

June 28, 2018

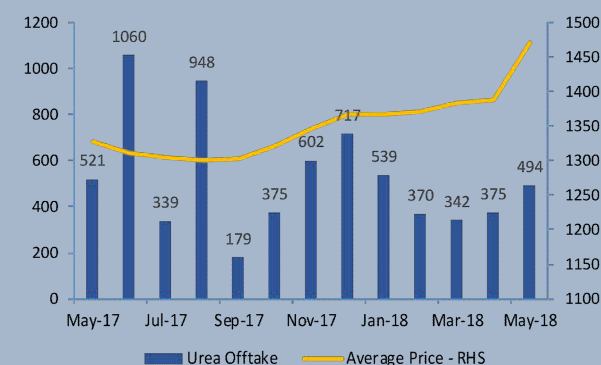
Industry Offtake

	May-18	April-18	MoM%	May-17	YoY%
UREA	494	375	32%	521	-5%
DAP	59	69	-15%	69	-15%
CAN	58	54	7%	65	-11%
NP	45	60	-25%	49	-8%
OTHER	14	12	17%	14	0%
TOTAL	670	570	18%	718	-7%

Source: NFDC & WE Research

- As per data compiled by NFDC for May'18, the industry's total fertilizer offtake declined by 7% YoY in May'18.
- Urea offtake recorded at 494KT declined by 5% YoY as opposed to 521KT in SPLY. Where as it surged by 32% MoM (375KT in April'18) in May'2018.
- DAP offtake declined by 15% YoY/MoM to arrive at 59KT in May'18 while CAN and NP depict a decline of 11% YoY & 8% YoY clocking at 58KT and 45KT respectively.
- FFC a star performer with 52% of market share in urea segment in May'18 while the EFERT captured 41% market share in DAP segment
- Inventory levels declined by 81% in the period under review standing at 329 KT
- Urea and DAP prices follows upward trajectory and recorded at PKR 1471/bag and PKR 3219/bag respectively in the period under review.

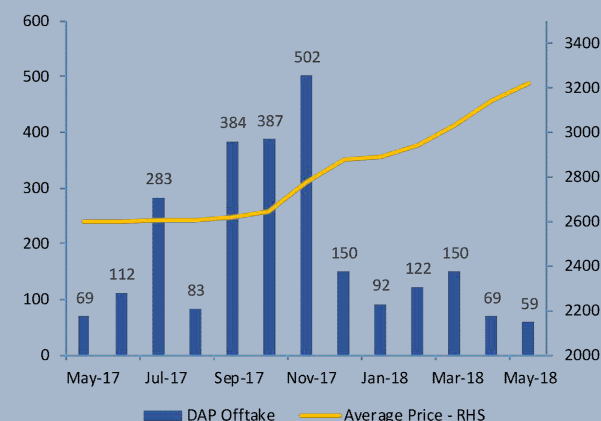
Urea Offtake and Average Price



Source: NFDC & WE Research

The Urea offtake depicts a drop of 5% YoY clocking at 494 KT during May'18 while it shows growth of 32% MoM due to pre-buying by dealers and farmers on anticipation of further price hike and expected scarcity of urea as kharif season kicks in. On cumulative basis urea offtake registered a growth of 29% YoY during 5MCY18 recording at 2,120KT as opposed to 1,641 KT SPLY. On the other hand, Industry DAP offtake witnessed a decline of 15% YoY primarily due to lower seasonal demand and 24% YoY hike in prices dented the demand outlook of DAP. Cumulatively, DAP registered a marginal growth of 3% YoY during 5MCY18 arriving at 492KT. While on production side, urea production shows a decline of 29% due to absence of production from LNG based players.

DAP Offtake and Average Price



Source: NFDC & WE Research

Company Wise Performance

The Fauji Fertilizer Company Limited (FFC) outshined in the industry by grabbing 52% market share of urea in May'18 (recorded offtake 257KT), followed by EFERT holding 28% (offtake 137KT), FFBL at 12% (offtake 60KT) and FATIMA at 8% with offtake of 39KT. While in DAP segment, EFERT remained in limelight as it captured 41% market share by registering 24KT offtake followed by FFC at 20% with 12KT offtake, FFBL at 13% with 8KT and FATIMA at 3% with 2KT offtake in period under review.

Inventory registered decline of 81%YoY

Industry inventory closes at 329KT, down 81% YoY in comparison to 1,071KT in May'18. Moreover, it depicts a decline of 25% MoM on the back of higher demand in context of pre-buying. Lower inventories will give manufacturers a room to eliminate the discount and have negotiation leverage.

