

PAKISTAN FERTILIZER SECTOR

Fertilizer offtake showcased a mixed trend in Aug'21

Friday, September 24, 2021

As per the latest numbers released by NFDC, urea offtake recorded an increase of 13% YoY to clock-in at 0.65Mn tons in Aug'21 mainly on account of better farm economics and seasonality factor. Resultantly, urea inventory levels closed at 0.19Mn tons at month end, which is relatively lower compared to 0.31Mn tons in the SPLY. On the other hand, DAP offtake declined by 37% YoY to 0.19Mn tons primarily owing to pre-buying by dealers due to surging local prices. The local DAP prices continued their upward trend with a hike of more than PKR 700/bag last month, taking current prices to over PKR 6,500/bag. Cumulatively, urea offtake surged by 9% YoY to 4.2Mn tons in 8MCY21 whereas DAP sales dropped by 14% YoY to 0.98Mn tons.

Better farm economics led to higher urea sales: Urea production increased marginally by 0.7% sequentially, whereas it dropped by 7% YoY to 0.52Mn tons in Aug'21 mainly owing to closure of RLNG based fertilizer plants. On the other hand, urea sales rose by 13/4% YoY/MoM to 0.65Mn tons during the same period on account of better farm economics and seasonality as the Rabi sowing season approaches. Company-wise, FATIMA recorded the largest increase in offtake by 72% YoY to 91K tons, followed by EFERT and FFBL which witnessed rise of 25/17% YoY to 203/67K tons, respectively. Alternatively, FFC posted a decline of 12% YoY in offtakes to 250K tons on account of lower inventories.

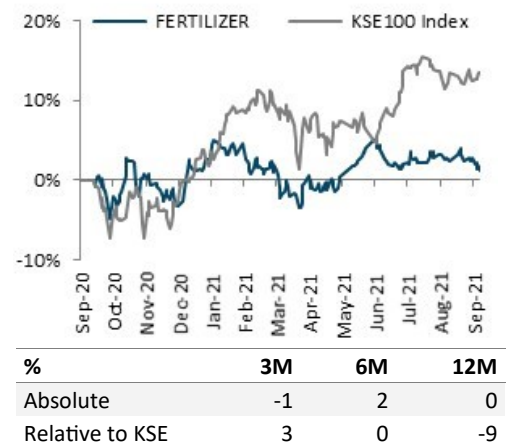
DAP offtake declined by 37% YoY: DAP offtake dropped by 37/4% YoY/MoM respectively to 0.19Mn tons in Aug'21, mainly due to pre-buying by dealers owing to expectations of increase in retail prices. On the pricing front, international DAP prices are trending at high levels with recent trade orders concluding at over USD 680/ton. The Fauji group recently raised local DAP prices by PKR 140/bag, taking current market prices to new highs of over PKR 6,500 per bag. We expect limited exports from China and higher import demand in India and Pakistan due to seasonality to support international DAP prices in the near-term, however, the prices are expected to revert to their normal levels afterwards.

Lower urea inventory keeps pricing power intact: Urea inventory dropped to 0.19Mn tons in Aug'21 mainly due to closure of RLNG-based plants, which resumed production recently in late Sep'21. As per our expectations ([see here](#)), even if the RLNG based plants stay operational for the remaining period of CY21, inventory levels are likely to remain low below 0.2Mn tons. Hence, we reiterate that the pricing power of fertilizer players is strong, and the local companies are in favourable position to pass on any potential increase in input costs. Note that local urea prices are still trading at a sizable discount of nearly 60% compared to international prices (Landed eqv. of ~PKR ~4,500/bag).

Investment Perspective: Amid better farm economics and favorable pricing dynamics, we maintain our positive outlook on Pakistan Fertilizer sector with FFC and FFBL our favorite picks at Jun'22 TP of PKR 135/sh and PKR 35/sh. (upside of 29% and 54%, respectively).

Key **downside** risks to our investment thesis include shortage of gas supply, weak farm economics and more than expected rise in gas tariff and other input costs.

