

PAKISTAN FERTILIZER

MARKET VISTA

Rabi season triggers uptrend in offtakes

- As per the numbers released by NFDC, urea offtake increased 4/13% MoM/YoY to 648K MT. The fertilizer numbers are on an uptrend given onset of Rabi season. This takes 8MCY21 urea offtake to 4.1mn MT, up 9%YoY, with increase in offtake more concentrated in 1HCY21 due to low base effect. Urea price, already up by c. PkR125/bag FYTD to PkR1,725/bag may sustain over 2HCY21 atleast, given supply side hiccups.
- DAP offtake increased 30%MoM, but posted a decline of 37%YoY to 186K MT, taking 8MCY21 DAP offtake to 855K MT, down 25% YoY mostly due to a sharp increase in international DAP prices. DAP inventory in Aug'21 closed at 380K MT, up 40% YoY, where FFBL accounts for ~40% of industry inventory, as inclining prices has rendered imports difficult for FFC and EFERT.
- EFERT offers highest D/Y in the sector where CY22/23F D/Y stands at 16.7/15.3% at last close, despite incorporating non-concessionary rates 3QCY21 onwards. For FFBL, strong profitability in 2HCY21 as well as one-time impact of conclusion of sell-off transaction of wind power projects will trigger price performance.

Ailia Naeem
ailia.naeem@akdsecurities.net
111-253-111 Ext: 603

Rabi season triggers urea offtake: As per the numbers released by NFDC, urea offtake increased 4/13% MoM/YoY to 648K MT. This takes 8MCY21 urea offtake to 4.1mn MT, up 9%YoY. The fertilizer numbers are on an uptrend given onset of Rabi season. Overall annual increase in offtake was more concentrated in 1HCY21 due to low base effect - anticipation of subsidy (urea: PkR243/bag and DAP: PkR960/bag) in Jun'20 (not implemented) and (ii) staggered decline in urea prices by EFERT post GIDC elimination, kept industry wide offtakes low in 1HCY20. The increase in offtake in 8MCY21 is led by EFERT, which has registered 18%YoY increase, as opposed to 3/5%YoY decline witnessed by FFC and FFBL, respectively. The overall urea inventory has declined 42%MoM to 187KMT, 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). Urea price has increased by c. PkR125/bag FYTD to PkR1,725/bag since GIDC elimination, which may sustain over 2HCY21 atleast, given supply side hiccups.

Aug'21 Fertilizer Offtake Snapshot

| | Aug'21 | Jul'21 | MoM | Aug'20 | YoY | 8MCY21 | 8MCY20 | YoY |
|--------------------------|---------|---------|------|---------|------|-----------|-----------|------|
| Urea offtake (MT) | | | | | | | | |
| FFC | 249,819 | 236,836 | 5% | 283,078 | -12% | 1,617,559 | 1,665,253 | -3% |
| FFBL | 66,703 | 49,665 | 34% | 57,204 | 17% | 335,511 | 354,441 | -5% |
| EFERT | 202,766 | 239,691 | -15% | 161,818 | 25% | 1,610,246 | 1,364,996 | 18% |
| FATIMA | 84,859 | 73,986 | 15% | 50,354 | 69% | 456,743 | 377,121 | 21% |
| Total urea | 648,514 | 621,731 | 4% | 573,290 | 13% | 4,159,582 | 3,816,933 | 9% |
| Ending Inventory | 187,447 | 321,379 | -42% | 308,314 | -39% | 187,447 | 321,379 | -42% |
| DAP offtake (MT) | | | | | | | | |
| FFBL | 66,703 | 62,383 | 7% | 108,760 | -39% | 389,999 | 464,337 | -16% |
| EFERT | 14,221 | 22,260 | -36% | 66,483 | -79% | 141,136 | 249,213 | -43% |
| FFC | 2,306 | 28,045 | -92% | 57,119 | -96% | 98,751 | 115,661 | -15% |
| Total DAP | 186,532 | 143,705 | 30% | 295,012 | -37% | 855,797 | 1,144,017 | -25% |
| Ending Inventory | 378,755 | 406,851 | -7% | 271,084 | 40% | 378,755 | 271,084 | 40% |

Source: NFDC & AKD Research

DAP offtake follows suit: DAP offtake increased 30%MoM, but posted a decline of 37%YoY to 186K MT, taking 8MCY21 DAP offtake to 855K MT, down 25% YoY. The decline in c. 8MCY21 DAP offtake comes from pre-buying triggered by supply shocks which began in Aug'20. The local DAP prices have witnessed an uptick of ~PkR1,800/bag over last 12 months (currently at PkR6,400/bag). The fertilizer prices may potentially continue to see an upward trend, where international DAP prices translate into 6,700 per bag. DAP inventory in Aug'21 closed at 380K MT, up 40% YoY, where FFBL accounts for ~40% of industry inventory, as inclining prices has rendered imports difficult for FFC and EFERT.



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

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| | |
|----------------|---|
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| Neutral | > 8.5% to < 14.5% expected total return |
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AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net