



Pakistan Fertilizer Sector

Urea inventory at 39 months low in Jun 2018

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Urea inventory at 39 months low in Jun 2018

- Pakistan urea sales during Jun 2018 is expected to fall by 43% during Jun 2018 to 600k tons due to high base effect in last year, where around 1mn tons were sold in Jun 2017 due to anticipation of reduction in subsidy. Half year 2018 urea sales closed at 2.7mn tons with marginal growth of 1%. Additionally, we also attribute Lower urea sales in Jun 2018 to 1) prevailing water crisis in country, 2) Eid Holidays, and 3) Ramadan effect.
- Urea inventory in June end is estimated to touch its ~39 months low at 190-200k tons, where last low was witnessed in Feb 2015 at 154k tons. Sharp decline in inventory is due to closure of Agritech's plant since Sept 2017 amid unavailability of gas and intermittent operations by FatimaFert due to higher LNG prices.
- Among companies, Engro Fertilizer (EFERT) is estimated to post decline of 25% YoY in urea sales to 240k tons, while Fauji Fertilizer (FFC) sales is likely to go down by 46% YoY. In 1H2018, Fauji Fertilizer Bin Qasim (FFBL) is likely to outperform industry by 30% in urea, while, EFERT and FFC sales is expected to surpass industry by 20% and 12%.

Pakistan Urea and DAP Expected Off-take in June 2018					
'000 tons	Jun-18E	May-18A	MoM	Jun-17A	YoY
FFC	210	257	-18%	386	-46%
EFERT	240	137	75%	318	-25%
FATIMA	85	39	119%	82	4%
FFBL	60	60	-1%	87	-31%
Total Urea	600	494	22%	1,060	-43%
DAP	170	59	190%	112	52%
Total	770	553	211%	1,171	9%

Source: NFDC, Topline Research

Pakistan Urea and DAP Expected Off-take in 6M2018			
'000 tons	1H2017A	1H2018E	YoY
FFC	1,085	1,221	13%
EFERT	819	989	21%
FATIMA	229	238	4%
FFBL	198	259	31%
Total Urea	2,693	2,721	1%
DAP	569	662	16%
Total	3,261	3,383	4%

Source: NFDC, Topline Research

Urea price to rise further in mid to end of July 2018

- Urea production during June 2018 is expected to down by ~6.5% YoY to ~465k tons, owing to disrupted operations of Agritech Limited (AGL) amid absence of natural gas supply. As compared to last month, urea production will rise by ~19% MoM, as in last month EFERT's enven plant was closed for few days due to its scheduled maintenance/turnaround.
- In local market, urea prices increased to Rs1,540-1,550 per bag in start of July 2018, where urea producers withdrew their cash subsidy contribution of Rs106, taking advantage of the short supply. To note, effective sales tax on urea is 2% w.e.f July 2018 vs. 5% earlier.
- Due to low urea inventory now, we expect urea prices to further increase by Rs50-100 in the mid to end of July 2018 due to demand for rice crop in July and Aug 2018. To note, OGRA has proposed to raise gas tariff by ~30% on Feed and Fuel both. We believe, Fertilizer manufacturers will pass on its impact to consumers, that will benefit Engro Fertilizer (enven plant) and Fatima Fertilizer as both companies are enjoying fixed concessionary gas tariffs of \$0.7/mmbtu (~Rs85 per mmbtu) vs. non concessionary rates of Rs123/mmbtu.
- On the other hand, DAP sales is expected to clock in at 170k tons, up by ~50% YoY, taking 1H2018 sales to around 660k tons, up by 15% YoY. Higher DAP sales during Jun 2018 was due to stock hoarding by dealers amid expected rise in DAP prices coupled with its seasonal buying for Rice/Cotton crop. We believe, next uptick in DAP sales would be witnessed Post Sept 2018.

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