

# PAKISTAN FERTILIZER

# MARKET VISTA

## Seasonality leads to a dip in urea offtake

- As per the numbers released by NFDC, urea offtake declined 16% MoM to 343K MT. The sequential decline in numbers was witnessed industry wide due to seasonality factor. EFERT remained at the forefront, due to a low base effect in the same period previous year.
- The overall urea inventory improved to 297K MT vs. ~130K MT in Feb'21, but still is down 50%YoY. The GoP's decision to supply LNG to hitherto closed fertilizer plants for 10 months may continue to improve inventory levels and reduce upside pressure on urea price.
- DAP offtake on the other hand increased 63/81% MoM/YoY to 143K MT, taking 1QCY21 DAP offtakes to 314K MT, up 49% YoY, with FFC leading the show.
- DAP inventory at Mar'21 end stood at 55K MT, down 89% YoY due to lack of availability in global markets. DAP prices currently hover at around Pkr5,400 – 5,500/bag, vs. international DAP prices implying local prices still at a discount.
- We continue to like FFC from the fertilizer space due to healthy EBITDA generation and D/Y of 11.5% on offer. Meanwhile, bull cycle in DAP prices comes at seasonally slow period, diluting its potential impact on FFBL's earnings in 1HCY21, where upside risk emanates from continued bullish trend in DAP prices in 2HCY21.

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### Valuation Stats

	TP (Pkr)	EPS 20A	EPS 21F	DY 20A/F	DY 21F
EFERT	59.0	13.6	8.9	19.7%	12.1%
FFBL	31.4	1.7	3.3	-	-
FFC	131.0	16.4	16.1	10.8%	11.6%
FATIMA	39.0	6.0	6.0	8.9%	7.0%

Source: Company Reports & AKD Research

### Mar'21 Fertilizer Offtake Snapshot

	Mar'21	Feb'21	MoM	Mar'20	YoY	3MCY21	3MCY20	YoY
<b>Urea offtake (MT)</b>								
FFC	167,804	185,583	-10%	208,419	-19%	574,622	586,433	-2%
FFBL	51,893	17,959	189%	47,155	10%	69,852	75,393	-7%
EFERT	94,076	160,093	-41%	17,840	427%	602,147	172,873	248%
FATIMA	27,298	41,856	-35%	25,778	6%	145,835	152,803	-5%
Total urea	343,046	406,203	-16%	302,500	13%	1,397,788	1,024,694	36%
Ending Inventory	297,746	128,761	131%	592,051	-50%	297,746	128,761	131%
<b>DAP offtake (MT)</b>								
FFBL	62,383	37,385	67%	43,095	45%	116,638	107,486	9%
EFERT	22,260	23	n.a.	16,332	36%	49,134	31,212	57%
FFC	28,045	5,337	n.a.	7,000	301%	33,439	14,167	136%
Total DAP	143,705	88,084	63%	79,220	81%	313,961	210,506	49%
Ending Inventory	55,030	54,074	2%	499,848	-89%	55,030	499,848	-89%

Source: NFDC & AKD Research

**Urea offtake enters seasonal slowdown:** As per the numbers released by NFDC, urea offtake declined 16% MoM, but increased 13% YoY to 343K MT. The sequential decline in numbers was witnessed industry wide due to the seasonality factor. On YoY basis, the increase was led by 5.3x higher urea offtake for EFERT. To recall, GIDC elimination in Jan'20 led to higher price reduction by FFC vs. EFERT, leading to higher market share for FFC in 1QCY20. On YoY basis, FFC's urea offtake declined 19% due to high base effect; however offtake remained flattish YoY in 1QCY21. EFERT, on the other hand, witnessed 3.5xYoY increase in offtake in 1QCY21. The overall urea inventory improved to 297K MT vs. 128K MT in Feb'21, but still are down 50%YoY. The GoP's decision to supply LNG to hitherto closed fertilizer plants for 10 months may continue to improve inventory levels and reduce upside pressure in urea price (already up by c. Pkr75/bag FYTD).

**DAP offtake post a sequential increase of 63%:** DAP offtake on the other hand increased 63/81% MoM/YoY to 143K MT, taking 1QCY21 DAP offtakes to 314K MT, up 49% YoY. FFC remained at the forefront, depicting a significant jump in offtake on both MoM as well as YoY basis. FFC was followed by 57%YoY higher DAP offtake for EFERT and 9% YoY increase witnessed by FFBL in 1QCY21. With uptick in offtakes, DAP inventory at Mar'21 end stood at 55K MT, a steep 89% YoY decline due to global supply chain disruption. DAP prices currently hover at around Pkr5,400 – 5,500/bag.



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To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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