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PAKISTAN
FERTILIZER

MARKET
VISTA

Double digit increase in Nov'20 urea offtake

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- As per the NFDC data released, the urea offtake increased 29/40% MoM/YoY to 533K tons. This takes 11MCY19 offtake to 5.1mn tons, up 6% YoY. The uptrend is visible across indigenous gas based player, where we attribute YoY increase in Nov'20 to closure of LNG based fertilizer plants (monthly capacity: 75K tons, 15% of total capacity).
- DAP offtake posted an increase of 60%MoM, but remained down 9%YoY. Sequential growth was led by FFC's offtake of 50+K tons in Nov'20, as opposed to remaining on the sidelines in the previous month. Meanwhile, FFBL also posted an increase of 22%MoM during the month, with EFERT lagging behind.
- With relaxation on sales tax measure (introduced in FY21 Budget) behind us, relaxation in income tax measure may also be on cards. EFERT and FFBL may record PkR1.3bn/600mn worth of reversal of provisioning in lieu of aforementioned development in 4QCY20, keeping the earnings buoyant.
- We continue to like FFC for its defensive attributes and healthy EBITDA margins which will enable the company to sustain its D/Y north of 10% in CY20/21F vs. 3yr PIB rate of 7.14%. Meanwhile, healthy 4QCY20 in terms of profitability may also keep FFBL in lime-light.

Valuation Stats

	TP (PkR)	Stance	EPS 20F	EPS 21F	DY 20F	DY 21F
EFERT	59.0	Sell	11.4	8.9	17.5%	12.7%
FFBL	25.7	Neutral	2.3	3.3	-	-
FFC	131.0	Buy	15.2	16.1	11.0%	11.0%
FATIMA	39.0	Buy	6.0	6.0	8.0%	6.3%

Source: Company Reports & AKD Research

Nov'20 Fertilizer Offtake Snapshot

	Nov'20	Oct'20	MoM	Nov'19	YoY	11MCY20	11MCY19	YoY
Urea offtake (MT)								
FFC	187,495	158,048	19%	127,641	47%	2,183,104	1,941,297	12%
FFBL	61,928	33,184	87%	28,362	118%	490,207	363,167	35%
EFERT	183,925	157,676	17%	127,289	44%	1,828,754	1,520,781	20%
FATIMA	74,211	50,641	47%	11,960	520%	546,764	317,754	72%
Total urea	533,084	413,135	29%	380,729	40%	5,155,967	4,871,304	6%
Ending Inventory	667,803	671,417	-1%	1,041,441	-36%	667,803	1,041,441	-
DAP offtake (MT)								
FFBL	158,092	129,950	22%	135,891	16%	847,429	640,195	32%
EFERT	34,397	39,553	-13%	113,841	-70%	373,119	457,771	-18%
FFC	54,334	0	n.a.	37,898	43%	188,340	221,137	-15%
Total DAP	366,541	229,374	60%	404,219	-9%	1,800,244	2,006,089	-10%
Ending Inventory	99,341	244,741	-59%	-	-	-	-	-

Source: NFDC & AKD Research

Urea offtake up 29% MoM: As per the NFDC data released, the urea offtake increased 29/40% MoM/YoY to 533K tons. This takes 11MCY19 offtake to 5.1mn tons, up 6% YoY. The uptrend is visible across indigenous gas based player, where we attribute YoY increase in company-wise offtake to closure of LNG based fertilizer plants (monthly capacity: 75K tons, 15% of total capacity). On a cumulative basis, FATIMA and FFBL posted an increase of 72% and 35%, respectively, leading the pack. Despite an uptick in urea offtake sequentially, the ending inventory remained flattish at 667K tons. Based on released data we expected urea offtake to remain flattish for 4QCY20 on YoY basis as well as sequentially, due to high base effect in the same period last year.

An upsurge in DAP offtake; FFBL in a sweet spot: DAP offtake posted an increase of 60%MoM, but remained down 9%YoY, led by FFC's offtake of 50+K tons in Nov'20, as opposed to remaining on the sidelines in the previous month. Meanwhile, FFBL also posted an increase of 22%MoM during the month, with EFERT lagging behind. On a cumulative basis, DAP offtake declined by 10%YoY, with FFBL being the only player posting an increase of 32%YoY. The ending inventory is also near depletion at 99K tons, down 60%MoM, reportedly due to DAP import issues. International DAP prices remain on an uptrend, where volumetric growth for FFBL may land the player in a sweet spot for 4QCY20.

Relaxation on budgetary measures: The As per S.R.O. 1337 (I)/2020 notified on 16th Dec'20, GoP has provided relief to fertilizer players on input sales tax adjustment, which was disallowed

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in case of fertilizer sale to unregistered buyers. To recall, sales tax on urea is at 2%, lower than that on inputs (5/17/17/10% on feed gas/fuel gas/other inputs/rock phosphate) and fertilizer players used to claim tax credit adjustment to keep fertilizer prices affordable to end consumers. EFERT and FFBL have provisioned for PkR1,300/600mn in lieu of the aforementioned measure and may likely record reversal in 4QCY20. A resolution with regards to income tax may also be on the cards (10% expense disallowance for taxation purpose on sale to unregistered dealers) could be a potential headwind.

Investment Perspective: Amid this scenario, we highlight FFC as the top pick in Fertilizer sector due to: (i) best liquidity situation with short term investments and cash sufficient to meet GIDC payables, and (ii) healthy EBITDA generation, which will enable the company to sustain its D/Y north of 10% in CY20/21F vs. 3yr PIB rate of 7.14%. Meanwhile, healthy 4QCY20 in terms of profitability may also keep FFBL in limelight.

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