HABIBMETRO
Financial Services

Fertilizer Sector Update

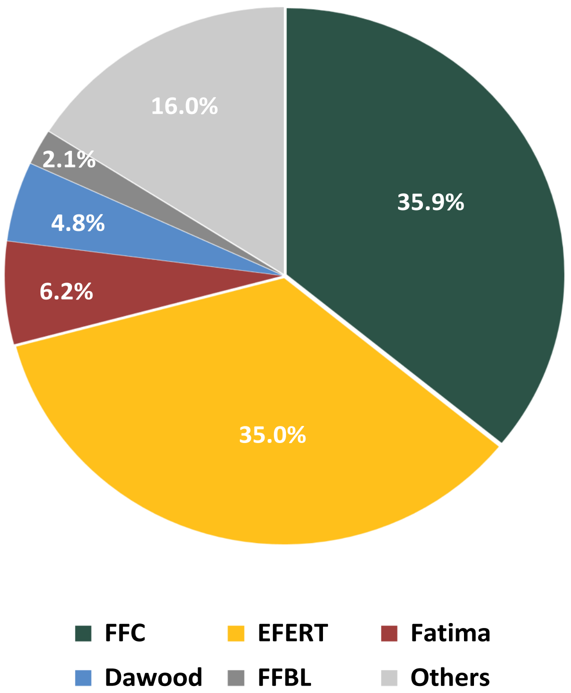
Thursday, March 21, 2024

Climb in Urea and DAP Offtake Recorded for Feb: Up by 8% and 17% Respectively Over SPLY

	52-Week High	52-Week Low	Current Price (PKR)
FFC	124.00	90.97	121.63
FFBL	32.43	11.11	25.23
EFERT	148.18	75.37	144.91
FATIMA	38.14	26.71	38.14

Source: PSX & HMFS Research

Urea Market Share - February 2024



Source: NFDC & HMFS Research

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Fertilizer Landscape

The latest figures released by the National Fertilizer Development Centre (NFDC) shed light on the fertilizer market dynamics for February 2024, a pivotal period marking the penultimate month of the ongoing Rabi season in Pakistan. The data underscores a notable uptick in Urea and DAP offtake, registering respective volumes of 543kT and 115kT, reflecting robust year-on-year growth rates of 8% and 17% compared to February 2023. However, compared to January 2024, there was a slight drop of 11% in Urea offtake, while DAP soared by an impressive 72%.

Total domestic fertilizer production during the month was 776kT. Urea and DAP production was 550kT and 72kT, respectively. Total imported supplies were 90kT that comprised of mainly DAP imports of 71.8kT.

February's closing inventory notably surpassed the recommended buffer stock level of 200kT by a significant 70kT margin, reflecting a healthy market balance. Going-forward, the NFDC expects no imports to take place in the concluding month of the Rabi season, i.e. March 2024. Projections for Urea production stand at 539kT, with an offtake of 481kT expected. Meanwhile, for DAP, supply (domestic production and imports) is forecasted at 100kT, with an offtake of 92kT.

	Feb-24	Feb-23	Y/Y	Jan-24	M/M
Off-take (kt)					
Urea	543	503	8%	613	-11%
DAP	115	98	18%	67	73%
Retail price (PKR/bag)					
Urea	4,691	2,900	62%	4,602	2%
DAP	12,399	10,434	19%	12,755	-3%

Source: NFDC & HMFS Research

Major Players

As the crop cycle nears its conclusion, a predictable pattern emerges wherein farmers curtail their fertilizer application. Consequently, there is a discernible downturn in fertilizer production during these transitional months. In February, notable urea producers such as EFERT and FFC marginally reduced their production outputs by 10% and 8% respectively, aligning with the reduced demand. Despite this adjustment, both industry leaders maintained robust offtake figures, successfully selling the majority of their produced volumes during the month. EFERT retained a market share of 35%, while FFC secured 36% of the urea market share, affirming their competitive positions within the industry.

