research

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 Aug'18, the industry's total fertilizer offtake declined by 47% YoY.
- Urea offtake recorded at 431KT declined by 55% YoY as opposed to 948KT in SPLY. Whereas it decreased by 13% MoM (497KT in Jul'18) in Aug'2018.
- DAP offtake recorded a dip of 4%YoY/74% MoM to arrive at 79KT in Aug'18 while CAN and NP depict a decline of 42%MoM & 41%MoM clocking at 58KT and 33KT respectively.
- Production of Urea enhanced b6 2%MoM, while it depicts 9% declined on cumulative basis.
- FFC remains a star performer with 44% of market share in urea segment in Aug'18 while EFERT captured 52 % market share in DAP segment
- Inventory levels surged by 52%YoY and declined by 50%MoM in the period under review standing at 167 KT
- Urea and DAP prices follow upward trajectory to record at PKR 1,656/bag and PKR 3,382/bag respectively in the period under review.

Urea offtake depicts a drop of 55% YoY clocking at 431 KT during Aug'18 primarily due to base effect, wherein the offtake was recorded at 948KT SPLY on account of pre-buying by dealers to take advantage of lower prices prevailing at that time. On cumulative basis, urea offtake registered a decline of 8%YoY during 8MCY18 clocking at 3,656KT as opposed to 3,988 KT SPLY. On the other hand, Industry DAP offtake witnessed a major dip of 74% MoM. This hefty decline is attributed to lower demand of DAP amid of higher prices. Cumulatively, DAP registered a marginal growth of 11% YoY during 8 MCY18 arriving at 1,063KT.

Company Wise Performance

Faujiz Fertilizer Company Ltd (FFC) outshined in the industry by grabbing 44% market share of urea in Jun'18 (recorded offtake 191KT), followed by EFERT holding 38% (offtake 165KT), FATIMA at 10% (offtake 41KT) and FFBL at % with offtake of 33KT. While in DAP segment, EFERT remained in limelight as it captured 52% market share by registering 41KT offtake followed by FFBL at 22% with 17KT offtake, FFC at 7% with 5KT and FATIMA at 4% with 3KT offtake in period under review.

Inventory Level Likely to Improve

As per NFDC, industry UREA inventory closes at 131KT, down 80% YoY in comparison to 653 KT in SPLY primarily due to absence of production from LNG based players. Moreover, it depicts a surge of 52% MoM on the back of lower demand during Aug'18. We expect inventory levels to improve on the back of 1) recommencement of production from LNG based Players 2) approval from GoP to import the 100KT urea to bridge the gap.

Recommendation

Sector outperforms the benchmark KSE -100 index by 14% CY18TD. Caution arises in the wake of recent hike in gas prices. FFC & FFBL remain more exposed to downside risk relative to EFERT if unable to pass on added gas surcharges. Overall demand will likely be affected amid water shortages during Rabi season.

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Offtake (KT)

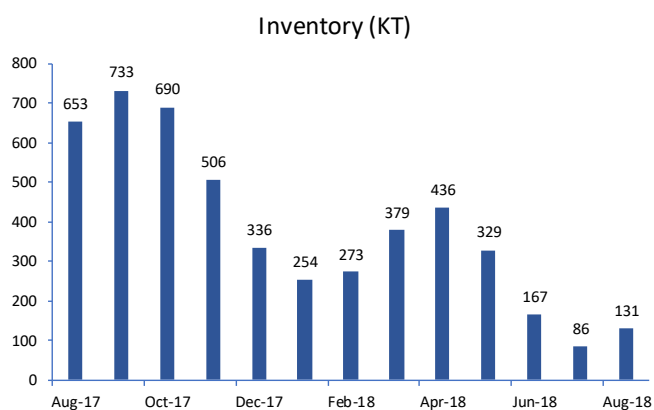
Urea	Aug-18	Jul-18	MoM%	Aug-17	YoY%	8MCY18	8MCY17	YoY
FFC	191	212.868	-10%	377	-49%	1631	1599	2%
FFBL	33	50	-34%	78	-57%	339	319	6%
FATIMA	41	60.85	-33%	50	-19%	346	299	16%
EFERT	165	172.008	-4%	338	-51%	1331	1231	8%
Others	-	1	NM	105	-100%	9	539	-98%
TOTAL	431	497	-13%	948	-55%	3656	3988	-8%

DAP	Aug-18	Jul-18	MoM%	Aug-17	YoY%	8MCY18	8MCY17	YoY
FFC	5	78	-93%	12	-55%	269	172	57%
FFBL	17	121	-86%	21	-18%	346	341	1%
FATIMA	3	3	11%	0	10120%	13	34	-60%
EFERT	41	55	-25%	22	85%	270	251	8%
Others	12	44	-72%	28	-55%	163	185	-12%
Total	79	302	-74%	83	-4%	1063	955	11%

Source: NFDC & WE Research

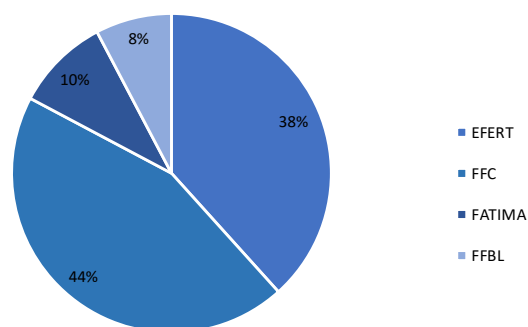
Urea Closing Inventory (KT)

Source: NFDC & WE Research



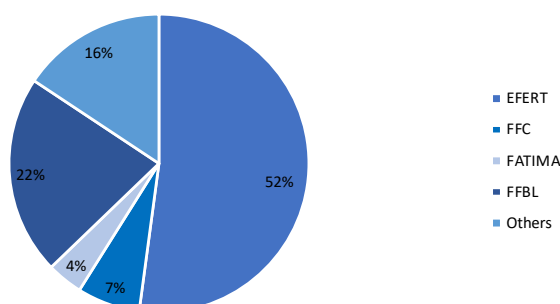
Market Share—Urea Segment

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);

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- Interest Rate Risk
- Exchange rate risk

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