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PAKISTAN
FERTILIZER

REP-019
MARKET
VISTA

Slow Rabi taints CY18 offtake

- **Cumulative CY18 fertilizer offtake across all nutrients stood at 9.38mn tonnes (-5%YoY) constituted by 5.81mn tonnes of urea (-1%YoY), 1.76mn tonnes of DAP (-6%YoY), 0.60mn tonnes of CAN (-17%YoY) and 0.45mn tonnes of NP (-34%YoY)**
- **Domestic urea production for Dec'18 stood at 511.9k tonnes (-3%MoM/+6%YoY), where market share for sales clocked in at 37%/30%/15%/9% for FFC/EFERT/FATIMA/FFBL moving -490/+175/+8/+78bpsMoM.**
- **10-30% increase CYTD in nutrient prices accompanied by slower harvesting and availability issues have pulled nutrient offtake during Rabi 18-19 (Oct-Dec) by 7%YoY, while production slowed to keep inventory levels manageable (Dec'18 inventory for Urea/DAP/CAN/NP, make up 0.5/8.8/2.5/1.2x monthly average offtake)**
- **Growth in sales is likely going to be a factor of extended late seasons buying, catalyzed by pricing concessions delivered through GIDC rationalization, where any GIDC rationalization for fertilizer manufacturers will be passed on to end-consumers, with FFBL stands to benefit the most (where DAP pricing depends on international factors).**

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Dec'18 sales show stasis: Dec'18 total fertilizer offtake of 995.8K tonnes (+17%MoM/-3%YoY) composed of 710.9K tonnes Urea (+43%MoM/-1%YoY), 160.9K tonnes DAP (-31%MoM/+34% YoY) and 44.7K tonnes of CAN (+92%MoM/-56%YoY) wraps up a lethargic CY18 for fertilizer offtake. For Urea manufacturers, FFC/EFERT/FFBL offtake moved +26/+52/+56%MoM and -29/+14/-6%YoY during the month. Rabi season buying has failed to materialize, where rising prices (7-8% for 4QCY18 across nutrients) and delay in sugar harvesting dampened demand. Provincial demand for Urea and DAP indicate continued weakness in demand from Punjab (Dec'18 offtake for Urea fell 12%YoY) and mild recovery in Sindh (+30%YoY). Domestic urea production at 511.9k tonnes (-3%MoM/+6%YoY), holding market share for sales intact at 37%/30%/15%/9% for FFC/EFERT/FATIMA/FFBL moving -490/+175/+8/+78bpsYoY.

Dec'18 Fertilizer offtake snapshot (tonnes)

	Dec-18	Nov-18	MoM	Dec-17	YoY	CY18	CY17	YoY
Urea offtake								
FFC	259,527	205,783	26%	364,777	-29%	2,526,822	2,474,403	2%
FFBL	66,166	42,386	56%	70,260	-6%	561,807	545,731	3%
EFERT	211,836	139,400	52%	186,602	14%	1,994,369	1,802,186	11%
FATIMA	59,918	34,044	76%	82,494	-27%	599,030	417,367	44%
FATIMA-DH	50,072	42,425	0%	5,376	831%	130,879	212,754	-38%
Imported urea	-	-	0%	1,337	-100%	-	260,161	-100%
AGRITECH	39,491	32,825	0%	4,459	786%			
Total urea	710,890	496,923	43%	716,924	-1%	5,811,329	5,860,709	-1%
DAP offtake								
FFBL	77,298	86,595	-11%	66,199	17%	686,715	831,173	-17%
Imported	83,615	145,700	-43%	54,072	55%	1,069,681	1,034,125	3%
Total DAP	160,913	232,295	-31%	120,271	34%	1,756,396	1,865,298	-6%
Total CAN	44,728	23,262	92%	101,528	-56%	608,541	731,235	-17%
Total NP	29,739	31,303	-5%	51,941	-43%	453,499	688,229	-34%
TOTAL FERTILIZER	995,811	853,125	17%	1,029,466	-3%	9,381,033	9,869,189	-5%

Source: NFDC & AKD Research

Cumulative offtake fails to excite: Cumulative CY18 fertilizer industry offtake reached 9.38mn tonnes (-5%YoY) where Urea/DAP/NP/CAN constitutes 62/19/5/6% of industry sales, moving +260/-20/-90/-210bpsYoY. It depicts general slowdown in industry offtake and nutrient compo-

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sition imposed through the prevailing environment of rampant price hikes (Urea/DAP/NP prices up 27/27/32%YoY).Inventory levels for Urea/DAP/NP/CAN stood at 174.1/492.8/72.9/94.4k tonnes altered by -29%/-7%/+64%/-5%MoM currently capable of 0.4/8.1/1.8/2.4x monthly average offtake, significantly lower, across all segments than the oversupplied levels prevailing at Dec'17 (0.7/2.5/0.8/4.5x of monthly average offtake). Additionally, 20-30% increase CYTD in nutrient prices accompanied by slower harvesting and availability issues have pulled down nutrient offtake during Rabi 18-19 (Oct-Dec) by 7%YoY.

Fertilizer Production (tonnes)

	Dec-18	Nov-18	MoM	Dec-17	YoY	CY18	CY17	YoY
Urea	511,887	527,506	-3%	484,948	6%	5,602,151	5,652,950	-1%
DAP	63,538	66,483	-4%	65,437	-3%	727,627	808,808	-10%
NP	55,436	37,879	46%	46,570	19%	477,045	650,876	-27%
CAN	40,088	41,203	-3%	42,762	-6%	469,881	620,815	-24%

Source: NFDC & AKD Research

Investment Perspective: Growth in sales is likely going to be a factor of extended late seasons buying, catalyzed by pricing concessions delivered through GIDC rationalization. To recall, yesterday the Federal Cabinet approved an amended GIDC collection and clearance of outstanding dues mechanism from major gas consumers, including fertilizer manufacturer. This mechanism is likely to aid profitability across the industry, where reversal in charges could translate into one off lift in EPS for FFC by 12.2/sh, FFBL by 5.1/sh, EFERT by 3.6/sh and FATIMA 0.04/sh. We believe any GIDC rationalization for fertilizer manufacturers will be passed on to end-consumers, where in that scenario, FFBL stands to benefit the most (where DAP pricing depends on international factors). The development is Neutral for FFC and Negative for EFERT and FATIMA (as concessionary gas price and product price hikes from competitors kept margins lofty, but would now be softened following price reductions).

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Not Rated	**No investment opinion or recommendation**

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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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