



Today's Daily

■ Pakistan Fertilizers: Sector update Apr'17

Recovering from the declining trend seen during 1HCY16, urea offtake during Apr'17 increased by 17%YoY/21%MoM to ~249k tons vs. 213k tons in Apr'16 largely on account of subsidy continuation. However, cumulative fertilizer offtake growth during Apr'17 remained on the lower side clocking in at ~449k tons vs. 423k tons in Apr'16, increasing slightly by 6%YoY, while declining 2% on monthly basis. DAP sales on the other hand registered a decline of 38%MoM/9%YoY to 95k tons in Apr'17. Furthermore, imported urea continued to remain at negligible levels (2k tons) despite being available at a significant discount to local urea. On a cumulative basis, total fertilizer sales posted growth of 18%YoY to 1.98mn tons during 4MCY17 where urea offtake posted a decent recovery of 14%YoY to stand at 1.12mn tons. Slower fertilizer offtake alongwith industry's weak pricing power & rising inventory level (urea inventory standing at 1.67mn tons), we maintain our Marketweight stance on the sector until a sustainable improvement in the demand scenario.

KSE100 - Index

| | |
|----------|-----------|
| Current | 52,636.66 |
| Previous | 52,869.01 |
| Chg. | -0.44% |

Mkt Cap. (PkRbn/US\$bn)

| | |
|----------|----------------|
| Current | 10,410 / 99.27 |
| Previous | 10,445 / 99.61 |
| Chg. | -0.34% |

Daily Turnover (mn)

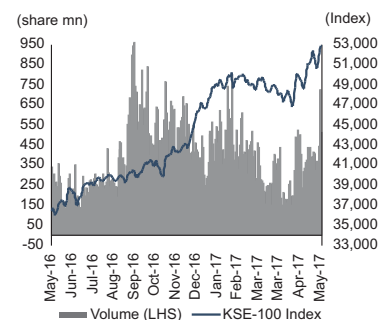
| | |
|----------|--------|
| Current | 431.77 |
| Previous | 408.89 |
| Chg. | 5.6% |

Value Traded (PkRmn/US\$m)

| | |
|----------|-----------------|
| Current | 20,731 / 197.70 |
| Previous | 24,426 / 232.94 |
| Chg. | -15.1% |

News and Views

- The OGRA in its summary to petroleum ministry has proposed to reduce MOGAS and HSD prices by PkR2.10/ltr and PkR1.8/ltr, respectively. In addition, reduction in LSD and kerosene oil prices by PkR1.5/ltr and PkR3/ltr was also recommended in the summary.
- Pakistan Tanners association has lauded the removal of custom duty on raw hides & skins/pickled and wet blue (currently at 3 %) in the FY18 budget.
- The SBP and SECP have signed a Letter of Understanding to establish a Council of Regulators to mitigate systemic risk and enhance financial stability. The Council will comprise of top officials of the two regulators.



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Company-wise breakup: Urea market share for FFC/EFERT/FFBL/FATIMA in Apr'17 and 4MCY17 was recorded at 40%/37%/8%/10% and 42%/32%/5%/10% vs. Apr'16 & 4MCY16 share of 54%/26%/8%/3% & 48%/35%/5%/6% respectively. In this regard, EFERT sold 92k tons (up 45%MoM /69%YoY), FATIMA sold 26k tons (up 11xMoM / 3xYoY) and FFBL sold 21k tons (up 28%YoY / while it gained 6%MoM). However, FFC offtake declined significantly by 13%MoM/14%YoY to 99k tons. On other hand, DAP offtake remained unexciting after a decent start to CY17 with FFBL selling 61k tons of DAP (down 42%MoM) while imported DAP sales went down significantly by 30%MoM/50%YoY to 35k tons in Apr'17. Moreover, NP & CAN sales continued their positive momentum rising by 16%MoM to 58k tons & 27%MoM to 31k in Apr'17.

