



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan

REK-216
www.jamapunji.pk

Today's Daily

■ Pakistan Fertilizers: Sector update Jan'17

After a fitting end to CY16 (promising rabi season), CY17 got off to a sluggish start with not only urea but cumulative fertilizer sales remaining depressed during Jan'17 primarily in response to low crop prices (depressed agricultural commodity cycle) and crop shortfalls lowering farmer's income. According to latest figures released by NFDC, cumulative fertilizer offtake during the aforementioned month was recorded at ~595k tons vs. 1,278k tons in Dec'16, declining significantly by 53%MoM, while it rose 21% on yearly basis. Specifically, urea sales during Jan'17 have clocked in at ~406k tons vs. 898k tons in Dec'16, lower by 55%MoM, while it grew 19%YoY. On the contrary, imported urea sales went up 1.3xMoM/26%YoY to 15k tons in Jan'16 on account of the discount offering with imported urea prices at ~10% discount to its local counterpart. Following the trend, DAP sales also remains depressed, registering a decline of 61%MoM/20%YoY to 61k tons in Jan'16. Post Rabi season, near-term checkpoints for the fertilizer industry remain in the form of: 1) export of excess urea inventory (ECC allowed 0.3mn tons of export) and 2) international pricing dynamics (urea prices rebounded to US\$250/ton in Feb'16). Expecting no major volumetric growth in CY17 alongwith weak pricing dynamics at play, we maintain our Marketweight stance on the sector until a sustainable improvement in the demand scenario.

KSE100 - Index

Current 49,007.99
Previous 49,062.26
Chg. -0.11%

Mkt Cap. (PkRbn/US\$bn)

Current 9,705 / 92.56
Previous 9,705 / 92.56
Chg. 0.00%

Daily Turnover (mn)

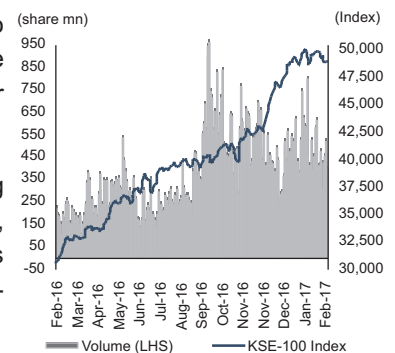
Current 275.39
Previous 266.17
Chg. 3.5%

Value Traded (PkRmn/US\$m)

Current 14,182 / 135.26
Previous 13,033 / 124.30
Chg. 8.8%

News and Views

- Three vehicle assemblers will present their investment plans in a meeting with the Ministry of Industries. PSMC will discuss its recently announced investment plan of US\$660mn, requesting same incentives granted to new entrants in the Auto Policy 2016-21. Al-Haj Faw Motors Private Limited and Dewan Motor Company Limited would also highlight their investment plans in the meeting.
- According to the latest data, the GoP released PkR431bn, amounting to 54% of the PkR800bn budgeted amount till Friday last (Feb 24'17), including PkR118.6bn foreign aid, for different development projects under the Federal Public Sector Development Program (PSDP) 2016-17.
- The SBP imposed 100% cash margin on the import of a number of consumer items, likely in efforts to bridge the rising trade deficit (21%YoY in 7MFY16). With the imposition of 100% LC margin, importers are now required to make complete payment at the time of Letter of Credit (LC) opening, where this step could possibly compel importers to reduce their imports due to liquidity constraints.



Waqas Imdad Ali
waqas.imdad@akdsecurities.net
111-253-111 Ext:637

Important disclosures, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2017 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.



Pakistan Fertilizers: Sector update Jan'17

After a fitting end to CY16 (promising rabi season), CY17 got off to a sluggish start with not only urea but cumulative fertilizer sales remaining depressed during Jan'17 primarily in response to low crop prices (depressed agricultural commodity cycle) and crop shortfalls lowering farmer's income. According to latest figures released by NFDC, cumulative fertilizer offtake during the aforementioned month was recorded at ~595k tons vs. 1,278k tons in Dec'16, declining significantly by 53%MoM, while it rose 21% on yearly basis. Specifically, urea sales during Jan'17 have clocked in at ~406k tons vs. 898k tons in Dec'16, lower by 55%MoM, while it grew 19%YoY. On the contrary, imported urea sales went up 1.3xMoM/26%YoY to 15k tons in Jan'16 on account of the discount offering with imported urea prices at ~10% discount to its local counterpart. Following the trend, DAP sales also remains depressed, registering a decline of 61%MoM/20%YoY to 61k tons in Jan'16. Post Rabi season, near-term checkpoints for the fertilizer industry remain in the form of: 1) export of excess urea inventory (ECC allowed 0.3mn tons of export) and 2) international pricing dynamics (urea prices rebounded to US\$250/ton in Feb'16). Expecting no major volumetric growth in CY17 alongwith weak pricing dynamics at play, we maintain our Marketweight stance on the sector until a sustainable improvement in the demand scenario.

