



# ANALYST BRIEFING

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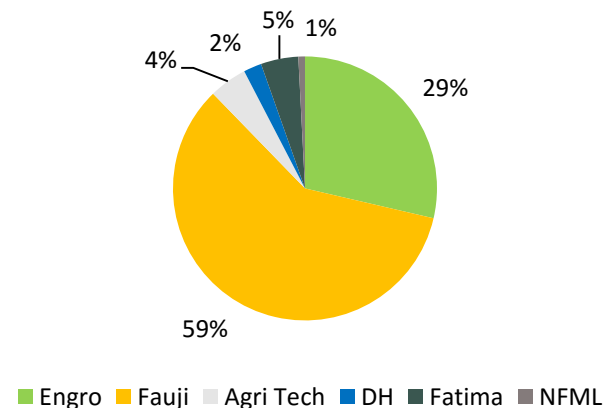
1H 2016

# UREA MARKET ENVIRONMENT

- ▶ The fertilizer market as a whole remained weak in 1H 2016 with total urea volumes at 1,851KT – a decline of 35% from 1H 2015 volumes of 2,865KT
- ▶ The decline was primarily on account of i) weak farmer purchase power given frail crop economics and ii) liquidation of channel inventory and price uncertainty amid expectations of urea subsidy in Budget'16.
- ▶ Volumes in 2Q 2016 fared relatively better with sales of 1,082KT, up 41% compared to 1Q 2016 but down 20% compared to 2Q 2015
- ▶ The improved offtake in 2Q 2016 was mainly on account of 624KT offtake in the month of Jun'16 alone due to announcement of GoP subsidy
- ▶ With regards to subsidy, the GoP in Budget'16 announced urea price reduction to PKR1,400/bag from previous PKR1,790/bag through a combination of price cut: PKR50/bag by manufacturers, subsidy: PKR 156/bag and GST reduction from 17% to 5%
- ▶ The above price cut was in addition to previous cuts taken in the year – where price was reduced from PKR 2020/bag to PKR 1860/bag and then PKR 1790/bag
- ▶ Urea production in 1H 2016 increased to 2,921KT, up from 2,480KT in 1H 2015 – a growth of 18%. 2Q production at 1,510KT was up 20% compared to 2Q 2015
- ▶ Higher production was due to better gas availability in the Mari network and LNG
- ▶ The industry continues to face surplus inventory due to depressed demand and surplus production - June closing urea inventory was at 1.6MT

Urea Industry (KT)	1H	1H	Change
	2016	2015	
Opening Inv.	561	210	
Production	2,921	2,480	18%
Imports	0	390	
Sales	1,851	2,865	-35%
Closing Inv.	1,625	215	

**1H 2016**

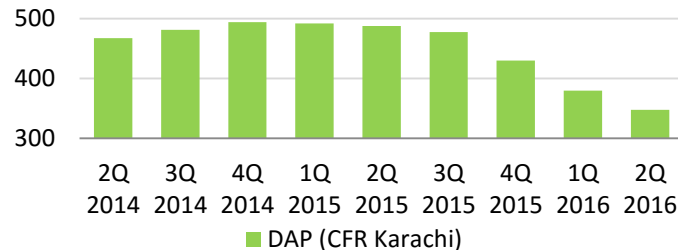


# PHOSPHATES MARKET ENVIRONMENT

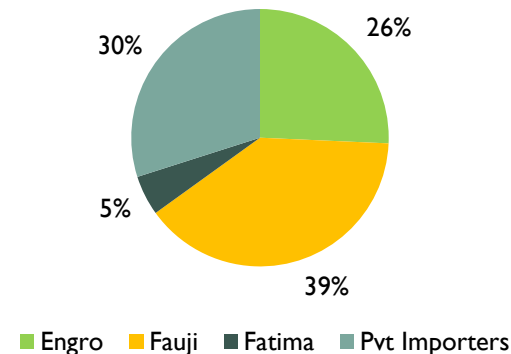


- ▶ 1H 2016 industry sales stood at 498 KT compared to 468 KT in 1H 2015, a growth of 6%. Higher industry sales were primarily due to subsidy on phosphates during the year
- ▶ EFERT DAP sales in 1H 2016 were recorded at 128 KT vs 119KT in 1 H 2015, up 8%. Market share in the DAP market stood at 26% in 1H 2016 vs. 25% in 1H 2015
- ▶ Total sales during 2Q stood at 63 KT while imports during 1H 2016 stood at 117KT
- ▶ The GoP extended the subsidy on phosphates in Budget'16. Current subsidy stands at PKR 300/bag (effective: June 25, 2016), down from previous PKR500/bag.
- ▶ Current Ex-KHI price for DAP stands at PKR 2,500/bag.
- ▶ International DAP prices traded range-bound during the quarter around USD 350/T (CFR Pakistan), after declining by USD 50/Ton during 1Q.
- ▶ Despite an uptick in 2Q demand, particularly in India, DAP prices remained stable during the quarter led by falling input prices for DAP coupled with new supply coming online in Morocco.

