engrofertilizers

ANALYST BRIEFING

FY 2016

Security Analyst Briefing
FY 2016

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UREA MARKET ENVIRONMENT

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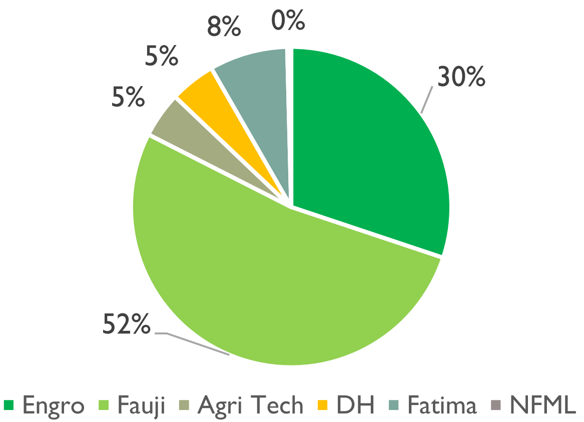
- Industry urea sales clocked in at 5,485 KT vs. 5,582 KT in 2015, i.e. ~2% lower YoY
- Lower demand for urea during first half was offset by higher consumption of urea in second half on account of better agronomic demand on cotton and rice & subsidy implementation near the end of 1H
- Industry production stood at 5,998 KT vs. 5,290 KT in 2015. Higher urea production was a result of higher gas availability in the system – a direct consequence of imported LNG. Consequently, three price cuts were undertaken in 2016
- EFERT sales for 2016 stood at 1,652 KT, with market share of 30% vs. 34% in 2015, whereas 4Q 2016 sales stood at 630KT
- Decline in market share is mainly due to players previously not operating, now coming online due to gas availability primarily from LNG
- At the international front, urea price has rebounded and is currently trading in the range of CFR USD 240-250/ton. This translates to a landed equivalent of ~PKR 1,600/bag vs. domestic urea price in the range of PKR 1,200-1,300/bag (excluding subsidy) at the year end

Urea Industry (KT)	FY 2016	FY 2015	Change
Opening Inv.	561	210	
Production	5,998	5,290	13.4%
Imports	0	643	
Sales	5,485	5,582	-1.7%
Closing Inv.	1,049	561	

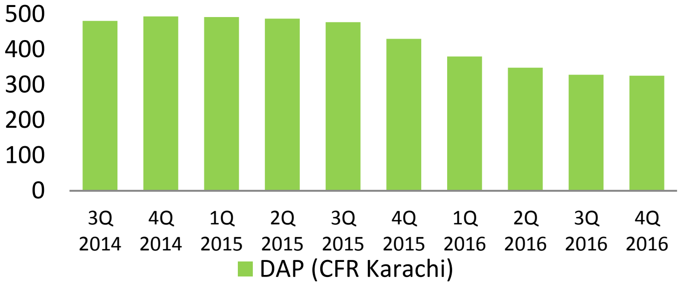
FY2016 Urea Market Share



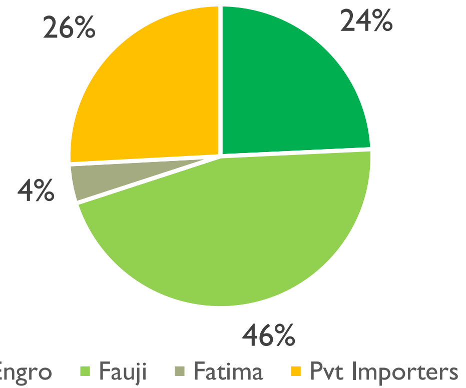
PHOSPHATES MARKET ENVIRONMENT

- 2016 industry sales stood at 2,225 KT compared to 1,814 KT in 2015, a growth of 23% YoY
- Higher industry sales were primarily due to subsidy on phosphates throughout this year and lower international prices
- The international DAP prices which started from USD 400/T at the start of the year, averaged around USD 345/T during the year to close at USD 330/T at the end of 2016
- Company sales during the year stood at 534 KT (highest ever sales) vs 391 KT in 2015, up 41% YoY
- Engro DAP market share was 24% in 2016 vs 22% in 2015
- Currently, Ex-Khi DTP stands at PKR 2,300
- International DAP prices continued to decline throughout 2016 falling from USD 400/T to USD 310/T due to positive demand – supply fundamentals. Thereafter, prices began to rise due to cutbacks in export availability from Chinese producers who were instead focusing on local demand

Phosphate Prices (USD/T)

