

PAKISTAN



Fertilizer offtake for Aug'21

Product wise offtake

	Aug'21	YoY	MoM	8MCY21	YoY
UREA	649	13%	4%	4,169	9%
DAP	187	-37%	-4%	981	-14%
NP	86	17%	23%	511	16%
CAN	79	-10%	11%	640	37%
NPK	10	50%	50%	60	28%

Company wise offtake

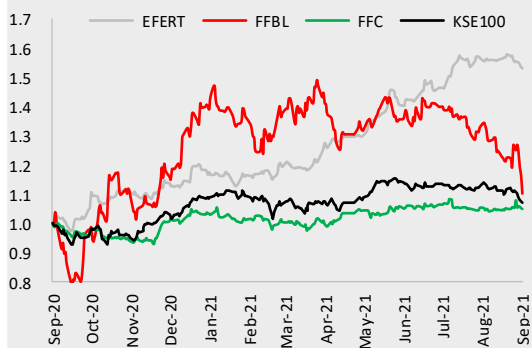
UREA	Aug'21	YoY	MoM	8MCY21	YoY
FFC	250	-12%	5%	1,618	-3%
FFBL	67	17%	34%	336	-5%
EFERT	203	25%	-15%	1,610	18%
FATIMA	85	69%	15%	477	30%

DAP

FFC	2	-96%	9926%	93	-20%
FFBL	93	-14%	0%	416	-10%
EFERT	14	-79%	-61%	146	-41%

Source: NFDC, Foundation Research, September 2021

FSL Fertilizer universe V/S KSE100 Index



Source: Bloomberg, Foundation Research, September 2021

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Friday, September 24, 2021

Pakistan Fertilizer

Decline in Urea inventory to support pricing power

Event

▪ Better performance of cash crops and Gov't focus on food security given constrained commodity supplies post COVID outbreak allowed Urea offtake to increase by 13/9% YoY in Aug'21/8MCY21. However, DAP offtake declined by 37% YoY in Aug'21 due to reluctance of pre buying from dealers as prices increased by 73.7% YoY in Aug'21 due to increased landed cost for imported product amid surge in international prices on account of higher feedstock and phosphoric acid prices.

Impact

▪ **Absence of production by RLNG based fertilizer player's enhanced pricing power:** Pakistan domestic Urea offtake increased by 13/4% YoY/MoM in Aug'21 due to strong agronomics given higher production. Furthermore, due to Gov't decision to cut subsidized gas supplies to LNG based fertilizer plants domestic prices increased by 6.7/1.5% YoY in Aug'21. However, DAP offtake declined by 37/4% YoY/MoM in Aug'21 due to 73.7/7.5% YoY/MoM increased in DAP prices in Aug'21. To highlight, DAP prices in Int'l markets increased by 75% YoY in Aug'21 due to 84% YoY increase in phosphoric acid prices and higher feedstock cost.

▪ Among other nutrients, NP/NPK offtake increased by 17/50% YoY in Aug'21, while CAN offtake declined by 10% YoY in Aug'21 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.

▪ **FFC offtakes declined in both Urea/DAP market:** FFC Urea/DAP offtake declined by 12/96% YoY in Aug'21. However, on sequential basis FFC Urea offtake increased by 5% MoM in Jul'21. We attribute decline in offtake to (1) higher offtake by peers given large carry forward inventory and (2) company decision to hold DAP inventory to meet upcoming wheat sowing season demand.

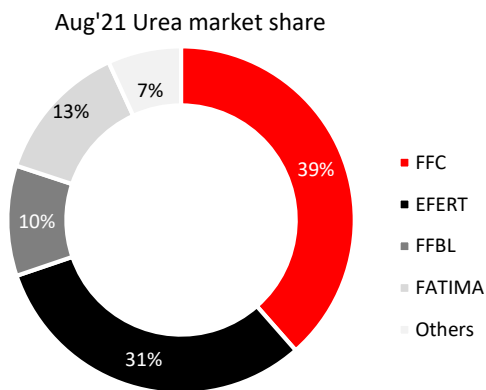
▪ **Higher DAP production to strengthen FFBL position in wheat sowing season:** FFBL Urea/DAP offtake increased/decreased by 17/14% YoY in Aug'21. Despite decline in DAP offtake FFBL market share of DAP increased by 13ppt YoY to 50% in Aug'21 as industry DAP offtake declined by 37% YoY in Aug'21. To highlight, FFBL DAP production increased by 11.7% YoY in 8MCY21.

▪ **Large carryforward inventory allowed EFERT to witness increase in Urea sales:** EFERT Urea offtake increased by 25/18% YoY in Aug'21/8MCY21. We attribute increase in offtake to (1) large carryforward inventory by the company (2) and increased production from May'21 given better gas flows. Furthermore, EFERT DAP offtake declined by 79/41% YoY in Aug'21/8MCY21 due to lower imports by the company given increased volatility in international prices.

