

Foundation Alert

Pakistan Fertilizer: Urea prices at 13 year high of US\$710/ton

Event

- Urea prices increased to US\$710/ton in international markets that translates into landed cost of Rs6,430/bag.

Impact

- Urea prices in international markets increased to US\$710/ton due to significant increase in feedstock prices given higher coal and gas prices.
- ECC has recently approved import of 100K tons of Urea to maintain the supply during Rabi season.
- Government will provide ~Rs9.2bn of subsidy in order to sale imported Urea at current prevailing prices in the market as landed cost for the imported Urea is at Rs6,430/bag.
- On domestic pricing front, we expect pricing power of base players to further strengthen given constrained supply due to higher landed cost for imported Urea and increased cost of RLNG based fertilizer players given higher LNG prices.
- Furthermore, Urea prices witnessed these level in last commodity boom cycle of 2008 and prices remained elevated for six months. However, impact on local prices in 2008 was minimal due to government supportive policies.
- Furthermore, DAP prices in domestic market are also expected to increase by Rs300-500/bag in near term as private importers have already increased their prices above Rs7,000/bag compared to avg selling prices of Rs6,500/bag of local manufacturers.

Outlook

- Evolving situation would further strengthen pricing power of base players and allow them to pass on inflationary pressures due to (1) Government decision to import just 100K tons of Urea during Rabi season, (2) higher cost of RLNG based players, and (3) concerns over supply of gas to RLNG based fertilizer players amid lower urea inventory at the advent of Rabi season.
- 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 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 and EFERT.

Fig 01: Sensitivity of FSL fertilizer universe to change in Urea prices

Price Increase	Rs50/bag	Rs75/bag	Rs100/bag	Rs150/bag
FFC	1.2	1.9	2.5	3.7
EFERT	1.0	1.6	2.1	3.1
FFBL	0.3	0.4	0.5	0.8

Source: Foundation Research, October 2021

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