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ANALYST BRIEFING

1H 2017

Security Analyst Briefing
FY 2016

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UREA MARKET ENVIRONMENT

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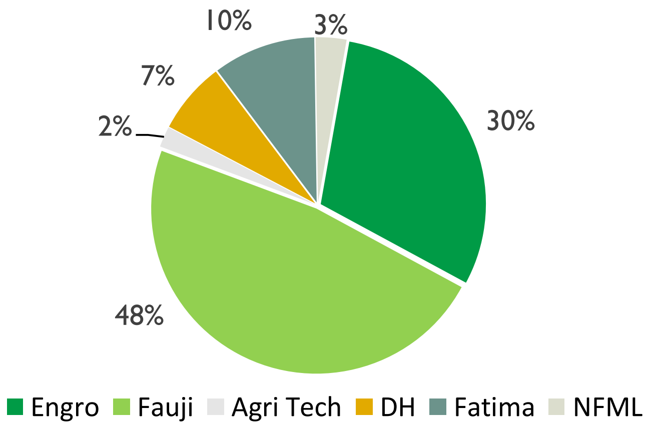
- Industry urea sales clocked in at 2,683 KT vs. 1,824 KT in 1H 2016, i.e. ~47% increase from corresponding period
- Improvement in offtakes is mainly due anticipated reduction of subsidy from PKR 156/Bag to PKR 100/bag from July onwards
- Industry production for 1H 2017 stood at 2,889 KT vs. 2,944 KT in 1H 2016, mainly due to lower production by Agritech (-74KT) and FatimaFert (-39KT).
- Both Agritech and FatimaFert were intermittently operational due to either limited gas avails or negative margins
- EFERT 1H 2017 sales were 793 KT, market share stood at 30% (branded urea market share 31%) vs 29% (branded urea 29%) last year
- Moreover, EFERT's lead in export of urea vs the industry by exporting 87KT vs. total industry exports of 123KT (EFERT market share in exports is 71%)
- International Urea price dropped from USD 250/T in the start of 2017 to USD 200/T (PKR 1,340/bag with GST) with the oversupply in the market weighing in on prices throughout 1H 2017

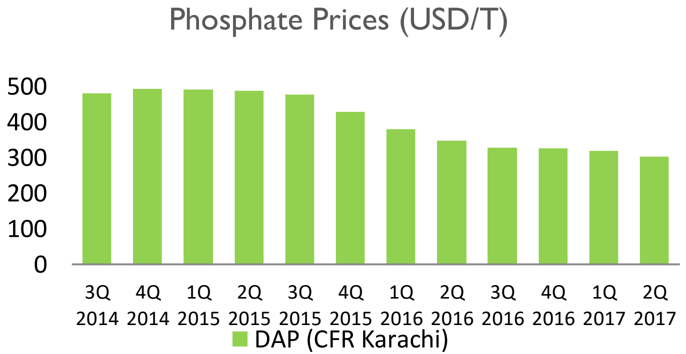
Urea Industry (KT)	1H 2017	1H 2016	Change
Opening Inv.	1,043	558	
Production	2,889	2,944	-0.2%
Exports	123	0	
Sales	2,683	1,824	47%
Closing Inv.	1,113	1,667	

