

August 31, 2010

Pakistan Market**7M2010 fertilizer offtake and outlook****MORNING BRIEFING**

KSE100 Index: Closing 9,516.42 ↓ (-82.29)

National Fertilizer Development Centre (NFDC) reported fertilizer off take statistics for July 2010, showing DAP sales surged by 7%MoM to 49k tons, while urea sales recorded a decline of 9%MoM to 528k tons. On yearly basis, both urea and DAP sales declined by 15% and 79% respectively in July. Gas curtailment since Apr 2010 has been the primary reason for the decline in urea offtake, whereas DAP sales remained sensitive to high prices (average prices are up by ~23%YoY) during the period. Nevertheless, we remain 'Over-weight' on the fertilizer sector with the three blue chip companies (FFC, FFBL and Engro) being our preferred plays.

DAP offtake down 47%YoY in 7M2010

DAP offtake during 7M2010 remained sluggish as it declined by 47%YoY. A major factor behind the fall in DAP offtake has been the high DAP prices (average DAP prices are up ~23%YoY). In July alone the offtake declined by 79%YoY to 49k tons while on monthly basis however, offtake surged by 7% from 46k tons mainly on price hike rumors in the future. Despite a likely slowdown in offtake on a full year basis due to the recent floods in the country, offtake is likely to somewhat improve in the coming months as sowing for the Rabi season starts in Sep-Oct.

FFBL managed to sell 16k (down 86%YoY) tons while Engro sold 18k (up 51%YoY) tons of DAP during July.

Urea offtake down 9%MoM in July

Lower sales during the month were mainly attributable to gas curtailment (which has been prolonged till Oct 31, 2010) and higher urea prices during the period. Urea prices currently stand at Rs830 per bag, rising by 11% since the start of the year. Consequently, urea offtake in 7M2010 declined to 3.6mn tons (down 1%YoY), while it decreased by 9%MoM. On yearly basis, offtake declined by 15%YoY in the month of July.

Amongst the major fertilizer companies, FFC, FFBL and Engro's offtake reduced by 3%, 13% and 14%YoY

respectively.

Fertilizer offtake

'000 tons	All Fertilizer		UREA		DAP	
	Jul-10	Jul-09	Jul-10	Jul-09	Jul-10	Jul-09
Opening Inventory	727	416	226	103	323	147
Imported supplies	417	294	259	183	154	109
Domestic prod.	634	539	468	442	55	47
Total availability	1,778	1,250	953	728	533	303
Offtake	672	910	528	618	49	226
Write off / on	14	5	7	2	1	
Est. balance	1,092	335	418	109	484	78

Source: NFDC Fertilizer Review Mid Aug 2010

Outlook: 'Over-weight'

Extended gas curtailment and the recent flood situation in the country pose a great challenge for the fertilizer manufacturers. Although precise numbers to gauge the destruction caused by the floods are yet to be made available, initial estimates according to UN tell us that ~2mn hectares of land have been destroyed naturally affecting the future income for the farmers. Nonetheless, we still remain 'Over-weight' on the fertilizer sector given the possible acquisition of Agritech by FFC and Engro's diversifying business portfolio. We currently have a 'Buy' call on FFC, FFBL and Engro.

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Also in focus**Moody's comments on Pakistan sovereign rating**

Moody's Investors Service yesterday issued a comment on the country's sovereign rating, stating that floods will lead to a large supply side shock and are expected to limit the country's near term ability to achieve sustainable strong growth. It also hinted that the prospects for an improvement in Pakistan's current B3 rating have become muted; however, downside risks to rating too were limited. Moody's also concluded that despite imminent threats to macro economic stabilization efforts being undertaken for the past two years having emerged, the external position remains adequate. Therefore, in our view, we could see the current rating being maintained, at least in the short term.

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