

May 25, 2009

Pakistan Market**4M2009 Fertilizer offtake update****MORNING BRIEFING**

KSE100 Index: Closing 7146.24 ↑ (176.42)

National Fertilizer Development Centre (NFDC) has today released the monthly fertilizer offtake numbers for April, according to which total fertilizer offtake stood at 2.5mn tons in 4M (Jan-Apr) 2009, up 16% compared with 2.1mn tons last year. While offtake witnessed an upward trend on YoY basis, the situation was expectedly different on a MoM basis as offtake recorded a decline of 11%.

Given the cyclical nature of the fertilizer utilization, Apr – May remains a lull period as procurement activity for the Rabi seasons kicks off around June while procurement for Kharif is generally completed during the first quarter.

DAP: 142% growth in offtake during 4M2009

DAP offtake remained strong in Apr 2009, as lower DAP prices coupled with better support prices helped DAP offtake to arrive at 49k tons up a massive 722%YoY. Resultantly, offtake in 4M2009 reached 239k tons (up 142%YoY). We believe high DAP offtake would ensure better fertilizer mix in the months to follow. The mix was deteriorated during last year due to delayed subsidy announcement and uncertainty regarding support prices. The urea to DAP ratio rose to 7:1 in 2008 as against a prescribed ratio of 3:1. On the back of stable DAP price outlook, we expect a robust DAP consumption, which would help sustain bumper crop for next year- a welcome boost to agriculture and economy.

Urea offtake robust, up 8%YoY in Apr 09

Despite higher prices up 23%YoY to Rs690/bag, urea offtake continued its uptrend to 422k tons, up 8%YoY, in Apr 2009. As a result, the total offtake in the 4M2009 stood at 2.0mn tons up 9%YoY. On the flip side, the urea off take witnessed the declining MoM trend by 9%. We are not discouraged as historically urea off take remains slow in 2QCY09 due to wheat harvesting. The off take is expected to take u-turn from June onwards once the Rabi season sowing kicks in.

Outlook: 'Over-weight' maintained

Government's continued focus on the agriculture sector

bodes well for the fertilizer offtake outlook in 2009 and beyond. This coupled with low DAP prices around US\$330/ton (down 71% from peak) is likely to ensure significantly higher offtake YoY. After analyzing the data for Jan-Apr, we estimate urea offtake to arrive around 5.9mn tons up 8%YoY while DAP is expected to witness a major jump of 40% with a likely offtake of 1.1mn tons. The continued demand supply gap (800-900k tons) makes offtake more or less guaranteed and given high prices (up 23%YoY) predominately urea play FFC is likely to witness a handsome earning growth of 21% in 2009. We therefore maintain our 'Over-weight' stance on the sector which trades at 2009E PE and dividend yield of 7.9x and 13%, respectively, with FFC our top pick at current levels.

Table: Fertilizer Offtake (Jan-Apr) 2009

000 tons	4M2009	4M2008	Δ%	Apr-09	Apr-08	Δ%
All fertilizer	2,466	2,132	16%	562	468	20%
UREA	1,961	1,793	9%	422	390	8%
DAP	239	99	142%	49	6	722%

Source: NDFC

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Also in focus**Cements: 25% reduction in excise duty likely**

According to a local newspaper report, government is likely to reduce excise duty for cement manufacturers by 25% in the upcoming budget. This measure if implemented will reduce excise duty to Rs675 per ton from Rs900 per ton. If cement manufacturers opt to pass on the full impact to the consumers then it is expected to reduce cement prices in the retail market by Rs12 per bag. This bodes well for the local cement demand in the upcoming future. We currently have a 'Market-Weight' stance on the cement sector.

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