

# morning shout

Pakistan Daily Notes

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## Fertilizer: Strong urea sales; Buy FFC

- Jan-Feb fertilizer off-take figures have indicated a 50% YoY growth in urea and a 53% YoY decline in DAP sales. In the month of February alone urea sales were up 38% while DAP sales have declined by 77% YoY.
- We believe a continuous increase in global and subsequently domestic prices, will continue to hurt DAP consumption in the country, which bodes well for urea in the form of rebound in sales and expansion in margins.
- We reiterate our liking for the largest and the lowest cost producer of urea, Fauji Fertilizer (PO: PRs146/sh), providing best exposure to play the 'urea' theme.

### Jan-Feb2008 sales — Urea up 50%; DAP down 53%; Buy Fauji Fertilizer

The year 2008 has begun with a rebound in urea demand that grew 50% YoY (shift from DAP, improved farm income) while DAP demand fell 53% (sharp price hike) during the first two months of 2008. A sharp rebound in urea demand and expansion in urea margins for domestic producers have reinforced our urea demand pick-up theme for 2008 where Fauji Fertilizer (FFC) is our top pick in the fertilizer sector. FFC provides the best exposure to the theme.

### Further price momentum expected in DAP

The benchmark export prices for DAP have already touched US\$950-1,000/ton FOB as the Chinese export ban exacerbates supply shortage stemming from the closures of non-integrated capacity in India due to soaring rock, sulphur and ammonia costs. As a chain reaction, we expect domestic DAP to see further price momentum in the near term. We expect the year-end ex-factory prices to touch PRs3,000/bag from PRs2,550/bag currently, averaging PRs2,750/bag for 2008 (2.4x 2007 average price).

### Rising DAP prices to hurt DAP demand...

With Pakistan still dependent on imports to meet 70% of its demand and the continuing uptrend in global DAP prices we believe domestic demand will remain vulnerable to global price hikes. While DAP demand has indicated a 77% YoY decline in February, YTD DAP application for the Kharif season was down 38%. With the price momentum expected to further strengthen from here and the new government unlikely to increase DAP price subsidy (PRs470/50kg bag) in the near term to rescue farmers, we do not expect any significant rebound in demand to reverse the situation for the rest of the year.

### ...but bodes well for urea

Urea and DAP are not equal substitutes for each other, but still we have witnessed some shift from DAP to urea with rising price differential between the two products. 50% YTD growth in sales, rising price differential with DAP and widening gap between local and imported urea (local urea is selling for ~US\$190/ton compared to current fob prices of US\$400/ton in global markets), have made the case for improved pricing power and thus expanding margins even stronger for domestic urea producers. The fertilizer review committee of the government has already highlighted the need for 100k tons of urea import for the upcoming Kharif crop (cotton and rice) while further import order placement is expected for the next Rabi crop (wheat). We expect urea sales to see 4% growth in 2008, as farmers plan to plant more wheat in light of record wheat prices and apply maximum urea/acre as applying required DAP/acre has become increasingly difficult.

### FFC is our top pick to play the 'urea theme'

FFC (C-1-7, PO PRs146/sh) – being the market leader and lowest cost producer of urea – is our top pick in the fertilizer sector. The company provides the best exposure to the urea demand pick-up theme in 2008. FFC is trading at 10x 2008E EPS while offering the highest dividend yield among peers of 9% 2008E. We are Neutral on FFBL and Engro.