**Phosphate Prices (USD/T)**



**1H 2016**

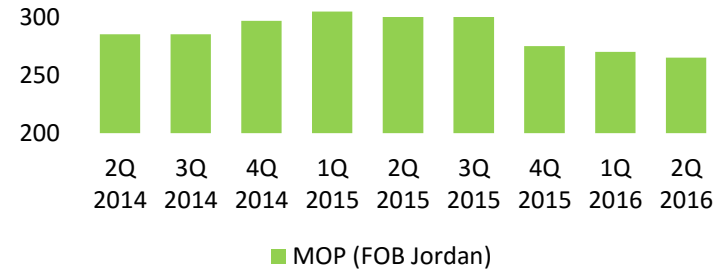


\* Source: Company Estimates

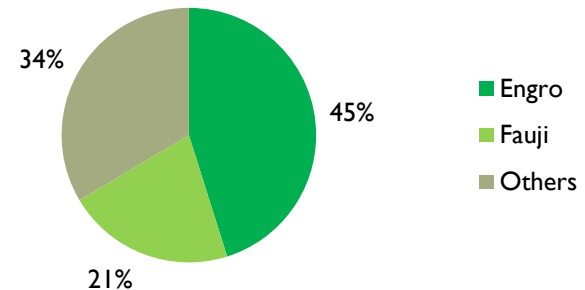
# ZARKHEZ MARKET ENVIRONMENT

- ▶ Potash industry in 1H 2016 declined by 29% YoY due to poor crop economics and no subsidy on potash fertilizers
- ▶ However, the market share of Zarkhez increased to 45% (34% in 2015) contributing to a lower than industry decline in actual sales volumes
- ▶ Total ZBU sales for 1H stood at 39KT vs 1H 2015 sales of 64KT (down 39%YoY)
- ▶ Sales continued to be impacted due to significant carryover channel inventory as well as consistent decline in NP price (down 20% CYTD), leading to dealer purchase reluctance

## Potash Prices (USD/T)



## Potash Market Share 1H2016

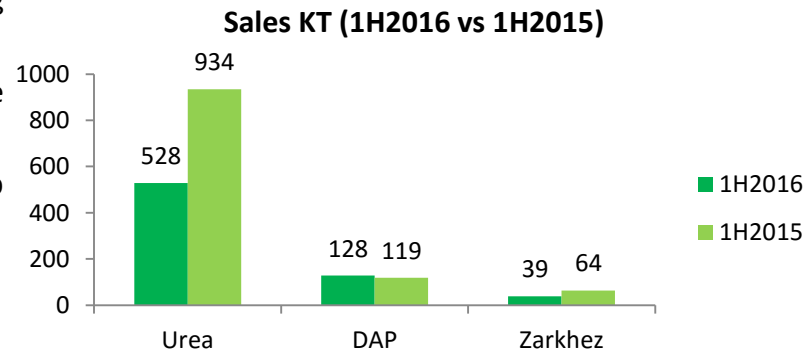


\* Source: Company Estimates

# BUSINESS HIGHLIGHTS

- ▶ EFERT 1H 2016 PAT stood at PKR 2.8 B vs PKR 6.8 B in 1H 2015
- ▶ The drop in profitability is driven by both – decreased volumes as well as margins due to price cuts taken during the year
- ▶ 1H2016 urea sales stood at 528 KT, compared to 934 KT in 1H 2015, in-line with the industry trend mainly due to poor farm economics and price uncertainty till the fiscal budget announcement in June 2016
- ▶ 1H2016 urea production stood at 922 KT, compared to 950 KT in 1H 2015 due to planned turnaround
- ▶ The company's efforts to reduce its financial charges continue, with several loans in the process of being re-priced – in line with the reducing interest rates
- ▶ Apart from re-pricing, financial charges continue to decline mainly due to repayments as per normal schedules
- ▶ The company has also undertaken to optimize its fixed costs to keep pace with challenging times faced by the urea industry

Engro Fertilizers Standalone (PKR M)	1H 2016	1H 2015
Revenue	22,278	38,302
Gross Profit	6,656	14,130
Finance Cost	(1,586)	(2,408)
PAT	2,817	6,855
EPS (PKR)	2.12	5.16



# UPDATES & OUTLOOK

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## Updates

- ▶ As things stand, EFERT continues to operate both its plants pending a formal gas allocation
- ▶ At the same time, the company is also paying GIDC on current billing excluding concessionary gas
- ▶ With regards to the latter, EFERT obtained a stay order in 2015 and as such, no GIDC is being paid or accrued for the concessionary gas being supplied to the Enven plant
- ▶ We maintain that GIDC on concessionary gas is in direct contravention with the Fertilizer Policy and our Gas supply contracts, on the basis of which we invested USD1.1 Billion to expand our fertilizer manufacturing capacity

## Outlook

- ▶ Post subsidy announcement, urea volumes have already picked pace with 2H 2016 expected to witness increased volumes
- ▶ Given better gas availability in the Mari and Sui networks as well as LNG, the industry will likely remain in a long term supply overhang
- ▶ International DAP prices are also expected to remain under pressure due to soft commodity prices

# THANK YOU

## Q & A