

December 29, 2009

Pakistan Market**Fertilizer: DAP offtake up 114%YoY in 11M2009****MORNING BRIEFING**

KSE100 Index: Closing 9422.23 ↑ (+119.31)

NFDC reported fertilizer off take statistics for November 2009, where urea sales surged by 17% MoM to 501K tons and DAP sales by 105% MoM to 282k tons. Despite higher urea prices, the pick up in off take clearly reflects farmers' improved purchasing power, led by higher support prices off late. On the back of higher urea application, we expect agriculture yields to improve. Therefore, we maintain our 'Over-weight' stance on the fertilizer sector with Engro being our preferred play, with a target price of Rs215.

DAP: 114%YoY growth in 11M2009

Improved farmer income combined with lower DAP prices led to robust DAP off take in November 2009 to 282k tons, up a massive 105%MoM. Amongst the major players, FFBL and Engro sold 64k and 50k tons respectively, while for the first time in 2009, FFC imported 40k tons of DAP and managed to sell 36k tons. Local ex-factory DAP prices averaged Rs1,900/bag in Nov 2009 as against Rs5,200/bag last year. International DAP prices rose by US\$20-25/ton in November, however, major players like Engro and FFBL kept local prices unchanged at Rs1,910 per bag as they are still Rs500/bag higher than international prices.

If we analyze the 11 month (Jan-Nov) numbers, FFBL sold a healthy 641k tons of DAP while Engro managed to sell 278k tons. Resultantly, industry's offtake reached 1.5mn tons, up 114%YoY. Historically, DAP offtake remains low in December as most of the procurement for the Rabi season finishes in November, thus we expect the full year off take to arrive at 1.6mn tons with 50-60k tons of procurement in December.

Urea offtake up 17%MoM in November

Despite higher urea prices at Rs730 per bag, urea demand continued its upward trend with urea sales arriving at 501k tons in November 2009, up 17%MoM (+13%YoY). Interestingly, despite higher demand, both FFBL and Engro saw MoM sales declined by 27% and 6% respectively during November. In contrast, FFC managed to sell 184k tons

of urea (up 8%MoM). With the release of November data, total offtake in 11M2009 stood at 5.6mn tons as compared to 4.9mn tons in the corresponding period last year, up 13%YoY. Similar to DAP, we expect urea demand to fall in December prior to inventory buildup for the 2010 Kharif season in January.

Outlook: 'Over-weight' maintained

Government's continued focus on agriculture sector and encouraging production numbers for cotton & other crops bodes well for the fertilizer offtake outlook for 2010. Looking at the 11M2009 numbers, we are confident about our full year urea offtake forecast of 5.9-6.0mn tons. Despite commissioning of the 1.8mn tons of new urea capacity (Engro and Fatima Fertilizer), we believe, the excess supply of 500-600k tons can be easily exported to regional countries such as India and China. Thus, we maintain our 'Over-weight' stance on the sector, with Engro being our top pick at current levels.

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Also in focus**Textile exports up 2.9%YoY in Nov09**

As per the detailed statistics released by FBS, textile exports for the month of November declined by 6.5%MoM to arrive at US\$853mn while it rose by 2.9%YoY due to higher yarn and raw cotton exports. Higher international prices and production shortfall allowed local yarn and cotton manufacturers to achieve better prices in the international markets, leading to higher exports. On the flip side, exports for 5MFY10 came in at US\$4.2bn, down 3.21%YoY.

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