Apr'17 Fertilizer offtake (tonnes)

| | Apr-17 | Mar-17 | MoM | Apr-16 | YoY | 4MCY17 | 4MCY16 | YoY |
|-------------------------|----------------|----------------|------------|----------------|-----------|------------------|------------------|------------|
| Urea offtake | | | | | | | | |
| FFC | 99,478 | 114,806 | -13% | 115,238 | -14% | 475,981 | 472,245 | 1% |
| FFBL | 20,577 | 21,734 | -5% | 16,087 | 28% | 58,168 | 51,238 | 14% |
| EFERT | 92,071 | 63,601 | 45% | 54,451 | 69% | 361,379 | 340,384 | 6% |
| FATIMA | 25,724 | 2,127 | 11.1 | 6,348 | 3.1 | 124,649 | 55,182 | 126% |
| FATIMA-DH | 7,724 | 1,238 | 524% | 3,728 | 107% | 63,919 | 5,258 | 11.2 |
| Imported urea | 2,121 | 3,307 | -36% | 173 | 1126% | 28,429 | 14,359 | 98% |
| Total urea | 249,865 | 206,831 | 21% | 213,012 | 17% | 1,120,078 | 982,837 | 14% |
| DAP offtake | | | | | | | | |
| FFBL | 60,986 | 104,701 | -42% | 34,787 | 75% | 234,266 | 105,613 | 122% |
| Imported | 34,711 | 49,350 | -30% | 70,046 | -50% | 174,229 | 233,297 | -25% |
| Total DAP | 95,697 | 154,051 | -38% | 104,833 | -9% | 408,495 | 338,910 | 21% |
| Total CAN | 31,878 | 25,078 | 27% | 28,381 | 12% | 195,577 | 140,763 | 39% |
| Total NP | 57,785 | 49,956 | 16% | 66,041 | -13% | 197,013 | 171,885 | 15% |
| TOTAL FERTILIZER | 448,656 | 457,186 | -2% | 423,600 | 6% | 1,982,229 | 1,682,600 | 18% |

Source: NFDC & AKD Research

Market Share (Urea)

| | Apr-17 | Mar-17 | Apr-16 | 4MCY17 | 4MCY16 |
|---------------|--------|--------|--------|--------|--------|
| FFC | 40% | 56% | 54% | 42% | 48% |
| FFBL | 8% | 11% | 8% | 5% | 5% |
| EFERT | 37% | 31% | 26% | 32% | 35% |
| FATIMA | 10% | 1% | 3% | 11% | 6% |
| Imported urea | 1% | 2% | 0% | 6% | 1% |

Source: NFDC & AKD Research



Inventory levels rising again: Weak demand on account of poor farm incomes alongwith increasing production from local players has led to high inventory build-up in the system. Rising consistently every month, urea inventory stood at 1.67mn tons (up 10%MoM/11%YoY) in Apr'17. This is equivalent to 3.7x of one month's average production for urea. In this backdrop, ECC of the cabinet recently decided to increase the quota of urea exports by another 300k tons (100% increase) to 600k tons with an extended deadline of Oct'17. In this backdrop, the option to export comes as a savior, despite lower int'l prices, easing domestic industry's increasing pressure on working capital in our view.

Outlook & Investment Perspective: Having lost 8% CYTD, the fertilizer sector remained under pressure on account of weak fertilizer dynamics, lower commodity prices and depressed farmer incomes. While some recovery can be expected in 2HCY17 on account of : 1) continuation of fertilizer subsidy in Budget FY18 alongwith a number of agri-related incentives offered, 2) upward revision in export quota for urea and 3) upcoming Kharif season. We continue to maintain our Marketweight stance on the sector, FATIMA (DCF based TP of PkR45.1/sh) remains our top pick with its diversified product mix, continuously improving market share and concessionary gas pricing.

Inventory Level (tonnes)

| | Apr-17 | MoM | Apr-16 | YoY |
|------|-----------|------|-----------|------|
| Urea | 1,671,882 | 10% | 1,502,573 | 11% |
| DAP | 56,473 | -2% | 248,954 | -77% |
| CAN | 362,047 | -10% | 355,440 | 2% |
| NP | 87,879 | -10% | 151,057 | -42% |

Source: NFDC & AKD Research



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| | |
|------------|------------------------------------|
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| Reduce | < -5% to > -20% downside potential |
| Sell | ≤ -20% downside potential |



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