Fertilizer Performance vs. KSE-100 Index



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Table 1: Fertilizer statistics

Ktons	Aug-21	Aug-20	% YoY	Jul-21	% MoM	8MCY21	8MCY20	% YoY
Urea Offtake								
FFC	250	283	-12%	237	5%	1618	1665	-3%
EFERT	203	162	25%	240	-15%	1610	1365	18%
FATIMA	91	53	72%	78	17%	494	390	27%
FFBL	67	57	17%	50	34%	336	354	-5%
Total	649	573	13%	622	4%	4,169	3,814	9%
DAP Offtake								
FFC	2	57	-96%	26	-91%	93	117	-20%
EFERT	14	66	-79%	36	-61%	146	247	-41%
FFBL	93	109	-14%	93	0%	416	465	-10%
Total	187	295	-37%	193	-4%	981	1141	-14%
Urea Inventory								
FFC	42	52	-19%	74	-43%	42	52	-19%
EFERT	66	133	-50%	72	-8%	66	133	-50%
FATIMA	70	88	-20%	119	-41%	70	88	-20%
FFBL	2	7	-69%	12	-83%	2	7	-69%
Total	187	308	-39%	321	-42%	187	308	-39%

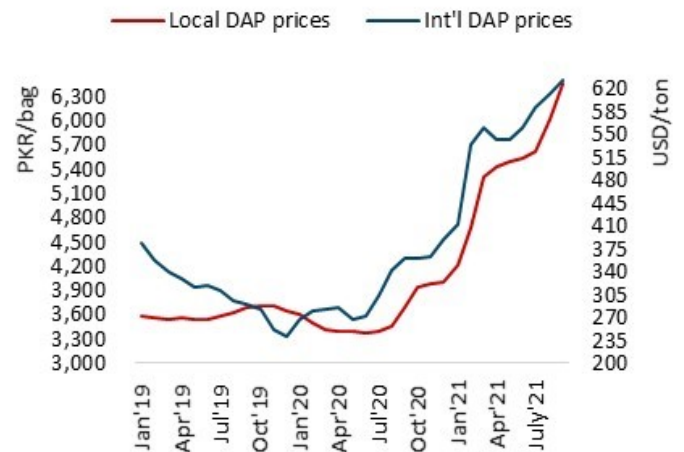
Source: NFDC, BMA Research

Chart 1: Local urea prices still at ~60% discount



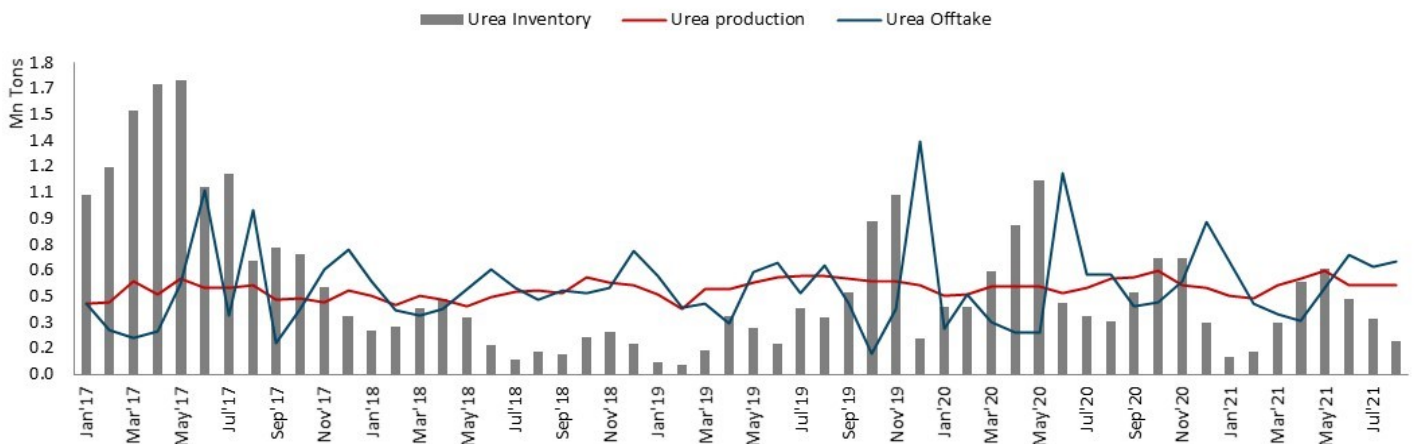
Source: NFDC, Bloomberg, BMA Research

Chart 2: Domestic DAP prices continue their upward trend



Source: NFDC, Bloomberg, BMA Research

Chart 3: Urea inventory levels dropped to 0.19Mn tons in Aug'21



Source: NFDC, BMA Research

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*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
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- Discounted cash flow (DCF, DDM)
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