

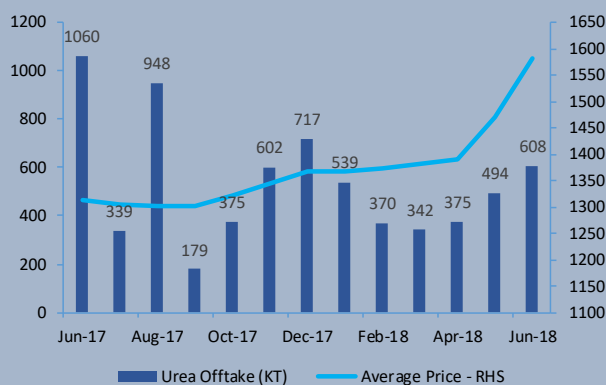
July 31, 2018

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% |

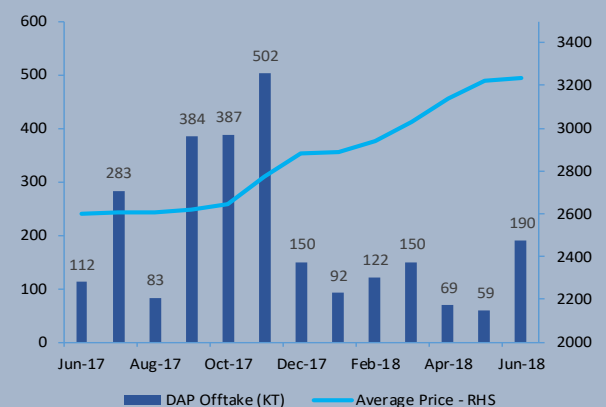
Source: NFDC & WE Research

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)

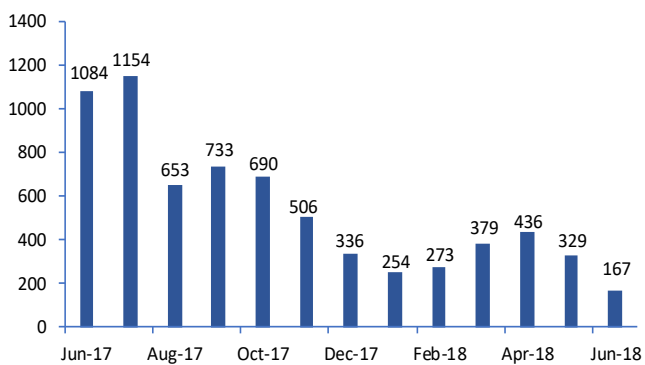
| Urea | Jun-18 | May-18 | MoM% | Jun-17 | YoY% | 6MCY18 | 6MCY17 | YoY |
|--------------|------------|------------|------------|--------------|-------------|-------------|-------------|-----------|
| FFC | 215 | 257.454 | -16% | 386 | -44% | 1227 | 1085 | 13% |
| FFBL | 56 | 60 | -6% | 87 | -35% | 255 | 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

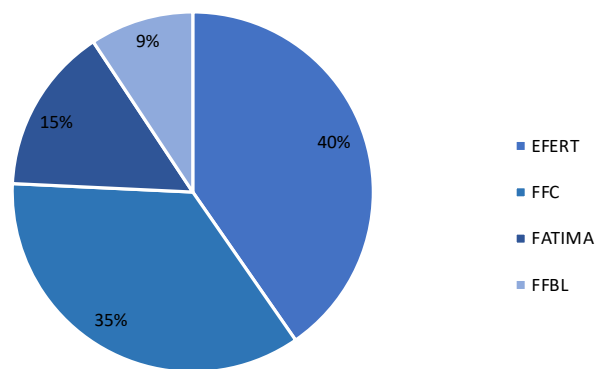
Urea Closing Inventory (KT)

Source: NFDC & WE Research



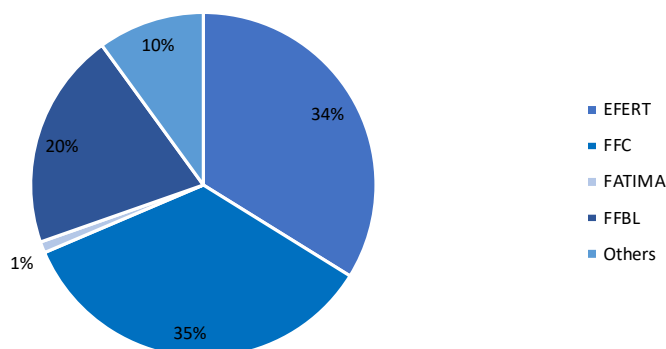
Market Share—Urea Segment

Source: NFDC & WE Research



Market Share—DAP Segment

Source: NFDC & WE Research



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WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as December 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

| 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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