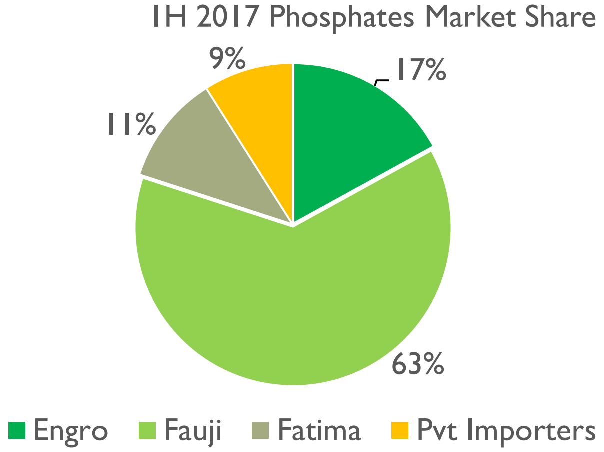
1H 2017 Urea Market Share



PHOSPHATES MARKET ENVIRONMENT

- 1H 2017 industry sales stood at 563 KT compared to 504 KT in 1H 2016, an increase of 12% YoY
- Higher industry sales were primarily due to continuation of subsidy on phosphates which led to improved demand
- EFERT sales during 1H 2017 stood at 95 KT vs 128 KT during 1H 2016.
- Margin for the period were lower than expected, due to pricing pressure within the industry
- Engro DAP market share was 17% vs. 25% last year due to favorable conditions for local producer & price capping by Govt. of Punjab
- In the recent budget, cash subsidy was replaced by reduced sales tax and tax regime changed to FTR from NTR
- In addition to this the Government of Punjab has announced direct subsidy to famers of PKR 100-150/bag on DAP from August 2017
- International DAP prices declined to USD 360/T during 1H 2017





ZARKHEZ MARKET ENVIRONMENT

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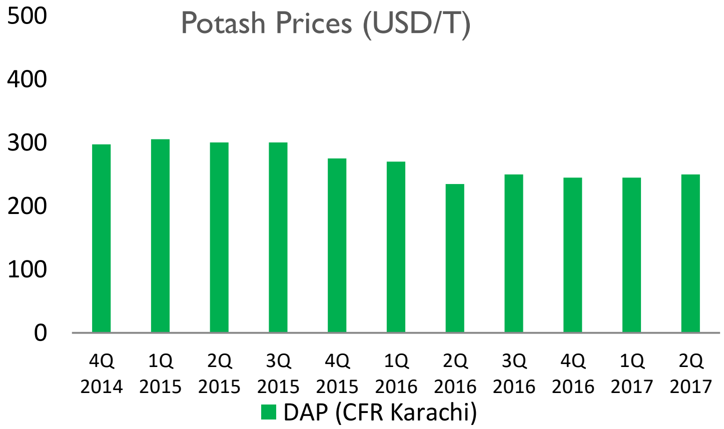
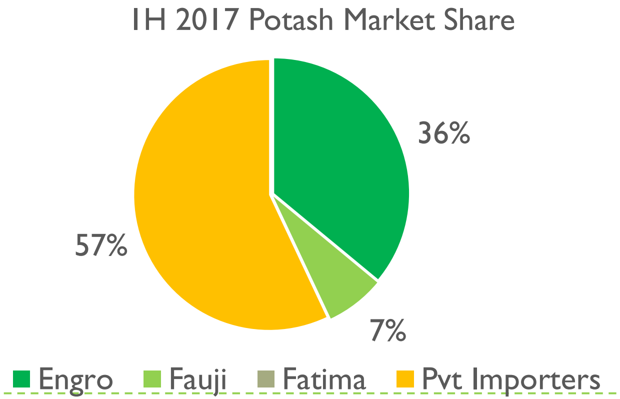
- Potash industry in 1H 2017 increased to 22 KT vs. 11 KT in 1H 2016, buoyed by lower potash prices, subsidy on potash, and improved farmer economics
- Market share of Engro (Zarkhez & straight potash) was at 36% vs. last year at 45%
- Lower market share was a result of aggressive sales by private importers at low margins
- Total ZBU sales for 1H 2017 stood at 64 KT vs 1H 2016 sales of 39 KT
- Within ZBU, Zarkhez sales stood at 28 KT. Straight potash fertilizers sales stood at 5KT, NP sales stood at 31 KT
- In lieu of the improved sales, production during 1H stood at 52 KT vs 36 KT last year
- In budget 2017, cash subsidy on phosphatic content of NPK and NP has been replaced with reduced sales tax.