Outlook

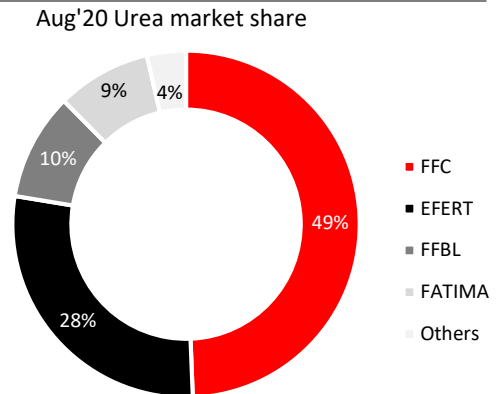
▪ We have an "Outperform" stance on the sector given government's efforts for food security amid better pricing of wheat and sugarcane. Gov't subsidy on phosphate fertilizers for Rabi season amid upcoming demand from wheat sowing across the country would help to improve DAP sales in the coming months. 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.

Fig 1: FFC market share declined in Aug'21...



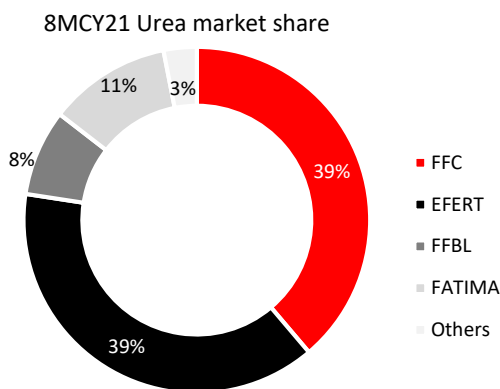
Source: NFDC, Foundation Research, Sept 2021

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



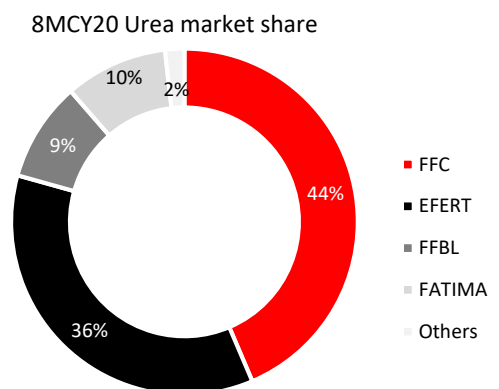
Source: NFDC, Foundation Research, Sept 2021

Fig 3: FFC lost significant market share in 8MCY21..



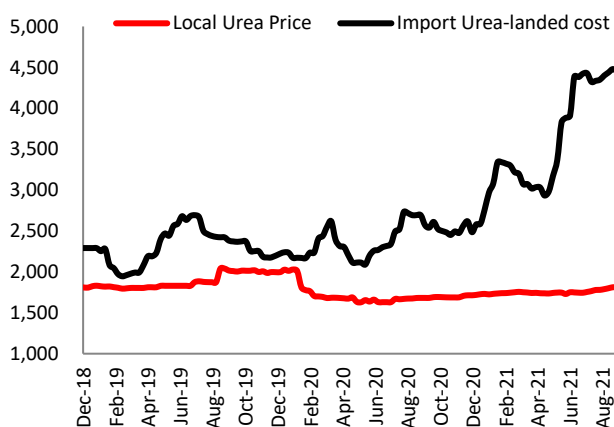
Source: NFDC, Foundation Research, Sept 2021

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



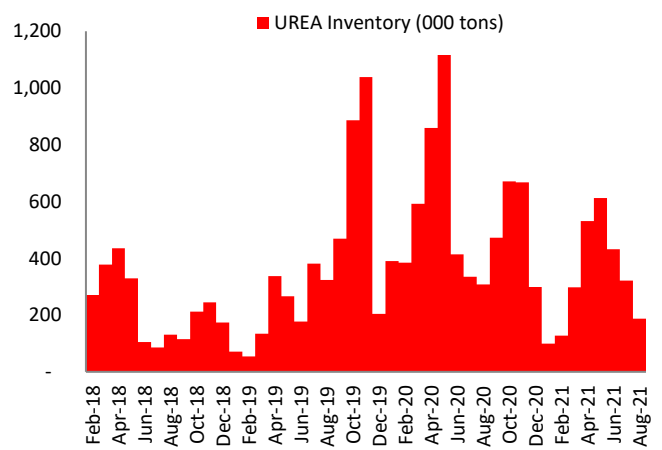
Source: NFDC, Foundation Research, Sept 2021

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



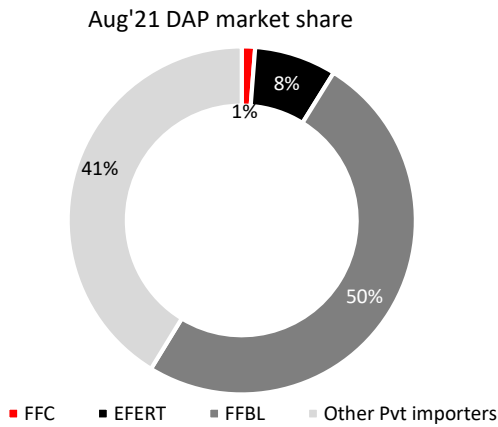
Source: PBS, Bloomberg, FSL Research, Sept 2021