CY17 commences on a negative note! With carryover inventory at highest levels, (urea inventory increasing by 56%YoY to reach ~1.04mn tons), urea sales for Jan'17 registered a decline of 55%MoM to stand at 406.3k tons while growing by 19%YoY (due to low base in Jan'16). On the contrary, imported urea sales went up 1.3xMoM/26%YoY to 15k tons in Jan'16 on account of the discount offering with imported urea prices at ~10% discount to its local counterpart. Following the trend, DAP sales also remains depressed, registering a decline of 61%MoM/20%YoY to 61k tons in Jan'16, after phenomenal offtake in the Rabi season.

Jan'17 Fertilizer offtake (tonnes)

| | Jan-17 | Dec-16 | MoM | Jan-16 | YoY |
|-------------------------|----------------|------------------|-------------|----------------|------------|
| Urea offtake | | | | | |
| FFC | 153,192 | 285,168 | -46% | 152,269 | 1% |
| FFBL | 2,196 | 31,007 | -93% | 7,502 | -71% |
| EFERT | 107,214 | 351,416 | -69% | 138,101 | -22% |
| FATIMA | 84,823 | 110,136 | -23% | 30,271 | 180% |
| FATIMA-DH | 40,659 | 75,723 | -46% | - | n.a |
| Imported urea | 15,222 | 6,491 | 135% | 12,104 | 26% |
| Total urea | 406,265 | 897,552 | -55% | 340,510 | 19% |
| DAP offtake | | | | | |
| FFBL | 33,796 | 54,850 | -38% | 11,937 | 183% |
| Imported | 27,315 | 100,446 | -73% | 64,597 | -58% |
| Total DAP | 61,111 | 155,296 | -61% | 76,534 | -20% |
| Total CAN | 72,403 | 121,043 | -40% | 41,244 | 76% |
| Total NP | 48,057 | 91,456 | -47% | 26,918 | 79% |
| TOTAL FERTILIZER | 594,509 | 1,277,680 | -53% | 490,477 | 21% |

Source: NFDC & AKD Research

Inventory Level (tonnes)

| | Jan-17 | Dec-16 | MoM | Jan-16 | YoY |
|------|-----------|-----------|------|---------|------|
| Urea | 1,035,125 | 1,037,891 | 0% | 662,918 | 56% |
| DAP | 76,187 | 81,682 | -7% | 240,524 | -68% |
| CAN | 332,015 | 363,202 | -9% | 300,390 | 11% |
| NP | 70,270 | 79,368 | -11% | 165,850 | -58% |

Source: NFDC & AKD Research

Fertilizer Production (tons)

| | Jan-17 | Dec-16 | MoM | Jan-16 | YoY |
|------|---------|---------|--------|---------|------|
| Urea | 404,000 | 486,162 | -16.9% | 444,914 | -9% |
| DAP | 24,069 | 72,241 | -67% | 30,048 | -20% |
| NP | 38,959 | 51,565 | -24% | 61,633 | -37% |
| CAN | 41,216 | 55,803 | -26% | 70,534 | -42% |

Source: NFDC & AKD Research



Company-wise breakup: Urea market share for FFC/EFERT/FFBL/FATIMA in Jan'17 was recorded at 38%/26%1%/21% vs. 32%/39%3%/12% in Jan'16. For the month under review, urea sales remained remains depressed after the end of Rabi season where FFC sold 153k tons (down 46%MoM / up 1%YoY), EFERT sold 107k tons (down 69%MoM / 22%YoY), FFBL sold just 2.2k tons (down 93%MoM / 71%YoY) and FATIMA sold 84.8k tons (down 23%MoM, while it gained 1.8xYoY). Similarly DAP offtake also remained unexciting post Rabi season, where FFBL sold 34k tons of DAP (down 38%MoM) while imported DAP sales went down significantly by 73%MoM/58%YoY to 27k tons in Jan'17. Moreover, NP & CAN sales continued their positive momentum on yearly basis by rising 79%YoY to 48k tons & 76%YoY to 72k in Jan'17.

Outlook & Investment Perspective: Having lost 6.8% in CY16, the fertilizer sector is expected to remain under pressure in CY17 on account of weak fertilizer dynamics (lower commodity prices and depressed farm income) However, subsidy on fertilizer products expected to continue in CY17 alongwith allowance of export of excess urea available (ECC allowed 0.3mn tons of export in Dec'16) can provide some respite to the declining offtake. Until then, we continue to maintain a Marketweight stance on the sector.

Market Share: Urea

| | Jan-17 | Dec-16 | Jan-16 |
|---------------|--------|--------|--------|
| FFC | 38% | 32% | 45% |
| FFBL | 1% | 3% | 2% |
| EFERT | 26% | 39% | 41% |
| FATIMA | 21% | 12% | 9% |
| Imported urea | 4% | 1% | 4% |

Source: NFDC & AKD Research



Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

| | |
|------------|------------------------------------|
| Buy | ≥ 20% upside potential |
| Accumulate | > 5% to < 20% upside potential |
| Neutral | ≤ 5% to ≥ -5% potential |
| Reduce | < -5% to > -20% downside potential |
| Sell | ≤ -20% downside potential |



Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.