



Pakistan Fertilizer Sector

Urea sales to decline by 51% YoY in Aug 2018

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Urea sales to decline by 51% YoY in Aug 2018

- Pakistan's local urea sales during Aug 2018 is estimated to fall by 51% YoY (excluding exports) to 432k tons, as last year in Aug 2017 heavy discounts (free credit terms and trade discounts) were offered by companies to offload their stock for Rabi season. On the other hand, NFML was also selling its imported Urea in market, that took urea price to touch its lowest average of Rs1,321 per bag in Aug 2017. During 8M2018, urea sales are likely to clock-in at ~3.7mn tons, down by 8% YoY as manufacturers were exporting their surplus inventory last year. Excluding exports, urea sales is estimated to fall by 3% YoY amid water shortage in country.
- Among companies, Fauji Fertilizer Bin Qasim (FFBL) sales volume witnessed largest decline of 58% YoY, followed by Engro Fertilizer (EFERT) with estimated decline of 52% YoY and Fauji Fertilizer (FFC) down by 49% YoY.

Pakistan Urea and DAP Expected Off-take in Aug 2018					
'000 tons	Aug-18	Aug-17	YoY	Jul-18	MoM
FFC	191	377	-49%	213	-10%
EFERT	163	338	-52%	172	-5%
FATIMA	45	50	-11%	61	-26%
FFBL	33	78	-58%	50	-35%
Total Urea	432	881	-51%	497	-13%
DAP	96	78	23%	302	-68%
Total	528	959	-45%	798	-34%

Source: NFDC, Topline Research

Pakistan Urea and DAP Expected Off-take in 8M2018			
'000 tons	8M2018	8M2017	YoY
FFC	1,630	1,599	2%
EFERT	1,329	1,231	8%
FATIMA	350	299	17%
FFBL	339	318	6%
Total Urea	3,657	3,988	-8%
DAP	1,080	929	16%
Total	4,737	4,918	-4%

Source: NFDC, Topline Research

Urea prices may see headwinds from tailwinds

- Urea production during Aug 2018 is likely to be at 490k tons, while inventory is expected to close at 130-140k tons.
- Currently official price of urea is around Rs1,600-1,610 per bag, while in market it is being sold at Rs1,650 to 1,700 per bag due to its short supply.
- During Aug 2018, DAP sales is expected to rise by 23% YoY to 96k tons, where EFERT is likely to outperform the market by posting growth of 93% YoY to 43k tons. While FFC and FFBL are likely to see decline of 58% and 18% YoY respectively.
- **Outlook:** We maintain our market weight stance on fertilizer sector as few recent developments in ECC meetings may cause some headwinds for the sector in terms of urea prices, that might put its margins under pressure.
- **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 and 4) rupee devaluation.

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