

**PAKISTAN**



# Pakistan Fertilizer

## Offtake remained restricted in Jun'21

### Event

Record offtake in Jun'20 given expectations of gas price hike resulted in offtake to decline in Jun'21 amid high base effect. However, start of rice sowing and strong agronomics given better prices for wheat, sugarcane and maize crops resulted in higher sequential offtake of major fertilizer products. Furthermore, in 6MICY21 fertilizer offtake increased across the board.

### Impact

**Exceptional offtake in Jun'20 given expectations of gas price hike resulted in lower offtake:** Domestic Urea offtake decreased by 41% YoY in Jun'21 due to record offtake in Jun'20 given expectations of gas price hike from FY21. However, higher demand from sowing of cash crops across the country has resulted in 38% MoM increase in Urea offtake. To highlight, domestic Urea prices increased by 7.1% YoY in Jun'21.

Furthermore, DAP offtake declined by 61/61% YoY/MoM in Jun'21 due to constrained supply and 64.2% YoY increase in domestic DAP prices in Jun'21. To highlight, DAP prices in Int'l markets increased by 66% YoY in Jun'21 due to 60% YoY increase in phosphoric acid prices and higher feedstock cost.

Among other nutrients, NP/NPK offtake declined by 26/34% YoY in Jun'21 due to higher offtake in earlier months, while CAN offtake increased by 37/67% YoY in Jun'21/6MICY21 due to better vegetable prices amid constrained supply. Furthermore, resumption of production by Pak Arab fertilizers also provided further support to higher NP/CAN overtake.

**Decline in Urea production and lower DAP imports restricted FFC offtake:** FFC Urea/DAP offtake declined by 45/92% YoY in Jun'21. However, on sequential basis FFC Urea offtake increased by 35% MoM in Jun'21. We attribute decline in offtake to (1) higher offtake by peers given large carry forward inventory and (2) lower DAP imports by the company amid volatile international prices. To highlight, FFC market share of Urea declined by 3.1/8.6ppt YoY in Jun'21/6MICY21 to 35.8/39.0% in Jun'21.

**FFBL shifts focus towards DAP production:** FFBL DAP production increased by 3.5/17% in Jun'21/6MICY21 given company's preference towards higher margin DAP. However, FFBL Urea/DAP offtake declined by 65/58% YoY in Jun'21, where lower DAP offtakes are attributed to lower seasonal demand. Furthermore, due to aforementioned factors FFBL Urea market share declined by 5.3ppt YoY to 7.8%, while its DAP market share increased by 2.7ppt YoY Jun'21.

**Higher offtake in earlier month restricted EFERT offtake:** EFERT Urea offtake declined by 50% YoY in Jun'21 due to higher offtake in earlier months, while 83% YoY decline in company's DAP offtake is attributable to lower imports by the company. To highlight, EFERT Urea offtake increased by 34% YoY in 6MICY21 due to large carry forward inventory.

### Outlook

We have an "Outperform" stance on the sector given government's efforts for food security amid better pricing of wheat and sugarcane. Gov't subsidy on phosphate fertilizers for kharif season would help to improve DAP sales in the coming months. Moreover, payment of GIDC in 48 monthly installments along with likely adjustment of payable amount against Sales tax and subsidy receivables would ease cash flow concerns of FFBL.

**Fertilizer offtake for Jun'21**

**Product wise offtake**

	Jun'21	YoY	MoM	6MICY21	YoY
UREA	690	-41%	38%	2,899	9%
DAP	68	-61%	-61%	601	1%
NP	42	-26%	8%	354	27%
CAN	92	37%	16%	489	67%
NPK	4	-34%	0%	44	26%

