Pakistan Fertilizer Sector

Sep 2018 Urea sales +176% YoY

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Seasonal buying helped urea sales to record 176% YoY growth in Sep 2018

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- Dealers and Farmers have started procuring urea for Rabi season, that is likely to surge urea sales by 1.76x YoY to 497k tons during Sep 2018. Higher urea sales is underpinned by lower base affect, as last year seasonal buying started earlier due to attractive discounts. Further, another reason for higher sales could be stock hoarding by dealers/farmers as industry players signaled about probable hike of Rs130/bag in urea prices due to increase in gas prices. This will take 9M2018 urea sales to close flat YoY, while excluding last year export, YTD sales are likely to post growth 9% YoY growth.
- Company wise, Fatima Fertilizer remained outperformer in domestic sales of Sep 2018 as in similar period of last year, the company was focusing on its exports to offload its inventory as local market dynamics were weak, as per our channel checks.

Pakistan Urea and DAP Expected Off-take in Sep 2018

'000 tons	Sep-18	Sep-17	YoY	Aug-18	MoM
FFC	224	51	336%	191	17%
EFERT	166	64	159%	165	1%
FATIMA	35	0	NM	41	-15%
FFBL	72	25	186%	33	117%
Total Urea	497	180	176%	431	15%
DAP	195	354	-45%	79	147%
Total	**692**	**533**	**30%**	**510**	**36%**

Source: NFDC, Topline Research

Pakistan Urea and DAP Expected Off-take in 9M2018

'000 tons	9M2018	9M2017	YoY
FFC	1,855	1,651	12%
EFERT	1,497	1,296	16%
FATIMA	381	299	27%
FFBL	411	344	20%
Total Urea	**4,153**	**4,168**	**0%**
DAP	1,258	929	35%
Total	**5,411**	**5,097**	**6%**

Source: NFDC, Topline Research

Sector may face contraction in margins

- During 9M2018, FFC and EFERT both gained 5ppts YoY each in their urea market shares which stood at 45% and 36% respectively as manufacturing facilities of few players (Agritech and FatimaFert) remained closed amid unavailability of natural gas and unviability of their operations on expensive RLNG plants.
- **Outlook:** We maintain our market weight stance on fertilizer sector as Economic Coordination Committee (ECC) in one of its previous meetings approved gas price hike of 40-50% in fuel and feed both, which manufactures will partially be able to pass it on to consumers, thus will result in margin contraction for the sector, we believe.
- **Key Risks:** Key risks to fertilizer industry's profitability/valuation includes, 1) decline in international urea prices, 2) slower than expected urea sales, 3) poor crop season, 4) domestic gas price increase beyond our assumption and 5) rupee devaluation.

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