

PAKISTAN FERTILIZER

MARKET VISTA

REP-019

Aug'18 offtake - high base effect

- As per latest data released by NFDC, total fertilizer/urea offtakes for Aug'18 recorded declines of 47%YoY/55%YoY to clock in at 617k/431k tons. The steep decline in fertilizer sales is attributed to high base effect, where Aug'17 numbers were abnormally high due to ambiguity surrounding fertilizer subsidy and anticipated increase in urea prices last year.
- DAP sales on the other hand remained muted at 79k tons (down 4%YoY/74%MoM) owing to seasonal slowdown.
- Despite this significant monthly slowdown, total fertilizer/urea sales posted minimal declines of 6%/8%YoY during 8MCY18 due to promising offtake between Jan-Jul'18 (up 4%/6%).
- Lackluster urea offtake resulted in inventory buildup of 45k tons to stand at 131k tons (+52%MoM) in Aug'18 as compared to 86k tons recorded in Jul'18 (lowest level seen in the last 7yrs).
- Fertilizer sector has gained 17%CYTD, outperforming the KSE-100 index by +15% during CY18. With this impressive run-up, going forward, we recommend a cautious stance owing to current sectoral headwinds in the shape of recent gas price hike at a time when manufacturers appear to possess restricted pricing power.

Company-wise breakup: Urea market shares for FFC/EFERT/FFBL/FATIMA in Aug'18 were recorded at 44%/38%/8%/10% vs. 40%/36%/8%/6% in Aug'17. In this regard, FFC sold 191k tons of urea (-49%YoY/-10%MoM), EFERT sold 165k tons (-51%YoY/-4%MoM), FATIMA sold 41k tons (-19%YoY/-33%MoM) and FFBL sold 33k tons (down 57%YoY/-34%MoM). Despite 8%YoY decline in overall urea off-take during 8MCY18, EFERT, FFC and FFBL managed to increase their respective market shares by 5.54ppts/4.50ppts/1.29ppts to 36.4%, 44.6% and 9.3% in 8MCY18, courtesy non-operational LNG based plants (Agritech & Fatimafert) last year. In this regard, urea sales for the major players jumped by 8%YoY to 1.33mn tons (EFERT), 2%YoY to 1.63mn tons (FFC) and 6%YoY to 339k tons (FFBL) while FATIMA posted a cumulative decline of 30%YoY to just 346k tons (closed Fatimafert plant). DAP off-take on the other hand posted an impressive growth of 11%YoY to 1.06mn ton in 8MCY18, where importers sold 716k tons of DAP (up 17% YoY) while FFBL sales clocked in at 346k tons (+1%YoY).

Aug'18 Fertilizer offtake (tonnes)

	Aug-18	Jul-18	MoM	Aug-17	YoY	8MCY18	8MCY17	YoY
Urea offtake								
FFC	191,397	212,868	-10%	376,877	-49%	1,630,560	1,599,375	2%
FFBL	33,210	50,390	-34%	77,872	-57%	339,080	318,419	6%
EFERT	165,064	172,008	-4%	338,426	-51%	1,331,412	1,231,381	8%
FATIMA	41,025	60,850	-33%	50,401	-19%	345,560	298,925	16%
FATIMA-DH	-	-	0%	7,040	-	-	197,718	-100%
Imported urea	-	-	0%	64,791	-	-	212,472	-100%
Total urea	430,696	496,634	-13%	948,482	-55%	3,656,028	3,988,112	-8%
DAP offtake								
FFBL	17,064	121,159	-86%	20,831	-18%	346,357	341,239	1%
Imported	62,026	180,631	-66%	61,935	0%	716,656	614,223	17%
Total DAP	79,090	301,790	-74%	82,766	-4%	1,063,013	955,462	11%
Total CAN	57,911	99,259	-42%	56,444	3%	487,142	501,525	-3%
Total NP	33,166	56,171	-41%	52,401	-37%	338,202	465,991	-27%
Total Fertilizer	616,587	979,624	-37%	1,154,412	-47%	5,676,909	6,036,669	-6%

Source: NFDC & AKD Research

Inventory situation to improve in months ahead: After declining to extreme low levels in Jul'18 (86k tons-lowest level seen in last 7yrs), urea inventory in Aug'18 improved by 52%MoM

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Market Share-Urea

Symbol	Aug-18	Jul-18	Aug-17	8MCY18	8MCY17
FFC	44%	43%	40%	45%	40%
FFBL	8%	10%	8%	9%	8%
EFERT	38%	35%	36%	36%	31%
FATIMA	10%	12%	6%	9%	12%
Imported urea	0%	0%	7%	0%	5%

Source: NFDC & AKD Research

Inventory Level (tonnes)

	Aug-18	Jul-18	MoM	Aug-17	YoY
Urea	130,742	86,155	52%	652,828	-80%
DAP	618,739	359,393	72%	506,932	22%
CAN	58,303	76,269	-24%	290,938	-80%
NP	12,156	7,555	61%	92,349	-87%

Source: NFDC & AKD Research



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to 131k, courtesy lackluster urea sales during the month under review. However, inventory stockpile of crucial fertilizer is still down 80%YoY. This is now equivalent to an alarming 0.3x of one month's average production for urea vs. last year's average of 2.5x. Going forward, we expect urea inventory situation to improve further in the upcoming months on the back of: 1) GoP's decision to import 100k tons of urea and 2) resumption of production from closed urea plants (Agritech and Fatimafert) that will result in additional production 70-75k tons. In this regard, we now estimate an inventory surplus of ~236k tons by the end of CY18 (supply/demand of 2.15/2.04mn tons).

Question of pricing power: While we feel that local manufacturers possess decent ability to pass on the higher cost impact of recent gas price hike given current ~33-35% discount to prevailing elevated cost of imported urea (US\$300 per ton, landed cost: Pkr2,490/bag). However, for the sake of farm income, GoP can potentially restrict any further price hike in local urea prices, in our view, which could dampen sector's profitability.

Outlook & Investment Perspective: Fertilizer sector has gained 17%CYTD, outperforming the KSE-100 index by +15% during CY18. With this impressive run-up, going forward, we recommend a cautious stance owing to current sectoral headwinds in the shape of recent gas price hike at a time when manufacturers appear to possess restricted pricing power.

Estimated inventory situation by Dec end

Estimated Demand/Supply (Sep-Dec'18)	K tons
Total new production (70k*3)	210
Total existing production (460*4)	1,840
Total production	2,050
Import	100
Total Supply	2,150
Estimated demand	2,044
Additional inventory	106
Existing Inventory	130
Total inventory (Dec end)	236

Fertilizer Production (tonnes)

	8MCY18	8MCY17	YoY
Urea	3,537	3,877	-9%
DAP	466	525	-11%
NP	307	477	-36%
CAN	312	449	-30%

Source: NFDC & AKD Research

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Neutral	> 10% to < 16% expected total return
Sell	< 10% expected total return (Rf: 10%)

Old Rating Definitions (Discontinued)

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Accumulate	> 5% to < 20% upside potential
Neutral	< 5% to > -5% potential
Reduce	< -5% to > -20% downside potential
Sell	< -20% downside potential
Not Rated	No investment opinion or recommendation

Valuation Methodology

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

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

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