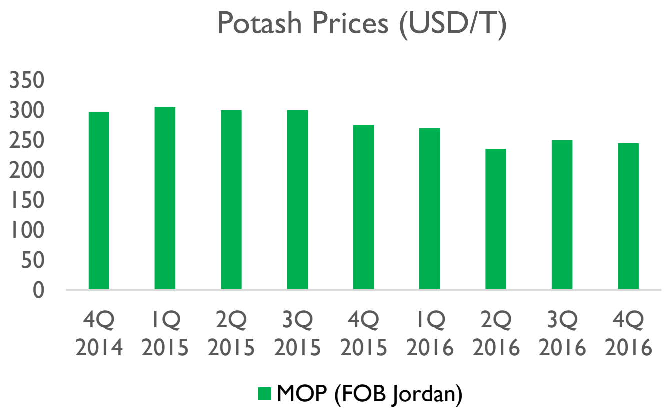


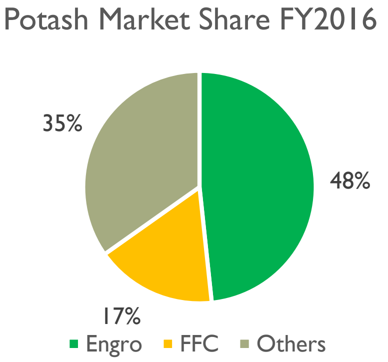
FY2016 Market Share



ZARKHEZ MARKET ENVIRONMENT

- Potash industry in 2016 increased to 27 KT vs 25 KT in 2015, spurred on by lower international prices of MOP & SOP
- However, these low prices resulted in farmers switching to straight fertilizers vs. Zarkhez. Resultantly, market share of Zarkhez fell from 47% to 38%. However, overall potash market share for EFERT closed at 48% vs. 49% last year
- Total ZBU sales for 2016 stood at 114 KT vs 2015 sales of 135 KT (down 16%YoY). Within total ZBU sales, Zarkhez contributed 58 KT, E-NP 51 KT, and MOP/SOP 5 KT
- Sales were primarily dented due to oversupply in the NP industry. The resultant oversupply also led to lower margins.
- Moreover, lack of subsidy on potash coupled with lower prices of straight fertilizers, led to reduced sales of Zarkhez

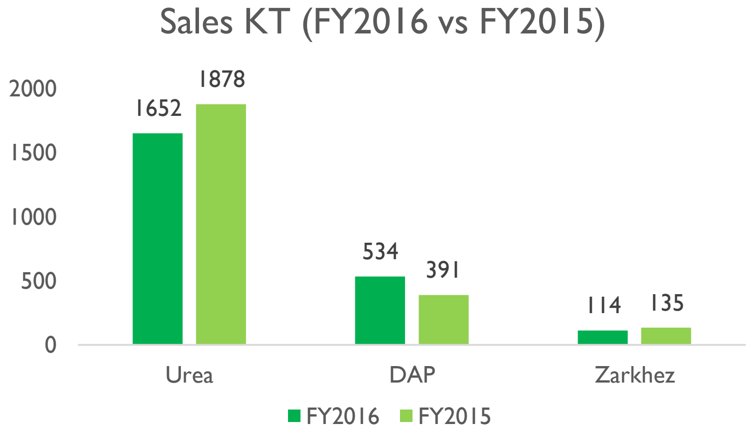




BUSINESS HIGHLIGHTS

- For full year 2016, the Company has declared a Profit after tax of PKR 9,283 million (consolidated), a decrease of 37% over PKR 14,819 million earned in 2015
- The lower profitability was primarily due to lower urea offtake and multiple price cuts amid the industry oversupply situation
- Sales revenue for the Company was PKR 77,415 million for 2016, lower by 12% as compared to the previous year (PKR 88,031 million). Decrease in sales revenue is primarily due to lower fertilizer prices and lower urea offtake
- On the positive side, however, the Company's phosphate segment, which was acquired in 2015, showed strong performance
- The management continued to negotiate and bring down mark-up rates on its long term and short term loans which helped reduce financial charges and augment profitability
- The company is also undertaking initiatives to optimize its fixed costs to keep pace with challenging times faced by the urea industry

PKR M	FY 2016	FY 2015
Total Revenue	77,415	88,031
Gross Profit	17,439	29,697
Finance Cost	(3,187)	(4,627)
Profit / (Loss) After Tax	**9,283**	**14,819**



UPDATES

- The Economic Coordination Committee (ECC) in 1Q 2016 permanently reallocated 60 MMSCFD gas back to the fertilizer companies to whom it was originally allocated, out of which EFERT's share was 12.5 MMSCFD
- Throughout the year, Engro Fertilizers Limited remained in discussion with the relevant parties for allocation of surplus gas to ensure continued two plant operation
- Recently, ECC approved the allocation of 26 MMSCFD to Engro Fertilizers Limited. This allocation along-with other available gas streams is now sufficient for two plant operations
- During the year, GIDC was struck down by the Sindh High Court being ultra vires, against which the Ministry obtained a suspension order. However, some clarifications are being taken from legal advisors and the Company is actively reviewing the position
- Apart from this litigation, EFERT also has a separate case for its concessionary gas allocated to it under the Fertilizer policy. No payment of GIDC is made on concessionary gas on the basis that it would be in direct contravention of the Fertilizer policy and our gas supply contracts on the basis of which we invested USD 1.1 Billion for expanding our fertilizer manufacturing capacity
- ECC has approved export of 300 KT of urea till April end. This quote is likely to be reassessed after April

OUTLOOK

- Global urea demand in 2017 is expected to grow marginally, while supply is expected to trend moderately higher, with new capacities coming on line. Although international urea prices have lately rebound, however, weak crop and stable input prices coupled with capacity increase in certain markets (FSU and Africa) are likely to keep the global markets under pressure and urea prices are expected to remain soft in 2017
- Local urea demand for 2017 is expected to remain stable, courtesy the anticipated improvement in farmer income led by an increase in crop prices and subsidy continuation in 2017 providing relief to local urea demand
- Despite a sharp rise in prices of DAP in January 2017, it is expected that the prices will soften back to year end level of 2016. Major factors that will continue to drive the market are commodity prices, supply fundamentals of China & Middle East and import demand from major demand centers
- Due to continuation of subsidy and upbeat farmer economics due to increase in crop prices, local DAP demand for 2017 is expected to remain stable
- The company continues to explore opportunities both within the country and abroad to expand its business within Agri input space

THANK YOU
Q & A