



AKD Securities Limited

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Equity Research / Pakistan



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Today's Daily

■ Pakistan Textiles: Sector update Jul'17

Fertilizer offtake expectedly came down significantly in Jul'17 (down 32%YoY/48%MoM), post extraordinary sales of 1.43mn in the month of Jun'17 (up 106%YoY/100%MoM). According to latest figures released by NFDC, total fertilizer sales in Jul'17 stood at 746k tons against 1.10mn tons sold in Jul'16 (down 32%YoY/48%MoM). Similarly, urea sales also came down by 56%YoY/68%MoM to 339k tons during the month under review, after heavy urea procurement by dealers in Jun'17. Furthermore, imported urea sales declined by 5%YoY to 46k tons in Jul'17, despite availability at a significant discount to local urea. DAP sales on the other hand registered a growth of 42%YoY/153%MoM to 283k tons in Jul'17. On a cumulative basis, total fertilizer sales posted growth of 23%YoY to 4.88mn tons during 7MCY17 where urea offtake posted a decent recovery of 17%YoY to stand at 3.04mn tons. In the backdrop of industry's weak pricing power and relatively higher inventory levels (urea inventory standing at 1.15mn tons), we maintain our Marketweight stance on the sector until a sustainable improvement in the local and int'l pricing scenario emerges.

KSE100 - Index

Current 42,641.75
Previous 42,268.62
Chg. 0.88%

Mkt Cap. (PkRbn/US\$bn)

Current 8,873 / 84.19
Previous 8,812 / 83.61
Chg. 0.69%

Daily Turnover (mn)

Current 177.02
Previous 184.66
Chg. -4.1%

Value Traded (PkRmn/US\$m)

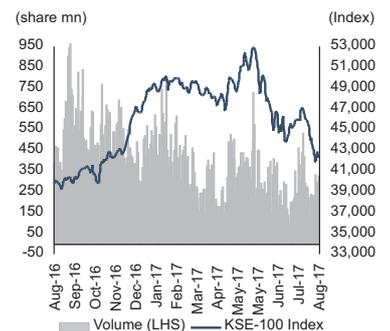
Current 9,379 / 88.99
Previous 10,053 / 95.39
Chg. -6.7%

AKD Daily

Monday, Aug 28, 2017

News and Views

- While reviewing initial report submitted by NAB, Justice Ijaz-ul-Ahsan - the Supreme Court's monitoring judge - has permitted the NAB to record the statements of JIT members in the accountability courts against the Sharif family and Finance Minister Ishaq Dar.
- As per latest data released by PBS, Pakistan's total population stands at 207.774mn in 2017 against 132mn in 1998 census, indicating a 57% surge in population in last 19 years. Province wise, Punjab topped the list with total population of 110.012mn, followed by Sindh, KPK, Bolachistan and FATA with population standing at 47.886mn, 30.523mn, 12.344mn and 5.001mn, respectively.
- While inaugurating country's first LNG terminal, PM Shahid Khaqan Abbasi has stated that GoP brought LNG to the country in the record time of less than 14months. The terminal has been established by ENGRO Terminal Ltd with an estimated cost of US\$300mn with the total LNG handling capacity of 600mmscf. Additionally, Pakistan Gas Port's LNG Terminal project will be completed by Nov'17.



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Pakistan Fertilizers: Sector update Jul'17

Fertilizer offtake expectedly came down significantly in Jul'17 (down 32%YoY/48%MoM), post extraordinary sales of 1.43mn in the month of Jun'17 (up 106%YoY/100%MoM). According to latest figures released by NFDC, total fertilizer sales in Jul'17 stood at 746k tons against 1.10mn tons sold in Jul'16 (down 32%YoY/48%MoM). Similarly, urea sales also came down by 56%YoY/68%MoM to 339k tons during the month under review, after heavy urea procurement by dealers in Jun'17. Furthermore, imported urea sales declined by 5%YoY to 46k tons in Jul'17, despite availability at a significant discount to local urea. DAP sales on the other hand registered a growth of 42%YoY/153%MoM to 283k tons in Jul'17. On a cumulative basis, total fertilizer sales posted growth of 23%YoY to 4.88mn tons during 7MCY17 where urea offtake posted a decent recovery of 17%YoY to stand at 3.04mn tons. In the backdrop of industry's weak pricing power and relatively higher inventory levels (urea inventory standing at 1.15mn tons), we maintain our Marketweight stance on the sector until a sustainable improvement in the local and int'l pricing scenario emerges.

