In Focus
Fertilizer

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AGRITECH: Exposure to SSP

- **ANL intends to offload 24.4% of its shareholding in AGRITECH comprising of 95.67mn shares**
- **62.34mn shares have already been placed with Institutions and HNWI, while 33.33mn shares (inclusive of green show option) are to be offered to the general public through IPO process at PKR30/share**
- **The company has an installed capacity of 358ktpa for urea and 90ktpa for SSP and is currently undergoing a (USD58mn) BMR process to take productive capacity to 483ktpa for Urea and 160ktpa for SSP**
- **Given that DAP business for the company will remain volatile and significant inroads to market SSP will take time, we believe the stock is fairly valued compared to its peers at the offer price of PKR30/share**

Azgard Nine Limited (ANL) has announced its interest to offload about 24.4% of its holding in AGRITECH Limited (Previously: Pak-American Fertilizer Limited - PAFL) at a share price of PKR30 per share.

The company has already successfully placed 62.34mn shares through private placement to institutions and high net worth individuals (HNWI) at a price of PKR30/share, raising PKR1.87bn. For its offering to the general public, the company has shown intent of placing 33.33mn shares (with the green shoe option of 16.67mn share) at a price of PKR30/share (share premium of PKR20/share). The IPO will extend from March 11 – March 13, 2010.

The Company

ANL acquired 100% equity stake in AGRITECH in Jul06 at a cost of PKR16.1bn which then later acquired 100% equity stake in HPFL for PKR1.3bn in Nov08. AGRITECH now comprises of both PAFL and HPFL, with operations located in Mianwali and Hazara respectively. The core operation of AGRITECH is production and marketing of Urea and SSP (Single Super Phosphate), along with entertaining a trading position for DAP. The company currently has an installed capacity of 358ktpa for Urea and 90ktpa for SSP.

AGRITECH is under process of increasing its production capacity for both Urea and SSP through a (USD58mn) BMR process which is expected to reach completion by 1QCY10 end. The BMR process is expected to increase urea production to 483ktpa (125% utilization levels) and SSP to 162ktpa (180% utilization levels). As per the management, the project is under advance stages of completion, with plant and parts already received and paid for, negating any significant possibility of cost overruns.

The Products

It remains without saying that Urea has historically and for the foreseeable future remains the favored fertilizer within Pakistan. The company currently entertains about 7% share in urea offtakes throughout the country for Urea. Production advantage is achieved by the company through its modern plant which has a lower cost of production compared to its peers via efficient utilization of feed/fuel stock gas. According to the management, the Feedstock gas utilization stands at 23.84mmbtu/ton

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compared to an industry average of about 25mmbtu/ton, while fuel to feed ratio for the plant stands at 6.53% compared to an industry average of approximately 12.5%.

With regards to SSP, the company is pursuing aggressively to educate farmers on beneficial impacts of SSP usage compared to DAP, which offers more P2O5 per PKR than DAP. The company entertains a 63% market share in SSP market. However SSP contributes to only 5% of the overall phosphate based fertilizer market in Pakistan, compared to international market share of 25%.

The company believes it can expand market share of SSP in phosphate based fertilizer usage in Pakistan by creating awareness, while benefitting from organic growth in urea demand.

PKR/P_2O_5 Content

PKR/P2O5	NP	SSP
2006	26	23
2007	23	19
2008	73	51
2009	51	44

Source: Company Management

Market share phosphate Fertilizer

	Local	International
DAP	89%	39%
SSP	5%	25%
MAP	5%	30%
TSP	1%	6%

Source: Company Management

AGRITECH: Consolidated Profit and Loss

PKR mn	FY06A	FY07A	FY08A	FY09A
Net Sales	2,773	3,835	5,701	12,997
Gross Profit	894	1,876	2,571	4,563
EBITDA	1,194	1,836	2,493	4,618
Finance costs	170	968	1,192	2,448
PBT	635	572	1,450	1,908
Governemnt Grant	4,782	-	-	-
PAT	5,251	426	1,226	1,791
EPS (PKR)	175.03	1.08	3.12	4.56
Gross Margins	32%	49%	45%	35%
EBITDA Margins	43%	48%	44%	36%
Net Margins	189%	11%	22%	14%

Source: Company Management

Outlook Positive yet IPO Price appears to be fairly valued

Fertilizer manufacture in Pakistan has historically benefitted from pro-agrarian policies of the government. In the foreseeable future, we believe that agrarian economy will continue to receive beneficial treatment.