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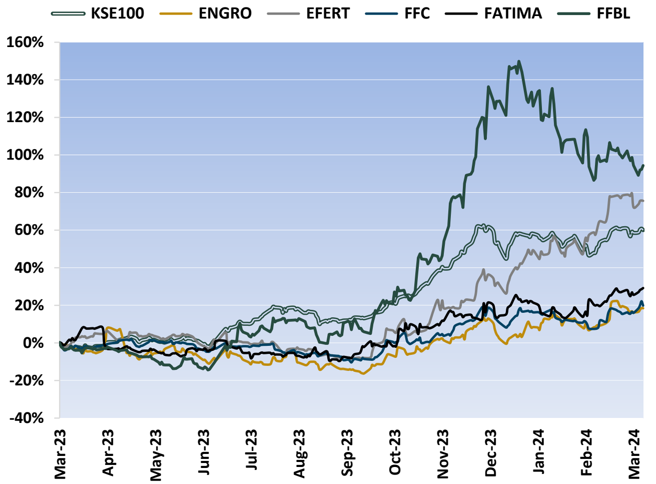
	2MCY24	2MCY23	Y/Y
Off take (kt)			
Urea	1,156	1,134	2%
DAP	182	193	-6%
Avg. retail price (PKR)/bag			
Urea	4,647	2,825	64%
DAP	12,577	10,079	25%

Source: NFDC & HMFS Research

Price Performance Relative to KSE-100



Source: PSX & HMFS Research

Some intriguing developments observed during the month were; despite EFERT's overall offtake reducing, there was a noteworthy surge in offtake within the provincial segment of Baluchistan, nearly doubling from January '24 to February '24 (Jan '24: 995T and Feb '24: 2,960T). Conversely, for FFC, the provincial segment of KP witnessed a notable increase of 62.5% in offtakes (Jan '24: 11.6kT and Feb '24: 18.8kT), marking a substantial uptick in demand within this specific region.

Future Prospects

In response to the recent escalation in gas prices to PKR 1,597/mmbtu, EFERT has implemented a corresponding increase in its Urea prices by PKR 882 per bag, raising them to PKR 4,649 per bag. However, given the pending adjustment of gas prices on the Mari network, FFC is expected to follow suit in raising its prices to offset the anticipated rise in production costs. It's noteworthy that the gas price hike will impact 100% of FFC's production, as all of its fertilizer facilities operate on the Mari network. In contrast, EFERT's largest plant, EnVen (with a capacity of 1.3mn MT), operates on the Sui network, while its significant 'Base-plant' (975kMT) is situated on the Mari network. As the agreements for the networks are set to expire in June '24, it's likely that Mari prices will undergo an upward adjustment, resulting in increased input costs for major fertilizer producers. Consequently, this could lead to a rise in their bottom line, attributable to higher revenue collection.

Going-forward, given that the final crop month primarily entails crop harvesting rather than cultivation, we anticipate a decline in both urea production and offtake. Urea production is expected to reach ~540kT, with offtakes projected at ~480kT. In contrast, DAP production is likely to experience an upswing to compensate for the notably low production observed in January '24 (29kT), attributable to delays in the shipment of phosphoric acid due to conflicts in the Middle East. Following the restoration of production to normal levels in February '24 (72kT), we anticipate a sustained production volume of approximately ~75kT in the upcoming month of March '24, despite an anticipated decrease in offtake due to the cyclical nature of fertilizer application.

Urea Industry Volumetric Position

Urea	Feb-24	Feb-23	Y/Y	Jan-24	M/M
Opening Inventory	264	101	161%	105	151%
Production	550	455	21%	600	-8%
Imports	-	-	0%	173	-100%
Off-take	543	503	8%	613	-11%
Closing inventory	270	54	400%	264	2%

Source: NFDC & HMFS Research

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HMFS RATING GUIDE	
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HOLD	*Between 15% Upside & 15% Downside*
SELL	*More than 15% Downside*

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