

## PAKISTAN FERTILIZER

# MARKET VISTA

REP-019

## DAP drives the volumes in Sep'21

- As per the numbers released by NFDC, total urea offtake for the industry clocked in at 487k MT, diminishing by 25%MoM due to seasonal decline in consumption in the month of September, however, the 9MCY21 offtake swelled by 10.4%YoY to stand at 4.6mn MT in contrast to 4.2mn MT in same period last year.
- DAP offtake increased 18.5%MoM to 221k MT owing to Rabi sowing season taking 9MCY21 DAP offtake to 1.08mn MT compared to 1.37mn MT in same period last year, down by 22%YoY.
- Local Urea price has increased by PkR125/bag to PkR1,725/bag since GIDC elimination, which may sustain till the end of CY21, given supply side hiccups.
- The current DAP price of EFERT stands at PkR7,390/bag, uptick of ~PkR2,750/bag over last 12 months while the retail prices of FFC and FFBL DAP current stand at PkR6,640 and PkR6,690/bag respectively where another hike of ~PkR600-700 may be witnessed soon.

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**Seasonal decline in urea offtake:** As per the numbers released by NFDC, total urea offtake for the industry clocked in at 487k MT, diminishing by 25%MoM due to seasonal decline in consumption in the month of September, however, the 9MCY21 offtake swelled by 10.4%YoY to stand at 4.6mn MT in contrast to 4.2mn MT in same period last year. The higher offtake in 9MCY21 is attributed to low base effect owing to i) anticipation in fertilizer subsidy by govt. (urea: PkR243/bag and DAP: PkR960/bag) in Jun'20 which was not implemented, and ii) staggered decline in urea prices by EFERT post GIDC elimination, keeping industry wide offtakes low in 1HCY20. The increase in offtake in 9MCY21 is led by FATIMA (535k MT vs 422k MT in 9MCY20, +27%YoY) and EFERT (1.74mn MT vs 1.4mn MT in 9MCY20, +17%YoY). On the other hand, FFBL's offtake declined by 3.4%YoY to 381k MT while FFC's offtake remained flat at 1.8mn MT. The overall urea inventory has declined 38%MoM to 116k MT despite GoP's decision to supply LNG to hitherto closed fertilizer plants, possibly due to expensive LNG prices (FatimaFert and Agritech's plants remained closed during Jul'21). Local Urea price has increased by PkR125/bag to PkR1,725/bag since GIDC elimination, which may sustain till the end of CY21, given supply side hiccups.

### Sep'21 Fertilizer Offtake Snapshot

	Sep'21	Aug'21	MoM%	9MCY21	9MCY20	YoY%
<b>Urea offtake (MT)</b>						
FFC	203,051	249,819	-19%	1,820,610	1,837,561	-0.9%
FFBL	46,304	66,703	-31%	381,815	395,095	-3.4%
EFERT	134,126	202,766	-34%	1,744,372	1,487,153	17.3%
FATIMA	78,339	84,859	-8%	535,082	421,912	26.8%
Total urea	487,150	648,514	-25%	4,646,732	4,209,748	10.4%
Ending inventory	116,122	187,447	-38%	116,122	465,237	-75.0%

	Sep'21	Aug'21	MoM%	9MCY21	9MCY20	YoY%
<b>DAP offtake (MT)</b>						
FFBL	98,424	93,031	5.8%	514,751	559,387	-8%
EFERT	51,687	14,221	263.5%	192,823	299,169	-36%
FFC	21,729	2,306	842.3%	120,480	134,006	-10%
Total DAP	221,132	186,532	18.5%	1,076,929	1,372,496	-22%
Ending inventory	352,693	378,755	-6.9%	352,693	296,466	19%

Source: NFDC &amp; AKD Research

**Rabi season triggers DAP offtake:** DAP offtake increased 18.5%MoM to 221k MT taking 9MCY21 DAP offtake to 1.08mn MT compared to 1.37mn MT in same period last year, down by 22%YoY. The decline in 9MCY21 DAP offtake comes from pre-buying triggered by supply shocks which began in Aug'20. The current international DAP prices stand at US\$660/MT translating into landed cost of PkR6,860/bag. As per our channel checks, EFERT has increased its DAP price



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by another PkR500/bag (effective 26th Oct'21) in addition to PkR450/bag few weeks earlier. The current DAP price of EFERT stands at PkR7,390/bag, uptick of ~PkR2,750/bag over last 12 months. On the other hand, the retail prices of FFC and FFBL DAP current stand at PkR6,640 and PkR6,690/bag respectively while another hike of ~PkR600-700 may be witnessed soon. DAP inventory in Sep'21 closed at 353k MT, down 6.9%MoM.

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To arrive at our period end target prices, AKDS uses different valuation techniques including:

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- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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