ANALYST BRIEFING

9M 2016

UREA MARKET ENVIRONMENT

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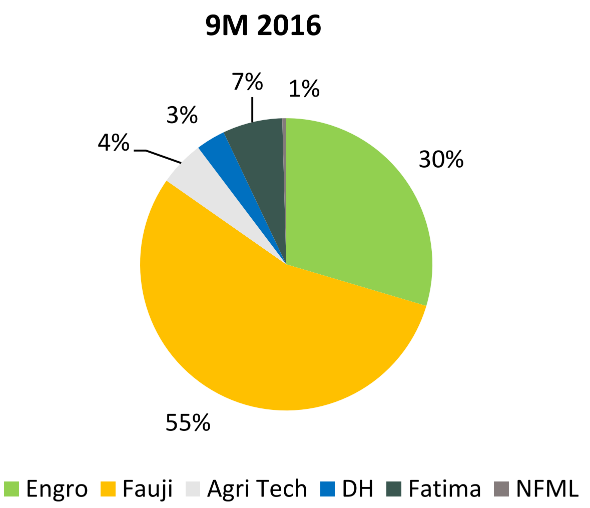
- 3Q 2016 witnessed a turnaround in urea industry sales with offtake at 1,643 KT compared to 1,059 KT in 3Q 2015. Similarly, demand for Kharif season improved by 12% with actual sales at 2,690 KT vs. 2,414 KT in the previous season
- The higher offtake was a direct result of subsidy announcement by the GoP towards the tail-end of 2Q 2016 which led to better farmer economics on cotton and rice
- That said, YTD industry sales stood lower at 3,460 KT vs last year's 3,924 KT due to lower urea pick-up in the first half of the year given
  - Weaker farmer purchasing power vis-à-vis fall in crop prices
  - Expectation of price reduction through subsidy
- To recall, the GoP in Budget'16 announced urea price reduction to PKR1,400/bag from previous PKR1,790/bag through a combination of price cut: PKR50/bag by manufacturers, subsidy: PKR 156/bag and GST reduction from 17% to 5%
- On the manufacturing front, 9M 2016 urea production increased to 4,482KT vs. 3,893KT in the same period last year, a growth of 15%. 3Q production stood at 1,543KT
- On the international front, urea prices continue to trade around CFR USD 210/ton. At the same time, the Economic Coordination Committee (ECC) has recently allowed a reduction in imported urea price to PKR1,200/bag. The current inventory of imported urea with NFML is 276 KT

Urea Industry (KT)	9M 2016	9M 2015	Change
Opening Inv.	561	397	
Production	4,482	3,893	15.1%
Imports	0	593	
Sales	3,460	3,924	-11.6%
Closing Inv.	1,571	773	



PHOSPHATES MARKET ENVIRONMENT

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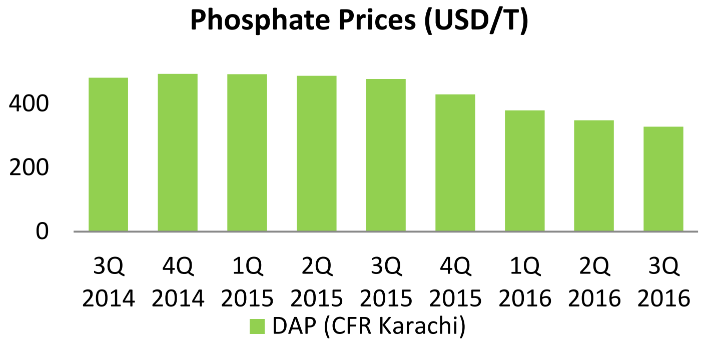
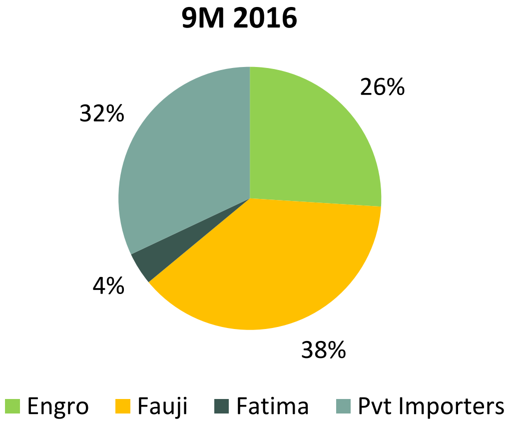
- 9M 2016 industry sales stood at 922 KT compared to 591 KT in 9M 2015, a growth of 56%YoY. Higher industry sales were primarily due to continued subsidy on phosphates during the year
- EFERT DAP sales in 9M 2016 were recorded at 242 KT vs. 151KT in 9M 2015. Market share in the DAP market stood at 26% in 9M 2016, flat vs. the same period last year
- Total sales during 3Q 2016 stood at 114 KT vs. 32 KT in 3Q 2015
- The GoP extended the subsidy on phosphates in Budget'16. Current subsidy stands at PKR 300/bag (effective: June 25, 2016), down from previous PKR500/bag
- Currently, Ex-KHI DAP price stands at PKR2,350/bag
- International DAP prices declined by ~USD10/T in the quarter to stand at USD335/T on the back of lower than expected purchases from India.