**Company wise offtake**

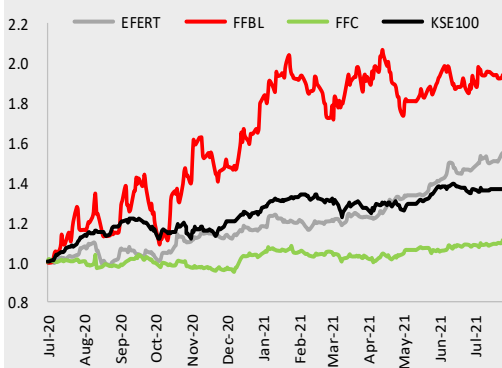
UREA	Jun'21	YoY	MoM	6MICY21	YoY
FFC	247	-45%	35%	1,131	-11%
FFBL	54	-65%	-8%	219	-17%
EFERT	256	-50%	28%	1,168	34%
FATIMA	99	128%	107%	318	44%

**DAP**

	Jun'21	YoY	MoM	6MICY21	YoY
FFC	1	-92%	-97%	65	55%
FFBL	23	-58%	-66%	230	-8%
EFERT	12	-83%	-55%	96	-47%

Source: NFDC, Foundation Research, July 2021

**FSL Fertilizer universe V/S KSE100 Index**



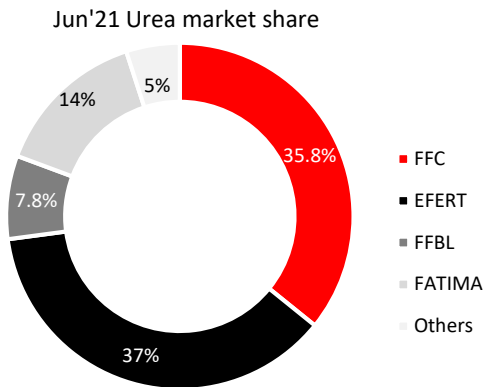
Source: Bloomberg, Foundation Research, July 2021

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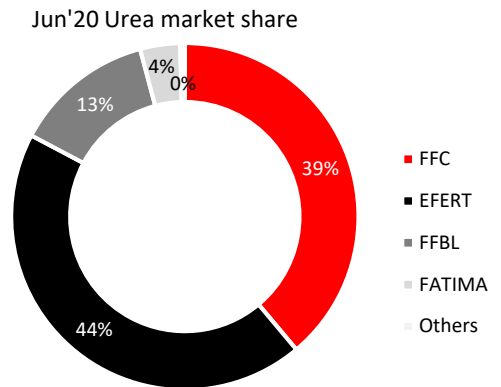
Foundation Securities (Pvt) Ltd  
Wednesday, July 28, 2021

**Fig 1: FFC market share declined in Jun'21...**



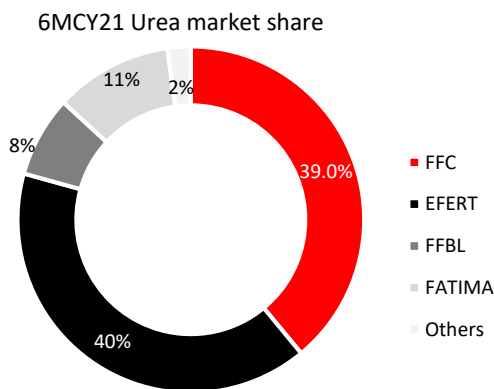
Source: NFDC, Foundation Research, July 2021

**Fig 2: ...as RLNG based production gained momentum**



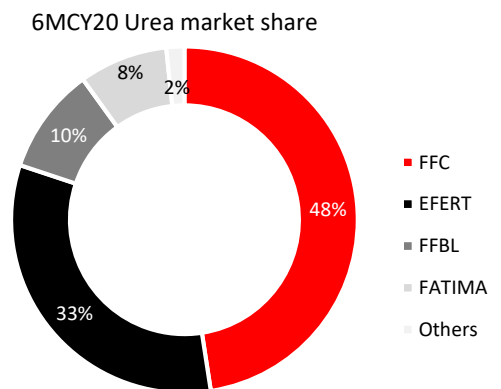
Source: NFDC, Foundation Research, July 2021

