



Today's Daily

■ Pakistan Fertilizers: Sector dynamics continue to improve

After an impressive start to CY18 (fertilizer/urea offtake posted growth of 30%/33%YoY in Jan'18), country's fertilizer offtake growth continued to remain robust in Feb'18 as well, where not only urea but cumulative fertilizer sales remained promising. According to the latest figures released by NFDC, total fertilizer sales in Feb'18 clocked in at 619k tons, up 28%YoY. In tandem, urea sales have also jumped by 44%YoY to 370k tons. Furthermore, DAP sales also registered growth of 25%YoY/33%MoM to 122k tons during the month. However, on a monthly basis, total fertilizer/Urea off-take expectedly came down by 20%/31% on account of seasonal slowdown (end of Rabi season). After correcting sharply in 1HCY17, the fertilizer sector has posted a strong recovery (+19% since Aug'17 and +7%CYTD) 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 (discount levels reduce to PkR10-25/bag). 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 ~11% at current levels, followed by FATIMA (TP of PkR45.1/sh) with its diversified product mix and impressive dividend yield of above 10%.

KSE100 - Index

Current	45,083.57
Previous	45,030.22
Chg.	0.12%

Mkt Cap. (PkRbn/US\$bn)

Current	9,258 / 80.18
Previous	9,261 / 80.20
Chg.	-0.03%

Daily Turnover (mn)

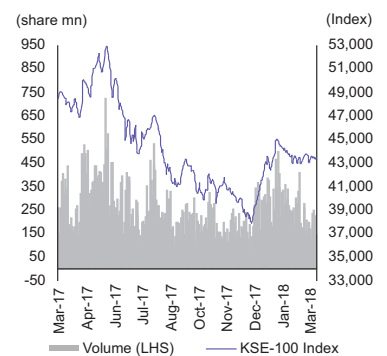
Current	187.93
Previous	228.44
Chg.	-17.7%

Value Traded (PkRmn/US\$m)

Current	8,007 / 69.34
Previous	9,380 / 81.23
Chg.	-14.6%

News and Views

- The Supreme Court has constituted a 12-member committee for tracing and retrieving assets held abroad by Pakistani citizens. The committee comprises experts from the different fields including Tariq Bajwa (Governor SBP), Arif Ahmed Khan (Secretary Finance Division) and Tariq Pasha (Chairman FBR).
- The Shanghai Electric Power Ltd (SEPL) has sought the government's support in accelerating the process of regulatory approvals to facilitate the completion of Sale-Purchase Agreement (SPA) of majority shares in K-Electric Ltd (KEL). In this regard, a delegation led by Wang Yundan, the company chairman, met with the PM Shahid Khaqan Abbasi in Islamabad and apprised him of the current status of acquisition process of majority stake in KEL.
- The Pakistan Automotive Manufacturers Association (PAMA) has requested the gov't to reduce the rate of input tax on tractors citing a liquidity crunch affecting industry. To note, the rate of sales tax charged on sales of tractors is 5% while local and imported components used in tractor manufacturing are subject to tax rate of 17%.

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Company-wise breakup: Urea market share for FFC/EFERT/FFBL/FATIMA in Feb'18 was recorded at 42%/39%/7%/10% vs. share of 42%/38%/5%/10% in Feb'17. In this regard, FFC sold 157k tons (+45%YoY/-30%MoM), EFERT sold 145k tons (+48%YoY/-45%MoM), FATIMA sold 38k tons (+3.2xYoY/+5%MoM) and FFBL sold 27k tons (up 94%YoY/92%MoM). On cumulative basis, Urea off-take posted impressive growth in 2MCY18 (up 37%YoY), where EFERT, FFC and FFBL emerged

Market Share-Urea

Symbol	Feb-18	Jan-18	Feb-17	2MCY18	2MCY17
FFC	42%	41%	42%	42%	39%
FFBL	7%	3%	5%	4%	2%
EFERT	39%	49%	38%	45%	31%
FATIMA	10%	7%	10%	8%	23%
Imported urea	0%	0%	3%	0%	3%

Source: NFDC & AKD Research

Feb'18 Fertilizer offtake (tonnes)

	Feb-18	Jan-18	MoM	Feb-17	YoY	2MCY18	2MCY17	YoY
Urea offtake								
FFC	156,820	222,854	-30%	108,505	45%	379,674	261,697	45%
FFBL	26,557	13,820	92%	13,661	94%	40,377	15,857	155%
EFERT	145,345	262,052	-45%	98,493	48%	407,397	205,707	98%
FATIMA	37,998	36,063	5%	11,975	3.17	74,061	96,798	-23%
FATIMA-DH	-	-	0%	14,298	-100%	-	54,957	-100%
Imported urea	-	-	0%	7,779	-100%	-	23,001	-100%
Total urea	370,014	539,215	-31%	257,117	44%	909,229	663,382	37%
DAP offtake								
FFBL	40,913	31,013	32%	34,783	18%	71,926	68,579	5%
Imported	81,518	61,195	33%	62,853	30%	142,713	90,168	58%
Total DAP	122,431	92,208	33%	97,636	25%	214,639	158,747	35%
Total CAN	70,122	76,984	-9%	66,218	6%	147,106	138,621	6%
Total NP	36,877	50,693	-27%	41,215	-11%	87,570	89,272	-2%
TOTAL FERTILIZER	618,853	773,768	-20%	481,878	28%	1,392,621	1,076,387	29%

Source: NFDC & AKD Research



as clear winners (respective market shares improved by 13.8ppts/2.31ppts/2.05ppts to 44.8%, 41.8% and 4.4% in 2MCY18). In tandem, sales jumped by 98%YoY to 407k tons, 45%YoY to 380k tons and 155%YoY to 40k tons respectively for EFERT, FFC and FFBL while FATIMA posted decline of 23%YoY to just 74k tons. DAP off-take on the other hand also remained on the higher side, rising by 35%YoY to 215k ton in 2MCY18. In this regard, importers sold 143k tons of DAP (up 58%YoY) while FFBL sales clocked in at 72k tons (+5%YoY).

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 CY17. Declining consistently every month, urea inventory now stands at just 273k tons, down 77%YoY in Feb'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.

No more discounted sales: On the back of overall improvement in sector dynamics (lowest inventory levels, higher int'l prices and PkR/US\$ depreciation), discount offerings on fertilizer products have now been reduced significantly in the past few month (currently hovering around PkR10-25/bag vs. last year avg. of PkR80-120/bag), thus improving margins.

Outlook & Investment Perspective: After correcting sharply in 1HCY17, the fertilizer sector has posted a strong recovery (+19% since Aug'17 and +7%CYTD) 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 (discount levels reduce to PkR10-25/bag). 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 ~11% at current levels, followed by FATIMA (TP of PkR45.1/sh) with its diversified product mix and impressive dividend yield of above ~10%

Inventory Level (tonnes)

	Feb-18	Jan-18	MoM	Feb-17	YoY
Urea	272,795	257,367	6%	1,194,088	-77%
DAP	214,621	176,212	22%	119,419	80%
CAN	165,766	198,273	-16%	323,478	-49%
NP	29,730	30,883	-4%	81,160	-63%

Source: NFDC & AKD Research



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