

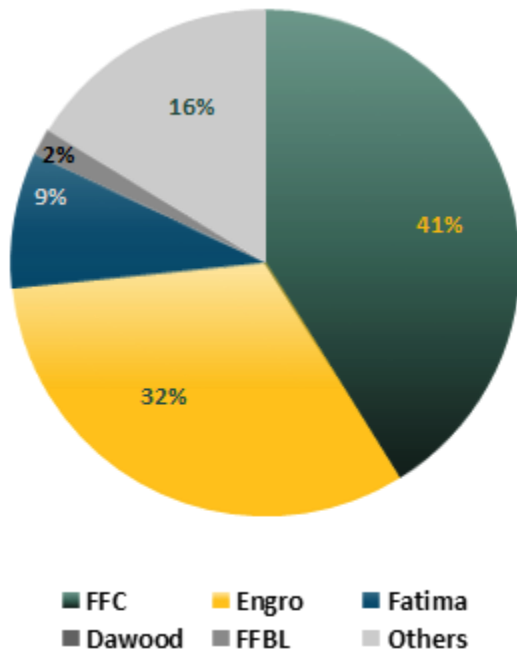
Fertilizer Sector Update

Urea offtake clocks in at 408Kt (↑19% Y/Y) – Mar'19

	52-Week High	52-Week Low	Current
FFC	109.12	87.04	104.64
FFBL	43.92	30.78	29.25
EFERT	82.94	69.05	70.00
FATIMA	37.93	27.51	27.72

Source: PSX

Urea Market Share—1QCY19



Source: NFDC

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The official fertilizer statistics released by NFDC highlighted a growth in fertilizer sales on a yearly basis. Urea sales clocked in at 408Kt (↑19% Y/Y, ↑5% M/M). Cumulatively, 1QCY19 urea volumes climbed up by 9% to 1.36MT. On the other hand, industry production of urea displayed a growth of 9.2% Y/Y (↑31.6% M/M) in the month under review, while, 1QCY19 production numbers showed a marginal rise of 2% as compared to SPLY.

Moreover, DAP offtake for the month of Mar'19 stood at 65Kt after showing a notable drop of 56% Y/Y (↑35% M/M). Likewise, significant decrease of 48% has been witnessed in 1QCY19 offtakes when compared to SPLY. On the imports front, DAP industry imports for the month showed a growth of 60% Y/Y while 1QCY19 imports declined by 37% Y/Y.

Urea Industry Volumetric Position

Urea	Mar-19	Mar-18	Y/Y	Feb-19	M/M
Opening Inventory	54	270	-80%	71	-24%
Production	491	450	9%	373	32%
Imports	0	0	-	0	-
Off-take	408	342	19%	388	5%
Closing inventory	135	378	-64%	54	148%

Source: NFDC & HMFS Research

FFC once again proved to be a market leader by catering 41% of the Urea market, where, offtakes remained stable at 194Kt (↑14.5% M/M). The volume of 560Kt of urea has been offloaded by the company in 1QCY19 (↓2% Y/Y). However, the production in Mar'19 clocked in at 208Kt (↑5.5% Y/Y, ↑23.6% M/M). On DAP front, company did not import any DAP since last two months due to higher closing inventories in FFC and decreasing demand in local market. DAP sales volume of the company registered at 10Kt (↓69.6% Y/Y, ↑25.7% M/M). Cumulative, DAP offtake for 1QCY19 plunged 79% from 105Kt to 22Kt only.

FFBL was not able to perform well in Urea market with the offtake for the month under review clocking in at 37Kt (↓34% Y/Y). Cumulative, urea offtake in 1QCY19 decreased by 73% Y/Y to 24Kt. On the other hand, Urea production for 1QCY19 stood at 50Kt (↓49% Y/Y), wherein, Mar'19 production numbers came in at 37Kt (↓33.9% Y/Y, ↑226% M/M). Being a sole producer in DAP market, FFBL produced 75Kt (↑5.3% Y/Y, ↑22.8% M/M) in Mar'19 taking up the total production of 1QCY19 to 167Kt. Moreover, due to slowing DAP demand, 1QCY19 offtake of the company registered a negative growth of 73% to 38Kt, whereas, Mar'19 offtake numbers stood at 15Kt (↓78.1% Y/Y, ↑32.5% M/M).