**Fig 3: FFC lost significant market share in 6MCY21..**



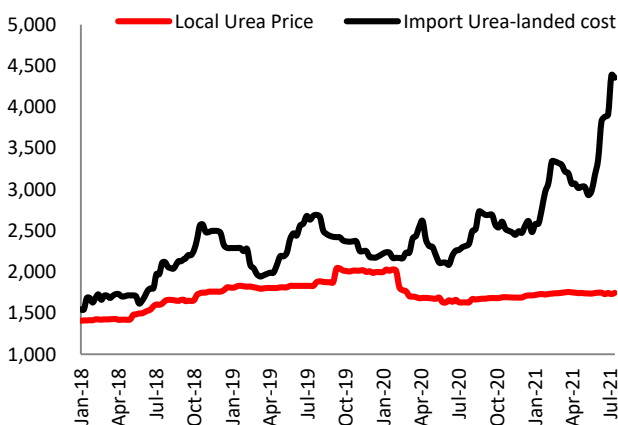
Source: NFDC, Foundation Research, July 2021

**Fig 4: ...to EFERT due to large carry forward inventory**



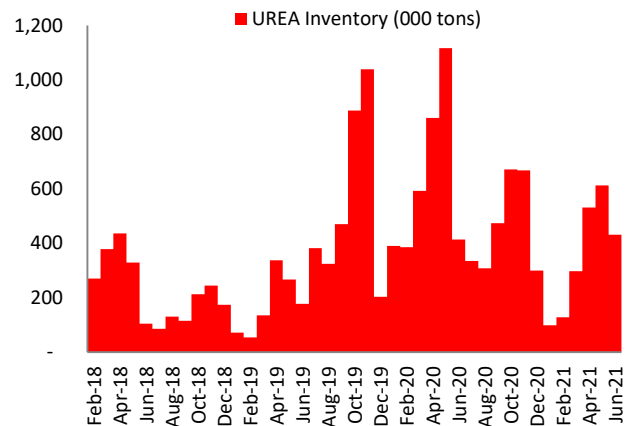
Source: NFDC, Foundation Research, July 2021

**Fig 5: Gap widened btw local & Int'l price (Rs/bag)**



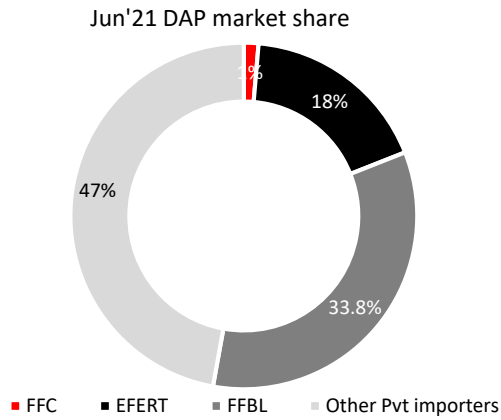
Source: PBS, Bloomberg, FSL Research, July 2021

**Fig 6: Absence of RLNG plants to ↓ inventory levels**



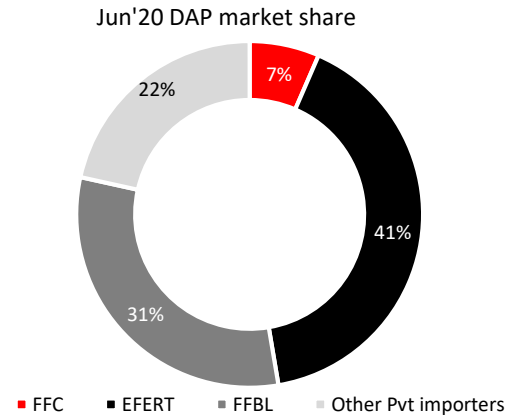
Source: NFDC, Foundation Research, July 2021

