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Today's Daily

Pakistan Fertilizers: Strong Jul'18 draws inventory to 7yr low

Pakistan's fertilizer offtake remained promising in Jul'18, courtesy of early monsoon rains that came to the rescue spurring a delayed lift-off for Kharif season demand amid water scarcity. According to the latest NFDC read, total fertilizer sales in Jul'18 stood at 980k tons against 746k tons sold in Jul'17 (up 31%YoY/12%MoM). In tandem, Urea/DAP offtakes have increased by 46%/7%YoY to 497/302k tons during the month under review. Similarly, CAN/NP sales have also jumped by 83%/16%YoY to 99/56k tons in Jul'18. On a cumulative basis, total fertilizer sales posted nominal growth of 4%YoY to 5.06mn tons during 7MCY18 where urea offtake climbed 6%YoY to stand at 3.22mn tons. Backed by continuous improvements in industry dynamics, the fertilizer sector has gained 21%CYTD, outperforming the KSE-100 index by +13% during FY18. With this impressive run-up in the backdrop, we assert a Market-weight stance on the sector, where EFERT (TP of PkR87.8/sh) remains our top pick on an appealing dividend yield of ~11%, followed by FATIMA (TP of PkR45.1/sh).

KSE100 - Index	
Current	42,745.78
Previous	42,588.29
Chg.	0.37%

Mkt Cap. (PkRbn/US$bn)	
Current	8,777 / 70.64
Previous	8,753 / 70.45
Chg.	0.27%

Daily Turnover (mn)	
Current	217.59
Previous	115.89
Chg.	87.7%

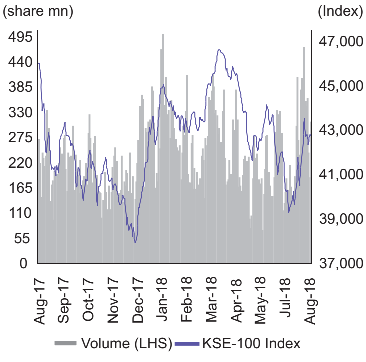
Value Traded (PkRmn/US$mn)	
Current	9,017 / 72.58
Previous	4,495 / 36.18
Chg.	100.6%

News and Views

- International creditors have disbursed US$439mn loans to Pakistan in July, though remains insufficient to meet country's growing external sector imbalance. However of the total loans, two-third have been received from china against four major projects exclusive of US$2bn one off Chinese injection to stabilize the reserves

- Public sector enterprises (PSEs) have eaten up almost PkR500 billion within two years as their outstanding debts increased to PkR1.068trn at the end of June 30, 2018. According to official data, PSEs debts in FY16 were PkR588bn and PkR822.8bn in FY17.

- Prime Minister Imran Khan has declined to lead the Economic Coordination Committee (ECC) of the cabinet and has delegated the responsibility to Finance Minister Asad Umar who will lead the reconstituted economic decision-making body.



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Company-wise breakup: Urea market share for FFC/EFERT/FFBL/FATIMA in Jul'18 was recorded at 43%/35%/10%/12% vs. share of 41%/22%/12%/7% in Jul'17. In this regard, FFC sold 213k tons of urea (+55%YoY/-1%MoM), EFERT sold 172k tons (+2.32xYoY/-30%MoM), FATIMA sold 61k tons (+3.08xYoY/-33%MoM) and FFBL sold 50k tons (up 19%YoY/-11%MoM). On cumulative basis, urea off-take posted growth in 7MCY18 (up 6%YoY), where EFERT, FFC and FFBL emerged as clear winners (respective market shares improved by 6.79ppts/4.40ppts/1.57ppts to 36.2%, 44.6% and 9.5% in 7MCY18) owing to LNG based plant (Agritech & Fatimafert) closures. In tandem, urea sales for the majors jumped by 31%YoY to 1.17mn tons, 18%YoY to 1.44mn tons and 27%YoY to 306k tons respectively for EFERT, FFC and FFBL while FATIMA posted a cumulative decline of 31%YoY to just 304k tons (non-operational Fatimafert plant).