* Source: Company Estimates

ZARKHEZ MARKET ENVIRONMENT

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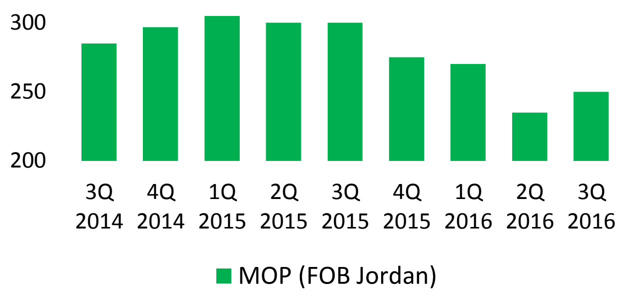
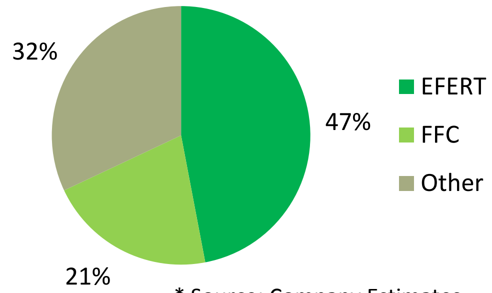
- Potash industry in 9M 2016 declined by 15% YoY due to poor crop economics and no subsidy on potash fertilizers
- The market share of Zarkhez increased to 47% (35% in 2015) resulting in a lower than industry decline in actual sales volumes. This is due to the fact that farmers prefer our brand to others in the market.
- Total ZBU sales for 9M stood at 71KT vs. 9M 2015 sales of 79KT (down 10%YoY). Within total ZBU sales, Zarkhez contributed 40KT, E-NP 27KT , and MOP/SOP 3 KT
- Sales continued to be impacted due to significant carryover channel inventory as well as consistent decline in NP price (down 23% CYTD), leading to dealer purchase reluctance.

Potash Prices (USD/T)



Potash Market Share 9M2016



* Source: Company Estimates

BUSINESS HIGHLIGHTS

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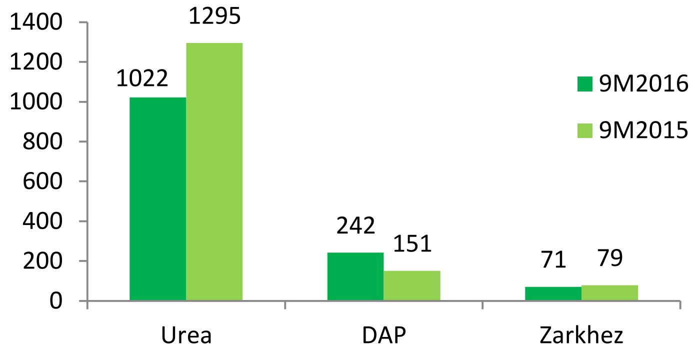
- EFERT 9M2016 PAT stood at PKR 5.7 B vs PKR 9.6 B in 9M 2015
- The drop in profitability was driven by both – decreased volumes as well as margins due to price cuts taken during the year
- EFERT slightly lost market share as other players in the market offered higher discounts due to the current oversupply situation.
- 9M2016 urea sales stood at 1,022 KT compared to 1,295 KT in 9M 2015, in-line with the industry trend mainly due to poor farm economics and price uncertainty up until the fiscal budget announcement in June 2016
- 9M 2016 urea production stood at 1,397 KT, compared to 1,472 KT in 9M 2015 due to planned turnaround
- The company's efforts to reduce its financial charges continue, with several loans having been re-priced – in line with the reducing interest rates
- Apart from re-pricing, financial charges continue to decline mainly due to repayments as per normal schedules.

PKR M	**9M 2016**	**9M 2015**
Total Revenue	44,319	51,863
Contribution Margin	18,438	25,633
Cash Fixed Costs	4,785	4,362
EBITDA	13,140	20,620
Profit / (Loss) After Tax	**5,745**	**9,590**

Sales KT (9M2016 vs 9M2015)



UPDATES & OUTLOOK

Updates

- As things stand, EFERT continues to operate both its plants pending a formal gas allocation
- At the same time, the company is also paying GIDC on current billing excluding concessionary gas
- With regards to the latter, EFERT obtained a stay order in 2015 and as such, no GIDC is being paid or accrued for the concessionary gas being supplied to the EnVen plant
- We maintain that GIDC on concessionary gas is in direct contravention with the Fertilizer Policy and our Gas supply contracts, on the basis of which we invested USD1.1 Billion to expand our fertilizer manufacturing capacity

Outlook

- There has been a structural shift in the local fertilizer industry dynamics where urea supply glut is expected to continue in the foreseeable future
- The shift has primarily occurred due to better gas supply on the Mari and Sui networks as well as availability of LNG
- Continued high inventory levels within the industry, despite an uptick in sales volumes in 3Q continue to put financial burden on manufacturers
- International DAP prices are also expected to remain under pressure due to soft commodity prices

THANK YOU
Q & A