**Fig 7: Lower DAP imports by FFC and EFERT....**



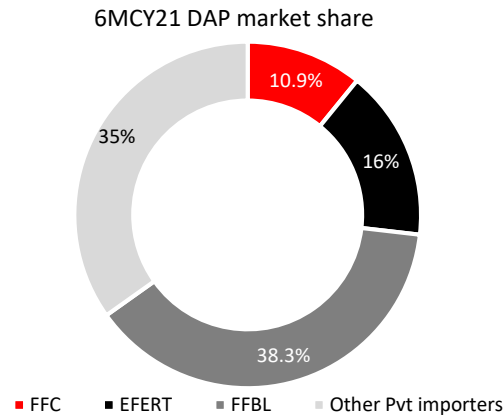
Source: NFDC, Foundation Research, July 2021

**Fig 8:.....allowed private traders to ↑ market share**



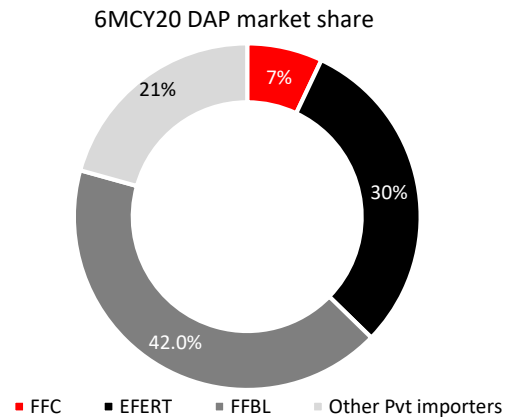
Source: NFDC, Foundation Research, July 2021

**Fig 9: FFBL share declined due to lower inventory**



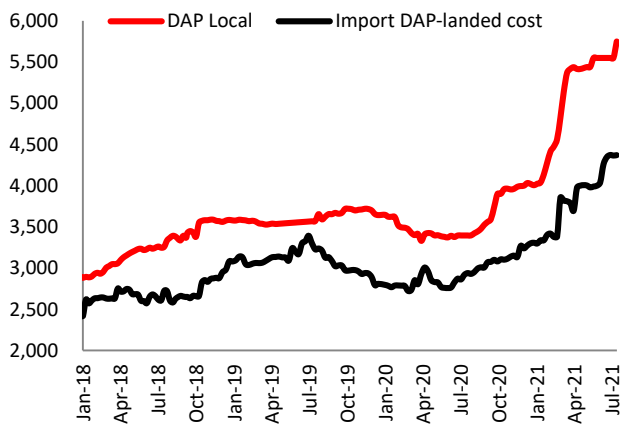
Source: NFDC, Foundation Research, July 2021

**Fig 10: ...compared to 6MCY20**



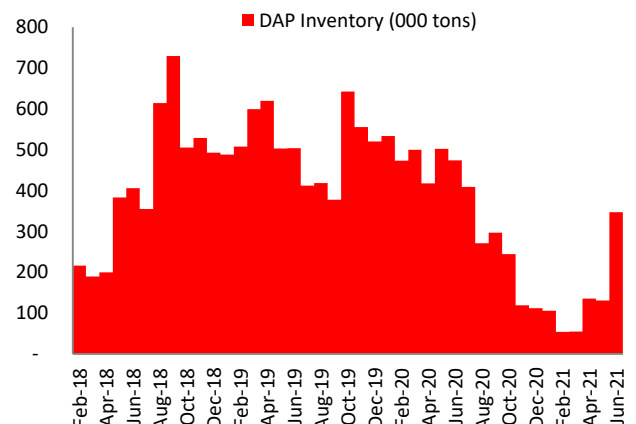
Source: NFDC, Foundation Research, July 2021

**Fig 11: DAP prices on the rise (Rs/bag)**



Source: PBS, Bloomberg, FSL Research, July 2021

**Fig 12: DAP supply to remain constrained in 2HCY21**



Source: NFDC, Foundation Research, July 2021

**Abbreviations**

CY	Calendar Year
DAP	Di-ammonium Phosphate
GIDC	Gas Infrastructure Development Cess
YoY	Year-on-year
QoQ	Quarter-on-Quarter

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.