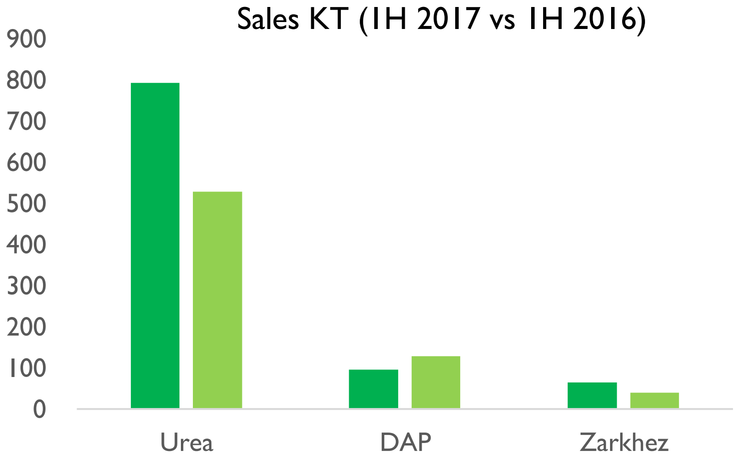




BUSINESS HIGHLIGHTS

- For 1H 2017, the Company has declared a Profit after tax of PKR 4,116 million, an increase of 46% over PKR 2,817 million earned in 1H 2016
- Higher profitability was led by exports and higher sales on the back of anticipated reduction of subsidy from PKR 156/Bag to PKR 100/bag from July onwards
- Sales revenue for the Company was PKR 27,311million for 1H 2017, up 23% as compared to same period last year (PKR 22,278 million). Improved sales revenue is primarily due to stable fertilizer prices and higher urea offtake
- The management continued with loan repayments, lowering benchmark interest rates and re-pricing of various long-term loans
- This saving was partially offset by higher working capital needs due to excess inventory.

PKR M	**1H 2017**	**1H 2016**
Total Revenue	27,311	22,278
Gross Profit	8,769	6,656
Finance Cost	(1,309)	(1,586)
Profit / (Loss) After Tax	**4,116**	**2,817**



UPDATES

- The Economic Coordination Committee (ECC) has extended exports deadline till October 31, 2017 with an increased quantity of 600KT
- The Company is currently in discussion with Mari for finalizing term sheet of 26 MMSCFD allocated gas for its old plant.
- Change in tax regime from NTR to FTR will hurt the profitability of the imported fertilizer segment going forward
- Recovery of subsidy and GST refunds remains an issue, with subsidy and GST receivable clocking in at PKR 7.8B at period end
- EFERT continues to withhold GIDC on all non-concessionary gases in lieu of the interim order by the High court in October 2016, striking down the GIDC Act
- The Company had also obtained a stay order against GIDC applicability on concessionary gas in 2015, and therefore, no GIDC is being paid or accrued for concessionary gas supplied to the new urea plant.

OUTLOOK

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- Global urea demand in 2017 is expected to grow marginally, while supply is expected to trend moderately higher, with new capacities coming on line
- With global markets being under pressure, urea prices are expected to remain soft in 2017
- Local urea demand for 2017 is expected to remain stable, courtesy the anticipated improvement in farmer income led by an increase in crop prices and subsidy continuation in 2017
- Despite a strong volumetric recovery in 1H vs. LY, urea industry is expected to remain at 5.5 MT as ~400 to 500 KT sales made in 1H was in anticipation of price increase
- Global DAP prices followed a declining trend and the prices are expected to remain soft during 2H 2017.
- Major factors that will continue to drive the market are commodity prices, supply fundamentals of China & Middle East and import demand from major demand centers
- Due to continuation of subsidy, Punjab government initiative to support farmers and upbeat farmer economics due to increase in crop prices, local DAP demand for 2017 is expected to remain stable
- EFERT continues to explore opportunities within the country to expand its business within Agri input space

THANK YOU
Q & A