

May 28, 2010

Pakistan Market**4M2010 Fertilizer offtake & outlook****MORNING BRIEFING**

KSE100 Index: Closing 9439.97 ↓ (-171.58)

National Fertilizer Development Centre (NFDC), yesterday, released monthly fertilizer offtake numbers for April 2010, according to which the total fertilizer offtake stood at 2.4mn tons in 4M2010 (Jan-Apr), down 4%YoY. Given the cyclical nature of fertilizer utilization, Apr-May remains a dull period as procurement for the khariff season is generally completed during the first quarter while procurement for the Rabi season kicks off in June.

DAP: 3% decline in offtake 4M2010

Despite higher DAP prices of Rs2,550 per bag, its offtake for the period declined by a mere 3%YoY to 232k tons (239k tons in 4M2009). On monthly basis, offtake dwindled by a significant 55% as April remains a lull period for fertilizer offtake. Going forward, we expect DAP offtake to pick up pace from June onwards as the procurement for the Rabi season kicks in; and our anticipation of the GoP to keep the support prices at current levels in the upcoming budget further supports our view. Moreover, as the phosacid prices are locked in till June 2010, we do not see any price changes in DAP.

Urea offtake down 5%YoY during 4M2010

In 4M2010 (Jan-Apr) urea offtake took a hit posting a decline of 5%YoY to 1.87mn tons mainly due to rising urea prices (Rs780 per bag - up 13%YoY). Due to the gas curtailment issue prices have risen further and currently stand at Rs855 per bag or US\$203 per ton which is still at a steep discount of 44% to the landed import cost of US\$360 per ton. This price hike could be a major factor affecting the offtake in coming months especially in May when the fertilizer offtake is relatively slow. To cover up the production losses the GoP will have to import an incremental urea of 150k-200ktons in the coming months, implying a Rs1bn per month subsidy from the GoP.

The GoP has decided to end the gas curtailment by July 31, 2010 upon which the fertilizer manufacturers have agreed to

lower the prices back to Rs780 per bag once the normal gas supply is restored.

Fertilizer Offtake (Jan-Apr) 2010

'000 tons	4M2010	4M2009	Δ%	Apr-10	Apr-09	Δ%
All fertilizer	2,377	2,466	-4%	554	562	-1%
UREA	1,867	1,961	-5%	452	422	7%
DAP	232	239	-3%	22	49	-55%

Source: NFDC

Outlook: 'Over-weight'

The gas curtailment still remains a major concern for the fertilizer manufacturers. However, the recent price hike (Rs75 per bag to Rs855) has mitigated any potential losses for the bigger players like Engro and FFC. That said, any prolonged gas supply concerns especially once Engro's new plant comes online pose a potential challenge for the fertilizer sector. Nevertheless, we believe with commissioning of the new RFO based IPPs by the Nishat Group and Hubco in 2H2010, together with possible sanctioning of some RPPs could eventually improve the gas supply situation for fertilizer companies.

With attractive 2010 dividend yields of FFC and FFBL at 13% each and Engro's diversified business portfolio (ranging from foods to energy), we remain bullish on the fertilizer sector on the whole. Thus, we reiterate our 'Over-weight' stance on the sector recommending a 'Buy' on Engro, FFC and FFBL.

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Also in focus**Banking spreads avg. at 7.31% for 4M2010**

Banking sector spreads averaged 7.31% in 4M2010, down 34bps from 7.65% in the corresponding period last year. However, in April alone, spreads inched up 9bps to 7.39%, from 7.30% in Mar 2010. Average lending rates rose 2bps MoM to 13.42%, while deposit rates declined by 7bps from last month to 6.03%. We expect spreads which averaged 7.47% in 2009 to decline by 40-50bps in 2010.

Banking Sector Spreads for Apr 2010

(%)	Lending	Deposit	Spread
4M2010	13.39	6.08	7.31
Apr-10	13.42	6.03	7.39
Mar-10	13.40	6.10	7.30
Apr-09	14.14	6.60	7.54

Source: SBP

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