



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



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### Today's Daily

#### ■ Pak Fertilizer: Rabi season continues to impact positively

Following its previous month performance, fertilizer offtake remained promising in Nov'16 as well on the arrival of Rabi season coupled with continued support from subsidy package announced in budget FY17. After declining significantly during 5MCY16 (down 32%YoY), fertilizer offtake recovered well rising 28%YoY during Jun'16-Nov'16. According to latest figures released by NFDC for Nov'16, total fertilizer sales stood at 1.58mn tons against 1.32mn tons sold in Nov'15 (up 20%YoY/68%MoM). Similarly, urea sales have also increased by 23%YoY/1.1xMoM to ~764k tons in Nov'16. On a cumulative basis, total fertilizer sales posted a growth of 3%YoY to 7.83mn tons during 11MCY16, while urea offtake stood at 4.59mn tons (down 4%YoY). On arrival of Rabi season, DAP sales continue to show great strength in Nov'16, registering an increase of 17%YoY/32%MoM to ~631k tons, of which imported DAP offtake amounted to 421k tons (up 10%YoY/61%MoM). Near-term checkpoints for the fertilizer industry remain in the form of: 1) Rabi season to continue driving demand, 2) favorable ruling from SHC against GIDC imposition, 3) international pricing dynamics (urea prices rebounded to US\$235/ton in Dec'16), and 4) decision on export of excess urea inventory. We continue to maintain our Marketweight stance on the sector until a sustainable improvement in the demand scenario with FFC (TP: PKR120.4/sh, total return: 23.4%) being our top pick.

#### KSE100 - Index

Current 46,920.47  
Previous 46,689.73  
Chg. 0.49%

#### Mkt Cap. (PkRbn/US\$bn)

Current 9,411 / 89.75  
Previous 9,358 / 89.25  
Chg. 0.57%

#### Daily Turnover (mn)

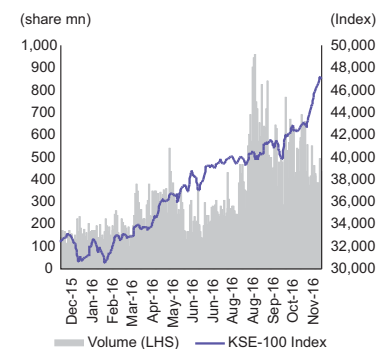
Current 198.61  
Previous 179.67  
Chg. 10.5%

#### Value Traded (PkRmn/US\$mn)

Current 11,036 / 105.25  
Previous 8,988 / 85.73  
Chg. 22.8%

### News and Views

- The SECP has accorded its approval to the PSX for issuing letter of acceptance to a Chinese Consortium led by the China Financial Futures Exchange, for the strategic sale of 40% of its shares against a consideration of US\$85.6mn.
- The banking sector's spread fell 31bps to 4.97%YoY in Nov'16 on soft lending and deposit rates and in-line with the central bank's monetary stance.
- Ministry of Commerce (MoC) has reportedly agreed to support export of 225k tons of sugar on the recommendation of Sugar Advisory Board (SAB) by Mar 31'17 without any export rebate.
- As per news report, The FBR is likely to collect capital gains tax of PkR18bn from shares' trading during the FY17 vs. PkR5bn in FY16. The NCCPL has deposited capital gains tax of around PkR8bn from sale and purchase of shares for the 5MFY17.



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## Pak Fertilizer: Rabi season continues to impact positively

Following its previous month performance, fertilizer offtake remained promising in Nov'16 as well on the arrival of Rabi season coupled with continued support from subsidy package announced in budget FY17. After declining significantly during 5MCY16 (down 32%YoY), fertilizer offtake recovered well rising 28%YoY during Jun'16-Nov'16. According to latest figures released by NFDC for Nov'16, total fertilizer sales stood at 1.58mn tons against 1.32mn tons sold in Nov'15 (up 20%YoY/68%MoM). Similarly, urea sales have also increased by 23%YoY/1.1xMoM to ~764k tons in Nov'16. On a cumulative basis, total fertilizer sales posted a growth of 3%YoY to 7.83mn tons during 11MCY16, while urea offtake stood at 4.59mn tons (down 4%YoY). On arrival of Rabi season, DAP sales continue to show great strength in Nov'16, registering an increase of 17%YoY/32%MoM to ~631k tons, of which imported DAP offtake amounted to 421k tons (up 10%YoY/61%MoM). Near-term checkpoints for the fertilizer industry remain in the form of: 1) Rabi season to continue driving demand, 2) favorable ruling from SHC against GIDC imposition, 3) international pricing dynamics (urea prices rebounded to US\$235/ton in Dec'16), and 4) decision on export of excess urea inventory. We continue to maintain our Marketweight stance on the sector until a sustainable improvement in the demand scenario with FFC (TP: PkR120.4/sh, total return: 23.4%) being our top pick.

**Company-wise breakup:** Urea market share for FFC/EFERT/FFBL/FATIMA in Nov'16 and 11MCY16 was recorded at 46%/28%10%/5% and 47%/28%9%/6% respectively. For the month under review, urea sales remained promising post heavy subsidy of PkR390/bag announced in budget FY17 along with the arrival of Rabi season, where FFC sold ~350k tons (up 17%YoY/78%MoM), EFERT sold 215k tons (up 7%YoY/2.4x MoM), and FFBL sold 73k tons (up 43%YoY/1.6xMoM).

