AKD Daily

Monday, Feb 26, 2018

Today's Daily

Pakistan Fertilizers: Robust start of CY18

After a fitting end to CY17 (fertilizer/Urea offtake posted growth of 8%/7%YoY), CY18 got off to a robust start with not only urea but cumulative fertilizer sales remaining promising during Jan'18. According to the latest figures released by NFDC, total fertilizer sales in Jan'18 clocked in at 774k tons, up 30%YoY. Similarly, urea sales have also jumped by 33%YoY to 539k tons. Furthermore, DAP sales also registered growth of 51%YoY to 92k tons in Jan'18. However, on a monthly basis, total fertilizer/Urea/DAP off-take expectedly came down by 25%/25%/39% in Jan'18 coming off a high base (end of Rabi season). After correcting sharply in 1HCY17, the fertilizer sector has posted a strong recovery (+16% since Aug'17) on improving fundamentals. Going forward, we anticipate further betterment on the back of: 1) continuous lowering of inventory levels, 2) higher international prices and 3) upward trend in local product prices. Maintaining our Marketweight stance on the sector, EFERT (TP of PkR79.9/sh) remains our top pick on the basis of attractive dividend yield of 10% at current levels, followed by FATIMA (TP of PkR45.1/sh) with its diversified product mix, continuous improvement in market share and concessionary gas pricing.

KSE100 - Index	
Current	43,267.20
Previous	43,528.51
Chg.	-0.60%

Mkt Cap. (PkRbn/US$bn)	
Current	8,988 / 81.29
Previous	9,038 / 81.74
Chg.	-0.55%

Daily Turnover (mn)	
Current	244.51
Previous	190.65
Chg.	28.2%

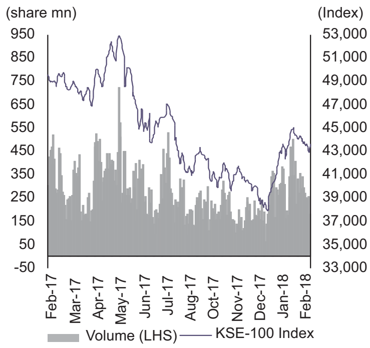
Value Traded (PkRmn/US$mn)	
Current	10,079 / 91.16
Previous	9,086 / 82.17
Chg.	10.9%

News and Views

- The Financial Action Task Force (FATF) has decided to place Pakistan back on its terror financing watch-list on a list of countries that financially aid terrorism with effect from Jun'18, but Islamabad believed the decision was politically motivated that may affect its future cooperation.

- The Commerce Ministry has issued a notification withdrawing the new clearing procedure for import of used cars in the country. Earlier on the recommendation of SBP, the ministry notified new rules for clearance of used imported cars which required that payment of duties and taxes on every vehicle must be made from a bank account controlled by the person shown as the importer under baggage and transfer of residence rules.

- Gov't has moved a summary before the National Economic Council (NEC) seeking its approval to finalize 12th five-year plan. As per summary, the gov't seeks approval to stop expenditures on the new development projects whose allocation was less than 25% of total approved cost during the FY18.



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Jan'18 Fertilizer offtake (tonnes)

	Jan-18	Dec-17	MoM	Jan-17	YoY	CY17	CY16	YoY
Urea offtake								
FFC	222,854	364,777	-39%	153,192	45%	2,474,403	2,428,163	2%
FFBL	13,820	70,260	-80%	2,196	6.3	545,731	442,624	23%
EFERT	262,052	186,602	40%	107,214	2.4	1,802,186	1,653,214	9%
FATIMA	36,063	82,494	-56%	84,823	-57%	417,367	390,905	7%
FATIMA-DH	-	5,376	-100%	40,659	-100%	212,754	254,952	-17%
Imported urea	-	1,337	-100%	15,222	-100%	260,161	30,109	8.6
Total urea	539,215	716,924	-25%	406,265	33%	5,860,709	5,495,121	7%
DAP offtake								
FFBL	31,013	66,199	-53%	33,796	-8%	831,173	790,622	5%
Imported	61,195	84,277	-27%	27,315	2.2	1,547,180	1,403,744	10%
Total DAP	92,208	150,476	-39%	61,111	51%	2,378,353	2,194,366	8%
Total CAN	76,984	101,528	-24%	72,403	6%	731,235	550,457	33%
Total NP	50,693	51,941	-2%	48,057	5%	688,229	680,920	1%
TOTAL FERTILIZER	773,768	1,029,466	-25%	594,509	30%	9,869,189	9,112,420	8%

Source: NFDC & AKD Research

Company-wise breakup: Urea market share for FFC/EFERT/FFBL/FATIMA in Jan'18 was recorded at 41%/49%/3%/7% vs. share of 37%/26%/31%/1% in Jan'17. In this regard, EFERT sold 262k tons (+2.4xYoY/+40%MoM), FFC sold 223k tons (up 45%YoY/ down 39%MoM), FATIMA sold 36k tons (down 57%YoY/56%MoM) and FFBL sold 14k tons (up 6.3xYoY/ down 80%MoM). EFERT and FFC emerged as clear winners (double digit growth) with sales rising by 2.4xYoY to 262k tons, and 45%YoY to 223k tons respectively, while FATIMA posted decline

Market Share-Urea

Symbol	Jan-18	Dec-17	Jan-17
FFC	41%	51%	38%
FFBL	3%	10%	1%
EFERT	49%	26%	26%
FATIMA	7%	12%	31%
Imported urea	0%	0%	4%

Source: NFDC & AKD Research

of 57%YoY to 36k tons. DAP off-take on the other hand also remained on the higher side, rising by 51%YoY to 92k ton in Jan'18. In this regard, importers sold 61k tons of DAP in Jan'18 (up 2.2xYoY) while FFBL sales clocked in at 31k tons (-8%YoY). Looking at respective market shares, EFERT's market share improved by 22ppts to 48.6% (Jan'18 sales higher than 1QCY17) while FATIMA lost out significantly where its market share reduced by 24.2ppts to 6.7%.

Inventory levels under control: Higher demand on account of improved farm incomes along with export of urea and lower production from local players has led to significant drop in urea inventory towards the end of the year. Declining consistently every month, urea inventory now stands at just 254k tons, down 75%YoY/25%MoM in Jan'18 (lowest in last 2yrs and significantly lower than last 4yr average of 572k tons). This is now equivalent to 0.5x of one month's average production for urea vs. last year average of 2.5x.

Inventory Level (tonnes)

	Jan-18	Dec-17	MoM	Jan-17	YoY(x)
Urea	254,017	336,494	-25%	1,035,125	-75%
DAP	180,623	171,188	6%	70,270	157%
CAN	198,273	233,103	-15%	332,015	-40%
NP	30,883	43,678	-29%	79,368	-61%

Source: NFDC & AKD Research

Outlook & Investment Perspective: After correcting sharply in 1HCY17, the fertilizer sector has posted a strong recovery (+16% since Aug'17) on improving fundamentals. Going forward, we anticipate further betterment on the back of: 1) low inventory levels at the start of a calendar year, 2) higher international pricing dynamics and 3) upward trend in local product prices. In this backdrop, we also expect urea manufacturers to further reduce prevailing high level of discounts in the market (currently hovering around PkR20-40/bag), thus improving margins. Maintaining our Marketweight stance on the sector, EFERT (TP of PkR79.9/sh) remains our top pick on the basis of attractive dividend yield (10% at current levels), followed by FATIMA (TP of PkR45.1/sh) with its diversified product mix, continuous improvement in market share and concessionary gas pricing.

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