Market Share-Urea

Symbol	Jul-18	Jun-18	Jul-17	7MCY18	7MCY17
FFC	43%	35%	40%	45%	40%
FFBL	10%	9%	13%	9%	8%
EFERT	35%	40%	22%	36%	29%
FATIMA	12%	15%	7%	9%	14%
Imported urea	0%	0%	14%	0%	5%

Source: NFDC & AKD Research

Jul'18 Fertilizer offtake (tonnes)

	Jul-18	Jun-18	MoM	Jul-17	YoY	7MCY18	7MCY17	YoY
Urea offtake								
FFC	212,868	215,054	-1%	137,227	55%	1,439,163	1,222,498	18%
FFBL	50,390	56,452	-11%	42,444	19%	305,870	240,547	27%
EFERT	172,008	245,232	-30%	74,134	2.32	1,166,348	892,955	31%
FATIMA	60,850	90,913	-33%	19,775	3.08	304,535	248,524	23%
FATIMA-DH	-	-	-	5,115	-	-	190,678	-100%
Imported urea	-	-	-	46,338	-	-	147,681	-100%
Total urea	496,634	608,109	-18%	339,002	46%	3,225,332	3,039,630	6%
DAP offtake								
FFBL	121,159	38,677	3.13	56,805	2.13	329,293	320,408	3%
Imported	180,631	151,221	19%	226,311	-20%	654,630	552,288	19%
Total DAP	301,790	189,898	59%	283,116	7%	983,923	872,696	13%
Total CAN	99,259	42,635	2.33	54,236	83%	429,231	445,081	-4%
Total NP	56,171	25,395	2.21	48,557	16%	305,036	413,590	-26%
Total Fertilizer	979,624	876,971	12%	746,094	31%	5,060,322	4,882,257	4%

Source: NFDC & AKD Research

DAP off-take on the other hand also posted impressive growth of 13%YoY to 984k ton in 7MCY18. In this regard, importers sold 655k tons of DAP (up 19%YoY) while FFBL sales clocked in at 329k tons (+3%YoY).

Inevitable urea import or restart of shutdown plants? Higher demand on account of improved farm incomes (subsidy continuation), export of urea (+500k tons in CY17 and +60k tons at the start of CY18) and lower production from local players (closure of LNG based plant and limited supply of gas to other manufacturers) has led to significant depletion in urea inventory from CY17 onwards. Declining consistently every month, urea inventory now stands at just 86k tons, down 18%MoM/93%YoY in Jul'18 (lowest level seen in last 7yrs). This is now equivalent to an alarming 0.2x of one month's average production for urea vs. last year's average of 2.6x. Going forward, we expect urea inventory to remain at these extreme levels in the upcoming months owing to: 1) continued high demand in the ongoing kharif season and the run-up to the Oct-Dec Rabi season, and 2) lower industry production. Therefore, prompt government attention is needed to address the current urea deficit either through immediately, 1) importing at least 250-300k tons of urea (to meet expected demand-supply gap in current calendar year), or 2) restarting closed urea plants at subsidized gas provisions (countering economically infeasible LNG cost).

Inventory Level (tonnes)

	Jul-18	Jun-18	MoM	Jul-17	YoY
Urea	86,155	104,631	-18%	1,154,005	-93%
DAP	359,393	405,544	-11%	385,386	-7%
CAN	76,269	135,821	-44%	286,882	-73%
NP	7,555	23,025	-67%	73,546	-90%

Source: NFDC & AKD Research

Fertilizer Production (tonnes)

('000)	Jul-18	MoM	YoY	7MCY18	7MCY17	YoY
Urea	478	7%	-5%	3,051	3,362	-9%
DAP	73	3%	5%	404	451	-10%
NP	41	18%	-33%	269	406	-34%
CAN	40	16%	-26%	272	388	-30%

Source: NFDC & AKD Research

Prices to remain strong: After removing various discount offerings on fertilizer products in the latter part of CY17, urea is currently available in the country around an average price of PkR1,670/bag, post cumulative increase of around PkR230-250/bag in the past few months. This continuous uptrend in product prices is the effect of an overall improvement in sector dynamics (lower inventory levels, expected urea shortage, higher int'l prices and currency depreciation). In addition to, the highly probable import scenario presents a lucrative opportunity for local manufacturers to further increase local urea price, which is still trading at ~12-15% discount to prevailing elevated cost of imported fertilizers of PkR1,900-1,950 (higher int'l prices and sharp currency depreciation).

Outlook & Investment Perspective: Backed by continuous improvement in industry dynamics, fertilizer sector has gained 21%CYTD, outperforming the KSE-100 index by +13% during FY18. With this impressive run-up we currently have Market-weight stance on the sector, where EFERT (TP of PkR87.8/sh) remains our top pick on the basis of an attractive dividend yield of ~11%, followed by FATIMA (TP of PkR45.1/sh) with its diversified product mix and an equally impressive dividend yield crossing 10%. Having said that, going forward, we anticipate the sector to remain in the limelight on the back of: 1) continuing tightness in domestic supply dragging inventory lower, 2) inevitable urea imports at elevated costs prevailing in international markets ((hovering around PkR1,900-1,950/bag, a 12-15% premium to local prices), and 3) upward trend witnessed in local product prices (currently standing around PkR1,650-1,700/bag).

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