Company-wise breakup: Urea market share for FFC/EFERT/FATIMA/FFBL in Jul'17 and 7MCY17 was recorded at 40%/22%/7%/13% and 40%/29%/14%/8% vs. Jul'16 & 7MCY16 share of 36%/30%/14%/8% & 48%/31%/6%/9% respectively. In Jul'17, FFC sold 137k tons (down 64%MoM/56%YoY), EFERT sold 74k tons (down 77%MoM/73%YoY), FATIMA sold 25k tons (down 84%MoM/61%YoY) and FFBL sold 42k tons (down 51%MoM/50%YoY). On the other hand, DAP offtake remained exciting (up 153%MoM/42%YoY to 283k tons) with importers selling impressive 226k tons of DAP in Jul'17 (up 128%MoM/72%YoY) while FFBL DAP sales went down by 16%YoY to 56k tons for the month under review.

Market Share-Urea

	Jul-17	Jun-17	Jul-16	7MCY17	7MCY16
FFC	40%	36%	40%	40%	48%
FFBL	13%	8%	11%	8%	9%
EFERT	22%	30%	35%	29%	31%
FATIMA	7%	14%	8%	14%	6%
Imported urea	14%	5%	0%	6%	2%

Source: NFDC & AKD Research

Jul'17 Fertilizer offtake (tonnes)

	Jul-17	Jun-17	MoM	Jul-16	YoY	7MCY17	7MCY16	YoY
Urea offtake								
FFC	137,227	386,335	-64%	311,835	-56%	1,222,498	1,252,613	-2%
FFBL	42,444	87,154	-51%	85,368	-50%	240,547	240,461	0%
EFERT	74,134	318,364	-77%	272,066	-73%	892,955	800,241	12%
FATIMA	19,775	81,931	-76%	29,302	-33%	248,524	103,131	141%
FATIMA-DH	5,115	70,164	-93%	34,374	-85%	190,678	64,222	197%
Imported urea	46,338	48,728	-5%	-	n.a	147,681	14,389	10.3
Total urea	339,002	1,059,648	-68%	777,875	-56%	3,039,630	2,601,720	17%
DAP offtake								
FFBL	56,805	12,375	4.6	67,692	-16%	320,408	234,272	37%
Imported	226,311	99,379	128%	131,396	72%	552,288	452,910	22%
Total DAP	283,116	111,754	153%	199,088	42%	872,696	687,182	27%
Total CAN	54,236	130,473	-58%	31,801	71%	445,081	223,514	99%
Total NP	48,557	120,164	-60%	74,161	-35%	413,590	361,423	14%
Total Fertilizer	746,094	1,435,548	-48%	1,100,330	-32%	4,882,257	3,956,799	23%

Source: NFDC & AKD Research



Moreover, CAN sales continued their positive momentum rising by 71%YoY/99%YoY to 54k/445k tons in May'17/7MCY17. On a cumulative basis, urea offtake posted decent strength in 7MCY17, where FATIMA emerged as a clear winner with its urea sales rising by 2.6xYoY to 439k tons, while EFERT offtake posted a growth of 12%YoY to 893k tons.

Inventory levels cooled off: Weak demand on account of poor farm incomes alongwith increasing production from local players has led to high inventory build-up in the system, where urea inventory rose to 1.7mn tons in May'17. In this regard, ECC of the cabinet decided to increase the quota of urea exports by another 300k tons (100% increase) to 600k tons with an extended deadline of Oct'17. In this backdrop, in an effort to clear excess inventory, manufacturers has so far exported 215k tons of urea till Jul'17. With the export of urea and aggressive buying by dealers in the month of Jun'17, urea inventory has now cooled off a little, where inventory now stood at 1.15mn tons (down 18%YoY in Jul'17), being equivalent to 2.4x of average monthly urea production.

Outlook & Investment Perspective: Having lost 15%CYTD, the fertilizer sector remained under pressure on account of weak fertilizer dynamics, lower commodity prices and depressed farmer incomes. While some recovery can be expected in 2HCY17 on account of : 1) continuation of fertilizer subsidy in Budget FY18 alongwith a number of agri-related incentives offered, 2) upwards revision in export quota for urea and 3) upcoming Rabi season. We continue to maintain our Marketweight stance on the sector until a sustainable improvement in the local and int'l pricing scenario emerges, where FATIMA (DCF based TP of PkR45.1/sh) remains our top pick with its diversified product mix, continuous improvement in market share and concessionary gas pricing.

Inventory Level (tonnes)

	Jul-17	Jun-17	MoM	Jun-16	YoY
Urea	1,154,005	1,084,481	6%	1,413,816	-18%
DAP	385,386	295,584	30%	396,344	-3%
CAN	286,882	287,239	0%	392,259	-27%
NP	73,546	61,087	20%	83,510	-12%

Source: NFDC & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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