

PAKISTAN FERTILIZER

MARKET VISTA

REP-019

Weak start for CY19; triggers awaited

- Urea offtake for Jan'19 posted a decline of 18%MoM, but increased 5%YoY to 563K tons. The sequential decline was led by seasonality factor, and is expected to continue during Feb-Apr'19. Despite an overall increase on YoY basis, Urea offtake for FFC, EFERT and FFBL declined by 12/39/80% YoY, respectively.
- DAP offtakes declined by 19/54% YoY/MoM, partly due to pre-buying in the latter half of CY18. FFBL and FFC remained laggards, with DAP offtake declining by 64/80% YoY to 11/5K tons. Meanwhile, EFERT emerged as the clear winner, with 2.1x YoY higher DAP offtakes. DAP inventory closed in at 487K tons, up 2.7x YoY.
- The GIDC resolution has yet again hit a standstill, as Fertilizer players contest GoP's proposal of Urea price reduction in lieu with 50% lower GIDC rates on feed/fuel gas. We have an Underweight stance on the Fertilizer sector, post 9% price performance CYTD (led by FFC and FFBL).
- However, if the Fertilizer companies and GoP reach a middle ground, that is to agree on a partial pass-on of GIDC reduction impact, FFC and FFBL will emerge as the major beneficiaries.

Sequential decline led by seasonality: Urea offtake for Jan'19 posted a decline of 18%MoM, but increased 5%YoY to 563K tons. The sequential decline was led by seasonality factor, and is expected to continue during Feb-Apr'19. Despite an overall increase on YoY basis, Urea offtakes for FFC, EFERT and FFBL declined by 12/39/80% YoY, respectively. Meanwhile, FATIMA's Urea offtake improved by 123% YoY. Agritech, FatimaFert and imported Urea offtakes cumulatively improved to 124K tons vs. 3K tons during the same period last year. Agritech and FatimaFert operated at 70/77% utilization levels during Jan'19 due to better gas availability. Domestic Urea production remained flattish, while Urea imports improved the Fertilizer availability during Jan'19. However, the Urea inventory closed at 70K tons, down 72% YoY, signaling pricing power to continue to remain with the Fertilizer players, unless ECC approves continued gas availability to Agritech and FatimaFert during the dull demand season.

Jan'19 Fertilizer Offtakes Snapshot

	Jan'19	Dec'18	MoM	Jan'18	YoY
Urea offtake					
FFC	195,734	259,527	-25%	222,854	-12%
FFBL	2,825	66,166	-96%	13,820	-80%
EFERT	160,671	211,836	-24%	262,052	-39%
FATIMA	80,426	59,918	34%	36,063	123%
FATIMA-DH	28,303	50,072	-43%	0	n.a.
AGRITECH	25,010	39,491	-37%	262,052	-39%
Total Urea	563,652	710,890	-18%	539,214	5%
DAP offtake					
FFBL	11,250	77,298	-85%	31,013	-64%
Imported	63,380	83,615	-24%	61,195	4%
Total DAP	74,620	160,913	-54%	92,208	-19%
Total CAN	78,263	44,728	75%	76,984	2%
Total NP	53,955	29,739	81%	50,693	6%
TOTAL FERTILIZER	770,490	995,811	-23%	773,768	0%

Source: NFDC & AKD Research

DAP offtakes remain under pressure: DAP offtakes declined by 19/54% YoY/MoM, partly due to pre-buying in the latter half of CY18. FFBL and FFC remained laggards, with DAP offtake declining by 64/80% YoY to 11/5K tons. Meanwhile, EFERT emerged as the clear winner, with 2.1x YoY higher DAP offtakes. DAP inventory closed in at 487K tons, up 2.7x YoY.

Investment Perspective: The GIDC resolution has yet again hit a standstill, as Fertilizer players contest GoP's proposal of Urea price reduction in lieu with 50% lower GIDC rates on feed/fuel gas. We have an Underweight stance on the Fertilizer sector, post 9% price performance CYTD (led by FFC and FFBL). However, if the Fertilizer companies and GoP reach a middle ground (agreeing on a partial pass-on of GIDC reduction impact), FFC and FFBL will emerge as the major beneficiaries.

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Sensitivity—GIDC and Urea price reduction

(Pkr/bag)	Base Case	Bull Case	Middle Ground	Bear Case
50% GIDC Removal Impact	0	185	185	185
Urea Price Reduction	0	0	100	200
EPS Impact				
FFC		38%	21%	0%
EFERT		0%	-15%	-29%
FFBL		75%	53%	32%
FATIMA		1%	-3%	-7%

Source: AKD Research



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Neutral	> 13% to < 19% expected total return	Accumulate	> 5% to < 20% upside potential
Sell	< 13% expected total return (Rf: 13%)	Neutral	< 5% to > -5% potential
		Reduce	< -5% to > -20% downside potential
		Sell	< -20% downside potential
		Not Rated	No investment opinion or recommendation

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