### Market Share: Urea

	Nov-16	Oct-16	11MCY16	11MCY15
FFC	46%	55%	47%	44%
FFBL	10%	8%	9%	5%
EFERT	28%	18%	28%	32%
FATIMA	5%	6%	6%	6%
Import urea	1%	1%	1%	11%

Source: NFDC & AKD Research

### Nov'16 Fertilizer offtake (tonnes)

	Nov-16	Oct-16	MoM	Nov-15	YoY	11MCY16	11MCY15	YoY
<b>Urea offtake</b>								
FFC	349,891	196,569	78%	298,443	17%	2,142,995	2,091,476	2%
FFBL	72,646	28,136	158%	50,836	43%	411,617	233,050	77%
EFERT	215,384	63,279	240%	200,692	7%	1,301,798	1,533,012	-15%
FATIMA	35,582	21,477	66%	13,634	161%	280,769	301,883	-7%
FATIMA-DH	37,737	20,258	86%	24,691	53%	179,229	60,575	196%
Imported urea	5,770	2,566	0%	14,633	-61%	23,618	504,527	-95%
Total urea	764,119	360,173	112%	623,023	23%	4,597,569	4,777,943	-4%
<b>DAP offtake</b>								
FFBL	210,262	217,553	-3%	156,148	35%	735,772	696,278	6%
Imported	421,173	261,523	61%	381,303	10%	1,303,298	1,037,632	26%
Total DAP	631,435	479,076	32%	537,451	17%	2,039,070	1,733,910	18%
Total CAN	36,635	28,234	30%	29,306	25%	429,414	397,203	8%
Total NP	112,910	48,115	135%	92,970	21%	589,464	508,066	16%
Total	1,584,569	942,160	68%	1,324,167	20%	7,834,740	7,596,083	3%

Source: NFDC & AKD Research



On a cumulative basis, urea offtake for FFC, EFERT, FFBL and FATIMA during 11MCY16 clocked in at 2.14mn tons (up 2%YoY), 1.30mn tons (down 15%YoY), 412k tons (up 77%YoY) and 281k tons (down 7%YoY) respectively. Imported urea sales went down massively by 95%YoY to just 24k tons in 11MCY16 on account of improved production (Urea: +14%YoY) by the local manufacturers and low local demand. DAP offtake continue to show great strength during Rabi season, where FFBL sold 210k tons of DAP (up 35%YoY) while imported DAP sales rose significantly by 10%YoY to 421k tons. Moreover, NP sales continued their positive momentum rising by 21%YoY/1.3xMoM to 113k tons and 16%YoY to 589k in Nov'16 and 11MCY16 respectively. After a slow start to CY16, CAN offtake recovered well with sales rising by 30%MoM/25%YoY to 37k tons and 8%YoY in Nov'16 and 11MCY16 respectively.

**Inventory levels continue to ease:** Significantly weak demand on account of poor farm incomes alongwith record level production from local players has led to high inventory build-up in the system. However, after the announcement of the subsidy package in budget FY17 and strong Rabi season, urea inventory levels have started to ease after touching their highest level in May'16 (1.73mn tons). In this regard, Nov'16 urea inventory currently stands at 1.45mn tons (down 15%MoM/ up 56%YoY). That said, end of Nov'16 urea inventory levels were still equivalent to 2.9x of one month's average production for urea. In this backdrop, fertilizer producers (especially small players) are still offering some dealer discount to clear out huge stockpile of inventory.

**Outlook & Investment Perspective:** Having lost 8.6%CYTD, the fertilizer sector continues to remain under pressure on account of weak fertilizer dynamics, little respite in sight for global commodity prices, lower local product prices and depressed farmer incomes. However, recent price reduction of fertilizer products (Urea: PkR390/bag, DAP: PkR300/bag) in budget FY17 via reduction of GST (from 17% to 5%) & cash subsidy coupled with promising ongoing Rabi season have aided in clearance of huge inventory stockpiles and boosting offtake. That said, we continue to maintain our Marketweight stance on the sector until a sustainable improvement in the demand scenario with FFC being our top pick, with our TP of PkR120.4/sh, implying a total return of 23.4% (includes dividend yield of 6.8%).

**Fertilizer Production (tons)**

	Nov-16	Oct-16	MoM	Nov-15	YoY
Urea	512,960	497,171	3.2%	421,615	22%
DAP	68,123	72,207	-6%	71,054	-4%
NP	62,044	66,478	-7%	47,312	31%
CAN	52,383	61,849	-15%	45,114	16%

Source: NFDC & AKD Research

**Inventory Level (tonnes)**

	Nov-16	Oct-16	MoM	Nov-15YoY(x)
Urea	1,450,887	1,702,169	-15%	928,757 56%
DAP	77,434	294,561	-74%	209,621 -63%
CAN	428,442	412,694	4%	257,512 66%
NP	119,259	170,125	-30%	122,380 -3%

Source: NFDC & AKD Research



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Reduce	< -5% to > -20% downside potential
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