



Today's Daily

■ Pakistan Fertilizer: CY17 urea offtake at 4yr high

Following the trend witnessed in the Rabi season, fertilizer offtake remained relatively weak in Dec'17 where total fertilizer offtake was recorded at 1.03mn tons (down 19%YoY). After increasing significantly during 9MCY17 (up 26%YoY), fertilizer offtake remained unexciting during the Rabi season (down 16%YoY during Oct'17-Dec'17) owing to above average sales in the previous nine months. As per latest figures released by NFDC for Dec'17, total urea sales stood at 717k (down 20%YoY/ up19%MoM), aggregating CY17 urea offtake to 5.86mn tons (up 7%YoY) to stand at its highest level in the last 4yrs (against previous high of 5.89mn tons in CY13). On the other hand, DAP sales depicted good strength during the year registering an increase of 8%YoY to 2.38mn tons, of which imported DAP offtake amounted to 1.55mn tons (up 10%YoY). After correcting sharply in 1HCY17, the fertilizer sector has posted a strong recovery (+19% since Aug'17) on improving fundamentals. Going forward, we anticipate further betterment on the back of: 1) lower inventory levels on account of export allowance and lower production, 2) higher international pricing dynamics 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.

News and Views

- Pakistan's foreign exchange reserves fell to US\$19.640bn during the week. While the reserves held by central bank fell by US\$166mn (1.23%WoW) attributable to external debt servicing, reserves held by commercial banks increased from US\$6.072bn to US\$6.107bn.
- Fitch Ratings has revised the Pakistan's outlook from Stable to Negative and affirmed both long-term Foreign currency IDRs at "B". Pakistan's "B" rating reflects a high public debt/GDP ratio, weak governance standards as measured by World Bank indicators, domestic political and security risks and a fragile external position, which are balanced by relatively strong growth.
- Imports of used cars and minivans surged to 65,723 units (up 70%YoY) in CY17 from 38,676 units a year ago, whereas Toyota Vitz remained the most popular imported car, with as many as 8,680 units arrived in 2017.

KSE100 - Index

Current	44,816.71
Previous	45,063.21
Chg.	-0.55%

Mkt Cap. (PkRbn/US\$bn)

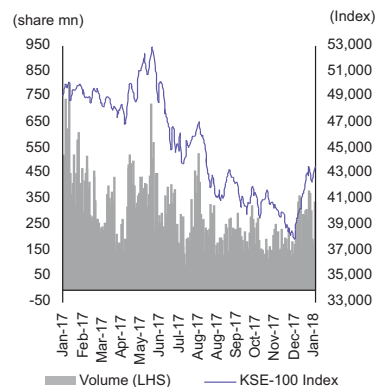
Current	9,245 / 83.64
Previous	9,279 / 83.94
Chg.	-0.36%

Daily Turnover (mn)

Current	245.73
Previous	339.67
Chg.	-27.7%

Value Traded (PkRmn/US\$m)

Current	9,936 / 89.89
Previous	18,165 / 164.33
Chg.	-45.3%



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Pakistan Fertilizer: CY17 urea offtake at 4yr high

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Dec'17 Fertilizer offtake (tonnes)

	Dec-17	Nov-17	MoM	Dec-16	YoY	CY17	CY16	YoY
Urea offtake								
FFC	364,777	271,702	34%	285,168	28%	2,474,403	2,428,163	2%
FFBL	70,260	83,427	-16%	31,007	127%	545,731	442,624	23%
EFERT	186,602	194,760	-4%	351,416	-47%	1,802,186	1,653,214	9%
FATIMA	82,494	31,940	1.58	110,136	-25%	417,367	390,905	7%
FATIMA-DH	5,376	8,257	-35%	75,723	-93%	212,754	254,952	-17%
Imported urea	1,337	9,226	-86%	6,491	-79%	260,161	30,109	8.64
Total urea	716,924	601,671	19%	897,552	-20%	5,860,709	5,495,121	7%
DAP offtake								
FFBL	66,199	193,585	-66%	54,850	21%	831,173	790,622	5%
Imported	84,277	308,211	-73%	100,446	-16%	1,547,180	1,403,744	10%
Total DAP	150,476	501,796	-70%	155,296	-3%	2,378,353	2,194,366	8%
Total CAN	101,528	61,318	66%	121,043	-16%	731,235	550,457	33%
Total NP	51,941	56,971	-9%	91,456	-43%	688,229	680,920	1%
Total Fertilizer	1,029,466	1,255,286	-18%	1,277,680	-19%	9,869,189	9,112,420	8%

Source: NFDC & AKD Research

Company-wise breakup: Urea market share for FFC/EFERT/FFBL/FATIMA in Dec'17 and CY17 was recorded at 51%/26%/10%/7% and 42%/31%/9%/11% vs. share of 45%/32%/14%/7% in Dec'16 & 44%/30%/8%/12% in CY16 respectively. In this regard, FFC

Market Share-Urea

	Dec-17	Nov-17	Dec-16	CY17	CY16
FFC	50.9%	45.2%	31.8%	42.2%	44.2%
FFBL	9.8%	13.9%	3.5%	9.3%	8.1%
EFERT	26.0%	32.4%	39.2%	30.8%	30.1%
FATIMA	12.3%	6.7%	20.7%	10.8%	11.8%
Imported urea	0.2%	1.5%	0.7%	4.4%	0.5%

Source: NFDC & AKD Research



sold 365k tons (+34%MoM/+28%YoY), EFERT sold 187k tons (-16%MoM/+127%YoY), FATIMA sold 88k tons (+119xMoM/-53%YoY) and FFBL sold 70k tons (-72%MoM/+127%YoY). Urea off-take posted impressive growth in CY17, where FFBL, EFERT and FATIMA emerged as a clear winners with sales rising by 23%YoY to 546k tons, 9%YoY to 1.80mn tons and 7%YoY to 417k tons respectively, while FFC posted flattish growth of 1.9%YoY to 2.47mn tons. The upward trend in urea sales during CY17 was attributable to improved farm incomes coupled with continued support from subsidy package. DAP sales on also depicted good strength in CY17 registering an increase of 8%YoY to 2.38mn tons, of which imported DAP offtake amounted to 1.55mn tons (up 10%YoY). In this regard, FFBL sold 831k tons of DAP in CY17 (up 5%YoY). Looking at respective market shares, FFC lost out significantly in CY17, where its market share reduced by 197bps to 42.2%, while FFBL and EFERT share improved by 126bps and 67bps to 9.3% and 30.8% respectively.

Inventory levels continue to decline: Higher demand on account of improved farm incomes along with export allowance of urea and lower production from local players (down 6%YoY to 5.65mn tons in CY17) has led to significant drop in urea inventory towards the end of the year. Declining consistently every month, urea inventory now stands at just 336k tons (down 68%YoY/34%MoM) in Dec'17 - equivalent to 0.7x of one month's average production for urea vs. last year average of 2.1x.

Outlook & Investment Perspective: After correcting sharply in 1HCY17, the fertilizer sector has posted a strong recovery (+19% since Aug'17) on improving fundamentals. Going forward, we anticipate further betterment on the back of: 1) lower inventory levels, 2) higher international pricing dynamics 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.

Inventory Level (tonnes)

	Dec-17	Nov-17	MoM	Dec-16	YoY
Urea	336,494	506,096	-34%	1,037,891	-68%
DAP	171,188	151,600	13%	81,682	110%
CAN	233,103	291,869	-20%	363,202	-36%
NP	43,678	49,049	-11%	79,368	-45%

Source: NFDC & AKD Research



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