Industry outlook:

As per data released by NFDC the prices of Urea (sona) was at PKR 1471 and other urea at price of PKR 1423 during May'18. Currently the urea price per bag is floating above PKR 1500/Bag, primarily owing to removal of price capping of 1400/bag and subsidy of PKR 100/bag. We expect the prices to remain between PKR 1550 -1600 per bag, more than this could hurt the on-going demand. We expect the annual demand for urea in CY18 to fall in the range of between 5.8 to 6 million tons. During May'2018, urea production declined by 29% YoY primarily due to absence of production from LNG based players due to higher LNG prices. If absence of production from LNG based players prevails throughout the year, then we expect approximately 10% reduction in industry annual production of CY2018E at 5.4 million tons, wherein, imports may resume to fill the demand and supply gap and local manufacturers will likely be in a position to raise prices further.

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Urea Offtake (KT)

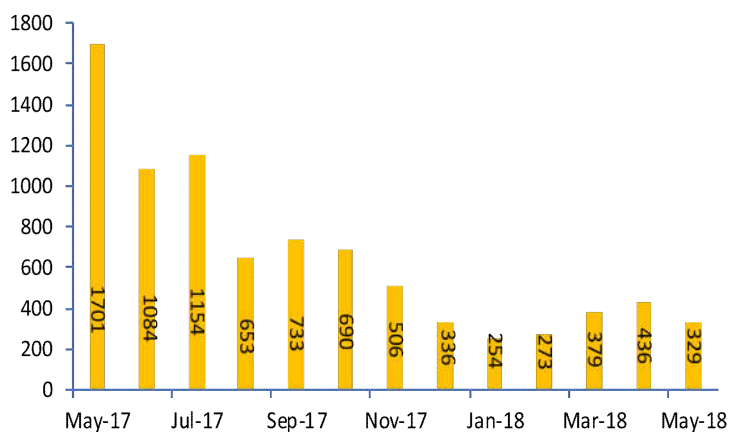
Urea	May-18	Apr-18	MoM%	May'17	YoY%	5MCY18	5MCY17	YoY
FFC	257	181	42%	223	15%	1011	699	45%
FFBL	60	51	18%	53	14%	199	112	78%
FATIMA	39	28	39%	22	76%	153	147	4%
EFERT	137	115	19%	139	-1%	749	500	50%
Others	0	0	NM	84	-100%	7	183	-96%
TOTAL	494	375	32%	521	-5%	2120	1641	29%

DAP	May-18	Apr-18	MoM%	May'17	YoY%	5MCY18	5MCY17	YoY
FFC	12	3	290%	32	-63%	120	75	59%
FFBL	8	20	-62%	17	-56%	170	252	-33%
FATIMA	2	1	70%	0	477%	13	13	-4%
EFERT	24	32	-25%	9	166%	110	69	59%
Others	14	13	8%	11	27%	80	69	16%
Total	59	69	-15%	69	-15%	492	478	3%

Source: NFDC & WE Research

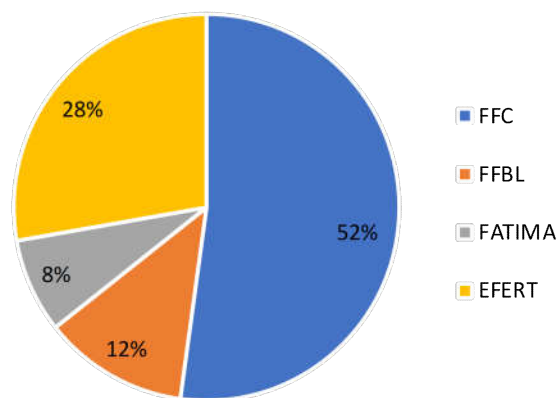
Urea Closing Inventory (KT)

Source: NFDC & WE Research



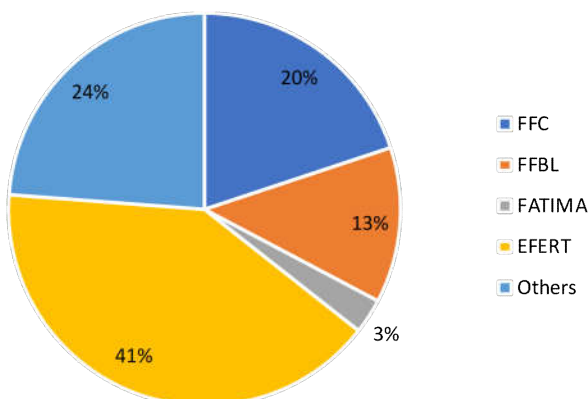
Market Share—Urea Segment

Source: NFDC & WE Research



Market Share—DAP Segment

Source: NFDC & WE Research



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WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as December 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

Disclaimer: This document has been prepared by Research analysts at WE Financial Services Ltd.

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