Fig 6: Absence of RLNG plants ↓ inventory levels



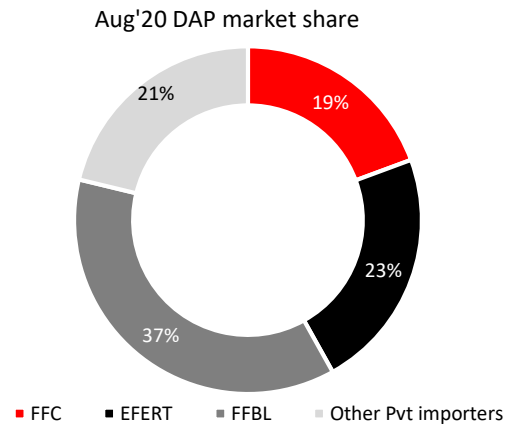
Source: NFDC, Foundation Research, Sept 2021

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



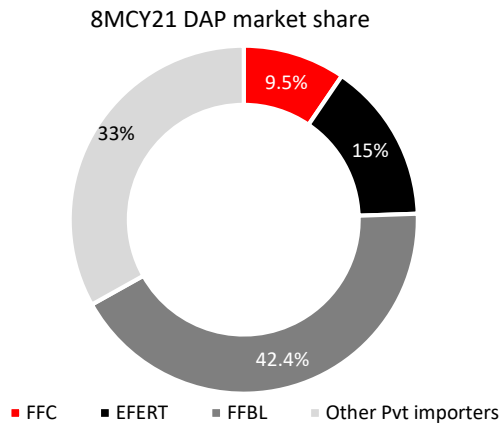
Source: NFDC, Foundation Research, Sept 2021

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



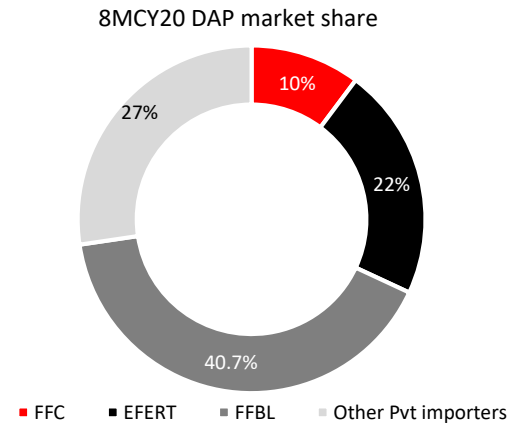
Source: NFDC, Foundation Research, Sept 2021

Fig 9: FFBL share increased given decline in...



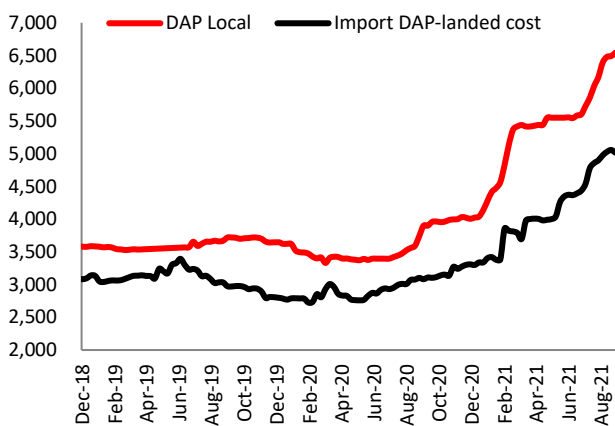
Source: NFDC, Foundation Research, Sept 2021

Fig 10: ...industry demand



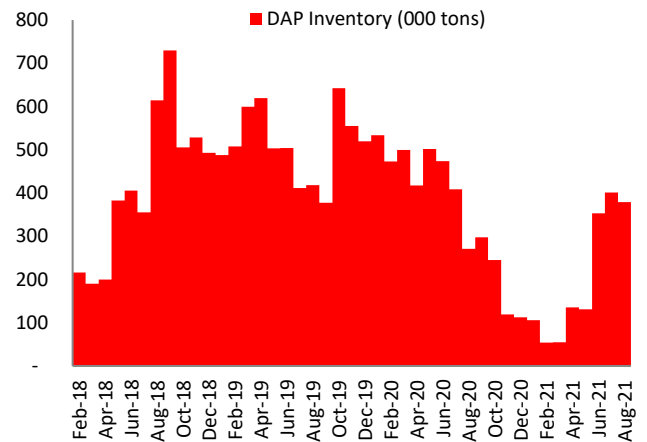
Source: NFDC, Foundation Research, Sept 2021

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



Source: PBS, Bloomberg, FSL Research, Sept 2021

Fig 12: DAP supply to remain constrained in 2HCY21



Source: NFDC, Foundation Research, Sept 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	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.