EFERT sold 147Kt (↑63.7% Y/Y, ↑12.6% M/M) of Urea in the month under review taking the 1QCY19 total offtake of the company to 438Kt (↓12% Y/Y). The market share of EFERT remained intact at 32% in 1QCY19. Whereas, production of the company climbed up to 153Kt (43% Y/Y, 20% M/M) in Mar'19 while cumulative production showed a marginal decline of 1% Y/Y to 445Kt. Company was able to perform better on the DAP front with Mar'19 sales volume standing at 29Kt (↑43.8% Y/Y, ↑105% M/M), simultaneously, 1QCY19 DAP offtake of the company rose by 43% Y/Y to 77Kt. EFERT imported 51Kt (29% Y/Y) of DAP in 1QCY19, wherein, 27Kt (↓45.6% Y/Y, ↑260% M/M) has been imported in Mar'19 individually.

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	1QCY19	1QCY18	Y/Y
Off take (kt)			
Urea	1,360	1,251	9%
DAP	189	365	-48%
Retail price/bag			
Urea	1,813	1,419	28%
DAP	3,562	2,954	21%

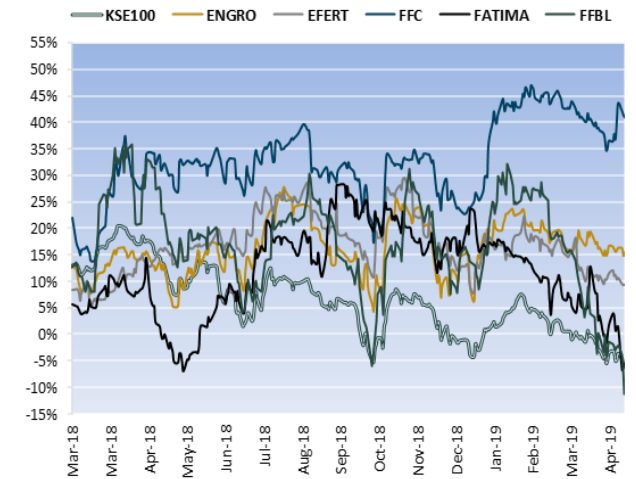
Source: NFDC & HMFS Research

FATIMA continued to be the leader in CAN market by grasping a whopping 97% share. The company's offtake registered at 21Kt (↑5% Y/Y, ↓53.7% M/M) in Mar'19, out of 26Kt (↓41% Y/Y, ↓38% M/M) of production. On Urea front, company saw a significant growth of 74% Y/Y (↑24.75 M/M) with the offtakes clocking in at 21Kt. **FATIMA** displayed a urea sales volume growth of 37% in 1QCY19 as compared to SPLY.

	Mar-19	Mar-18	Y/Y	Feb-19	M/M
Off-take (kt)					
Urea	408	342	19%	388	5%
DAP	65	150	-56%	49	35%
Retail price (PKR/bag)					
Urea	1,801	1,425	26%	1,819	-1%
DAP	3,535	3,031	17%	3,569	-1%

Source: NFDC & HMFS Research

Price Performance Relative to KSE-100



Source: PSX

Future Outlook:

With the Kharif season in the offing, fertilizer sales are likely to gear up which is indicated in the Urea offtake increase of 19.4% Y/Y in the month under review. On the other hand, DAP offtake for the month of Mar'19 declined by 56% Y/Y primarily due to the increased DAP prices in the market. We foresee the further long term decline in local DAP demand on the back of increasing DAP prices and rupee devaluation. Total closing inventory of Urea climbed up to 135Kt while the GoP is planning to give subsidized gas mix from May to Pak Arab plant on a temporary basis to meet the Kharif season urea demand.

The Urea prices in the market are now hovering around at PKR1,801/bag, while those of DAP are around PKR3,535/bag. We foresee the prices to remain stable for the near term but the increasing production cost and inflation in the economy are likely to jack up the prices of the nutrient in the medium term.

Rating Definition	Recommendation	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
	Expected Return	> 15.0%	> 5.0% to <15.0%	> -5.0% to <5.0%	> -15.0% to <-5.0%	>-15.0%

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