For AGRITECH, the key growth story remains its exposure and leadership position in the SSP segment. However it may take time before the company is successful in increasing SSP's penetration into the market. The DAP trading business, meanwhile will remain volatile and lower projected imports for 2010 are likely to result in a decline of 15% in the overall top-line for the company. Hence with the IPO price of PKR30/share reflecting a trailing PER of 6.6x, the stock appears to be fairly valued when compared to its peers.

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In Focus
Auto

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Going up the Ramp!

- **8MFY10 automobile sales have witnessed a 29% YoY increase to 85,300 units from 66,038 units in the same period last year**
- **INDU posted the largest increase of 52% in its unit sales followed by HCAR (24%) and PSMC (20%). Growth number trajectory was partly aided by a low base effect due to last year's depressed sales**
- **Tractor sales posted a growth of 31% YoY to 45,523 units in 8MFY10. MTL posted 54% YoY growth while AGTL managed to increase its offtake by a meagre 9% YoY**
- **Our DCF based fair values for INDU and PSMC are PKR288/share and PKR106/share respectively and we maintain BUY stance on both the scrips**

29% YoY sales growth in 8MFY10; MoM numbers reflecting an expected decline

8MFY10 automobile sales have witnessed a 29% YoY increase to 85,300 units from 66,038 units in the same period last year. This increase has come despite poor law and order situation and limited financing facilities in the country. INDU posted the largest increase (52%) in its unit sales followed by HCAR (24%) and PSMC (20%). Growth number trajectory was partly aided by a low base effect due to last year's depressed sales.

However, sales have shown a decline of 7% on a MoM basis in Feb10 to 11,703 units sold compared to 12,574 units sold last month. Firstly, it can be termed a normal phenomenon as sales in January are usually high and secondly, INDU and PSMC both increased their product prices during this period which led to a decline in the number of cars demanded. PSMC's sales in Feb10 remained flat at Jan10's level while INDU and HCAR sold 16% and 11% fewer cars than last month.

Total Car & LCV sales – Company-wise

Company	8MFY10	8MFY09	YoY	Feb-10	Feb-09	YoY
PSMC	45,616	37,946	20%	5,970	1,727	246%
INDU	30,020	19,761	52%	4,150	3,016	38%
HCAR	8,659	6,986	24%	1,409	1,223	15%
DFML	1,005	1,345	-25%	174	159	9%
Total Sales	85,300	66,038	29%	11,703	6,125	91%

Source: PAMA, BMA Research

Small-high segment (1300cc+) continued to lead the way with 58% YoY increase in 8MFY10 to 35,127 units followed by small-low (1000cc and above) and economy segments at 24% and 19% respectively. Additionally, in 8MFY10 Toyota Corolla, Suzuki Alto, and Suzuki Mehran posted the largest YoY growth in sales at 76%, 43%, and 51% respectively.

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Tractor sales increase by 31% YoY in 8MFY10

Tractor sales posted a significant improvement in 8MFY10 increasing by 31% YoY to 45,523 units from 34,841 units in the same period last year. Millat Tractors Limited (MTL) was the one to benefit the most during the period with its sales posting a growth of 54% YoY while Al Ghazi Tractors (AGTL) registered a 9% increase in its sales. Furthermore, MTL and AGTL used to hold a 50-50 market share earlier which currently stand at 57% for MTL and 43% for AGTL.

Outlook

Going forward, gradual easing of the monetary environment and improvement in the law and order situation are expected to boost demand for automobiles in the country. We also believe that INDU is expected to benefit more from narrowing price differential between CNG and petrol in addition to a stable demand from the corporate front and government departments. However, PKR depreciation against USD and JPY, continued inflationary pressures, and an uptrend in steel prices are expected to result in further price increases in the future. We maintain BUY stance on both INDU and PSMC with DCF based fair values of PKR288/share and PKR106/share respectively.

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