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PAKISTAN
FERTILIZER

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MARKET
VISTA

Offtake to pick up in Kharif

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- **Urea offtake for Feb'19 clocked in at 377K tons, down 33% MoM, but flattish YoY. On YoY basis, FFC led the pack, with offtake showing an increase of 8%. Meanwhile, Urea offtake from FFBL, EFERT and FATIMA declined by 60/10/5% YoY, respectively.**
- **DAP offtake during the month witnessed 43/65% MoM/YoY decline at 43K tons. Industry wide DAP imports dwindled to merely 7K tons, vs. 89K tons in the same period last year – FFBL's market share improved consequently.**
- **The GoP is considering another 18-20% gas price hike to meet the revenue shortfall (effective Jul'19, if approved), where gas price hikes will mostly be borne by the Power and Fertilizer sectors.**
- **Fertilizer sector may likely pass-on the impact of any gas price hike, given demand supply dynamics continue to remain in favor. In this regard, FFC has increased Urea price by PkR80/bag covering a potential 20% increase in feed/fuel gas tariff hike, in our view.**
- **While concessionary gas based players are expected to pocket in higher profits in case of a gas price hike and its complete pass-on, these players also remain at the risk of higher earnings erosion in case of Urea price reduction accompanying a GIDC settlement.**

Urea offtake sustains YoY: Urea offtake for Feb'19 clocked in at 377K tons, down 33% MoM, but flattish YoY. The sequential decline was led by seasonal slowdown, where an uptick is expected in upcoming Kharif season. On a YoY basis, FFC led the pack, with offtake showing an increase of 8%. Meanwhile, Urea offtakes from FFBL, EFERT and FATIMA declined by 60/10/5% YoY respectively. Despite slow offtake, Urea inventory touched 54K tons, down 72/80% MoM/YoY, due to lackluster production (down 19/6% MoM/YoY). Agritech and FatimaFert's production approximately halved MoM, as they operated at 38/47% during the month, due to stifled LNG supply. Meanwhile, the postponement of 50K tons of Urea imports by GoP also contributed to the dwindling inventory situation.

Feb'19 Fertilizer Offtakes Snapshot

	Feb'19	Jan'19	MoM	Feb'18	YoY	2QCY19	2QCY18	YoY
Urea offtake								
FFC	169,620	195,734	-13%	156,820	8%	365,354	379,674	-4%
FFBL	10,695	2,825	279%	26,557	-60%	13,520	40,377	-67%
EFERT	130,669	160,671	-19%	145,345	-10%	291,340	407,397	-28%
FATIMA	35,918	80,426	-55%	37,998	-5%	116,344	74,061	57%
FATIMA-DH	16,460	28,303	-42%	-	n.a.	44,763	-	n.a.
AGRITECH	14,056	25,010	-44%	1,774	692%	39,066	5,013	679%
Total Urea	377,418	563,652	-33%	370,014	2%	941,070	909,228	4%
DAP offtake								
FFBL	11,503	11,250	2%	40,913	-72%	22,753	71,926	-68%
Imported	31,158	63,380	-51%	81,518	-62%	94,538	142,713	-34%
Total DAP	42,661	74,630	-43%	122,431	-65%	117,291	214,639	-45%
Total CAN	46,059	78,263	-41%	70,122	-34%	124,322	147,106	-15%
Total NP	14,935	53,955	-72%	36,877	-60%	68,890	87,570	-21%
Total Fertilizer	481,073	770,500	-38%	599,444	-20%	1,251,573	1,373,212	-9%

Source: NFDC & AKD Research

DAP offtake dwindles: DAP offtake during the month witnessed 43/65% MoM/YoY decline at 43K tons, likely due to pre-buying by dealers in anticipation of further PKR weakness. The market share of FFBL improved during the month, as EFERT's offtake declined significantly – industry wide DAP imports dwindled to merely 7K tons, vs. 89K tons in the same period last year. The DAP prices hover at around PkR3,500-3,600/bag. The DAP closing inventory was 508K tons, up 1.36x YoY. In contrast to Urea supply demand dynamics, the pricing power for DAP players would likely remain under pressure, especially in 1HCY19, deteriorating the GMs for FFBL post recent gas price hike.

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Another gas price hike lined up: The GoP is considering another gas price hike w.e.f Jul'19. To note, this would be the second round of gas price hike post 10-143% increase in gas prices effective Oct'18, where by Fertilizer sector managed to completely pass-on the impact of 50/30% hike in feed/fuel gas prices via increasing Urea price by PkR130/bag. The GoP is mulling over a gas price hike of 18-20% across consumers to meet the revenue shortfall, where gas price hikes will mostly be targeted towards the Power and Fertilizer sectors, two largest gas consumers. Fertilizer sector may likely pass-on the impact of any gas price hike, given demand supply dynamics continue to remain in favor.

Macro headwinds pose challenges: In this regard, FFC has increased Urea price by PkR80/bag covering a potential 20% increase in feed/fuel gas tariff hike, in our view. We await for further clarity before incorporating any revision in Urea/gas price assumptions. We have a cautious stance on the sector. FFC appears to be best shielded against sector headwinds – while concessionary gas based players (EFERT and FATIMA) are expected to pocket in higher profits in case of a gas price hike and its complete pass-on, these players also remain under the risk of comparatively higher earnings erosion in case of Urea price reduction accompanying a GIDC settlement. FFC is trading at CY19/20F P/E of 7.9/7.6x and offers CY19/20F D/Y of 10.5%.

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