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### Fauji Fertilizer Company

Current Price PRs141.70  
Price Objective PRs146.00

KATS FFC  
Bloomberg FFC PA  
Reuters FAUF.KA

Shares Outstanding  
493.47mn

Market Cap  
PRs 69,949m (US\$1,114m)

3m average daily volume  
2,100,579 shares

12-month High/Low  
143.00 / 105.30

### Stock Performance

	1M	3M	12M
Absolute%	9.84	14.31	32.48
Rel Index	9.40	12.24	-1.33
Abs. (PRs)	12.70	17.75	34.75

### Financial Highlights

	2007A	2008E	2009E
Sales (PRs mn)	28,429	34,509	41,119
% Change	-5%	21%	19%
PAT (PRs mn)	5,361	6,611	7,934
% Change	16%	23%	20%
EPS (PRs)	10.86	13.40	16.08
PER (x)	13.05	10.58	8.82
DPS (PRs)	11.00	12.50	13.75
Yield (%)	8%	9%	10%
P/BV	5.49	5.26	4.80
EV/EBITDA	8.10	6.77	5.73
P/CF	9.71	9.51	7.32

Source: KASB estimates, company accounts

**Morning News**

► **SECP agrees to waive initial cash margin under CFS Mk II** (Dawn)  
 The Securities and Exchange Commission of Pakistan (SECP) has agreed to waive the requirement of initial margin in 'cash' under the CFS Mk-II. The key features of CFS Mark II include 1) CFS Mk II will have no cap and will be available on all eligible securities from April 7th; 2) CFS Mk II will now run parallel with the current CFS market till June 2008; 3) After July 08, initial margins will be 100% in eligible securities where financing in CFS Mk II market remains at or below PRs85bn, 10% cash for CFS ranging between PRs85-100bn, 20% for PRs100bn-125bn and 35% for PRs125bn-150bn; 4) mark-to-market losses and special margins for financee and financier in CFS Mk-II should be provided with 100% cash; 5) Initial margin in deliverable futures market would be 100% securities initially if the open interest remains at or below PRs20bn, 10% for interest ranging between PRs20-30bn; 35% for PRs30-35bn and 50% for any amount exceeding PRs35bn.

**Technical View**

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**Sell Between 15,225 Points And 15,310 Points; First Support 15,055 Points, Second Support 14,980 Points**

The index opened on a positive note and after touching its resistance trendline (black line) it took to a downtrend to close in the red. The formation created by the index is an Engulfing Bearish Formation after a Spinning Top, which is an exceedingly bearish formation and potentially indicates a top. Moreover the index is moving within an expanding wedge, which in itself is a bearish pattern, thus suggesting that there is limited upside, if any. It is advised to adopt an exit strategy.

In addition to the above, the Stochastic Oscillator on a daily has now become overbought, while on a weekly basis it has taken to a downtrend after touching its peak in the overbought region. Also the 14-D RSI has started to show weakness as well. Other momentum indicators have started to lose steam as well.

It is suggested to sell between 15,225 points – 15,310 points. The first support is at 15,055 points and the second support is at 14,980 points.

**KSE-100 Intra-day Movement**



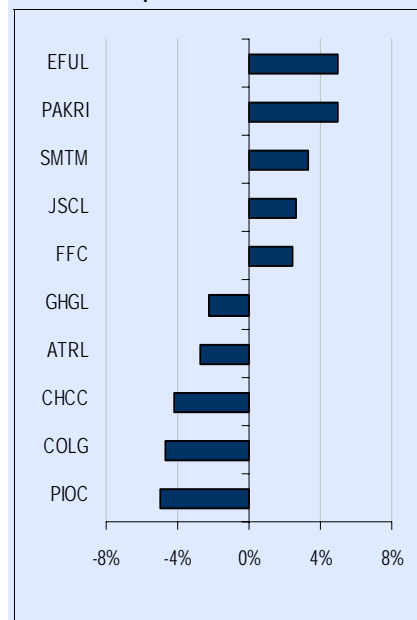
Source: KSE

**Index Data & Volume Leaders**

	Close	% Chg	Vol. US\$mn
KSE30	18,444.83	-0.35%	377.42
KSE100	15,122.76	-0.39%	400.04
KSE All Share	10,730.12	-0.35%	440.25
MCB	400.05	1.15%	47.22
JSCL	745.00	2.68%	47.04
POL	369.60	-1.18%	28.12
DGKC	110.05	-2.00%	26.57
PPL	259.75	-1.50%	24.04

Source: KSE

**KSE-100: Top Gainers & Losers**



Source: KSE