NFDC I Fertilizer I Sector Update

REP # 048

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Wheat crisis has put limitations to meet Kharif season 2024 target

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- The ongoing wheat crisis in Pakistan has suffered farmers with a massive loss of approx. Rs.400bn in the Rabi season 2023-24. Wheat procurement rates have also plummeted below the support price of Rs. 3,900 per 40 kg bag, which has caused higher inventory losses for farmers in the local market. Also, the imported wheat worth of $1bn (Approx. Rs. 277bn) had dented local supply, allowed hoarders to take advantage of gambling of Rs.100bn.
- Amid bumper crops during Rabi season 2023-24, Pakistan has still missed wheat production target of 32.2mn tons (Actual Production of 29.69mn tons). In the ongoing Kharif season 2024, Govt. is working on to meet wheat procurement target from 1.4mn tons to 1.8mn tons in order to facilitate the farmers at fair prices.
- On the Urea front, Pakistan's Economic Coordination Committee has recently approved import of Urea up to 200KT to meet demand for ongoing Kharif season 2024. However, govt. has not disclosed the exact timeline to import Urea. We believe Urea demand to surge during Jun-Jul during the ongoing Kharif season 2024 due to seasonal impact which will put significant pressure on inventories, allowing fertilizer companies to seek imports in order to adjust buffer stock. Moreover, govt has also set deal with fertilizer manufacturers to supply cheap gas from Mari network at a unified prices for long term. Govt. will also ensure stable supply of gas to fertilizer plants and make sure regulatory prices will protect farmers and discourage hoarders.
- As per meteorological department forecasts, the country will brace for normal to above precipitation from May to August specifically in the upper Punjab region which we believe will reduce the water shortage for the ongoing Kharif season 2024 and boost cultivation and meet growers' target. However, certain limitations and risk factors have considered to allow wheat crisis to stay intact during the ongoing season:
  - Inadequate supply of Gas to fertilizer plants.
  - Below normal precipitation
  - Increase in inventory levels due to conditional factors like floods, excess supply and low offtakes.

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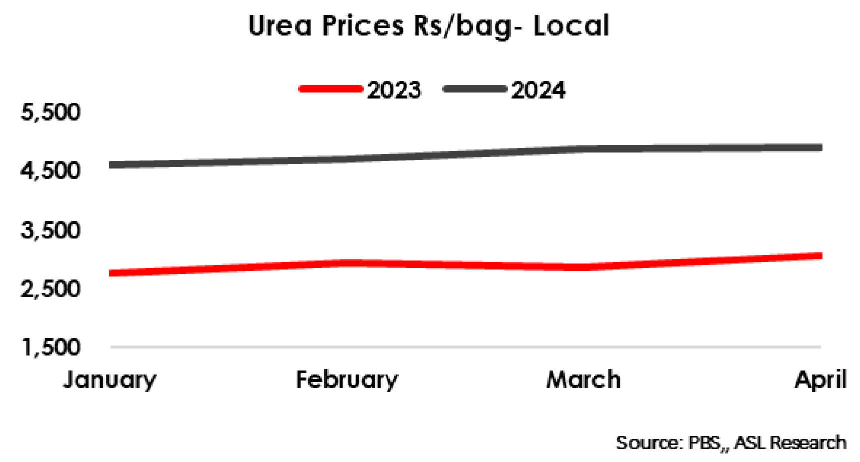
Urea offtakes plummeted by 51.1% MoM during Apr’24

- Urea offtakes have drastically dropped by 51.1% MoM during the month of Apr’24 amid a ripple effect of ongoing wheat crisis which has reduced procurement of growers and disrupted supply of adequate Urea to the farmers.
- Moreover, the excess supply issues caused by high inventories of fertilizer companies during Apr’24 have dented procurement target of imported Urea (Up to 200kt) for the ongoing Kharif season 2024.
- Urea offtakes during Apr’24 decreased by 19.7% YoY despite robust performance of agricultural sector in Rabi season 2023-24 which surpassed target of sowing to 9.16mn hectares Vs. 8.99mn hectares set for the season. This drop in offtakes is mainly the resultant effect of higher local Urea prices which have robustly grew by 65% YoY during Apr’24 due to rise in gas prices by approx. 3.5x.
- During 4MCY24, Urea offtakes grew by 6.1% on account of increase in wheat crops of Rabi season 2023-24 by approx. 7.5% to 29.69mn tons as against 27.63mn tons in Rabi season 2022-23.
- In the month of Apr’24, DAP offtakes have massively surged by 82.5% YoY due to dropped in int. DAP prices by 21% YoY. Moreover, during 4MCY24, DAP offtakes have dropped by 13.1% on the back of ongoing wheat crisis, regardless of reduced int. DAP prices by 15% YoY.

Product Wise Offtakes

000 tons	Mar-24	Apr-24	MoM	Apr-23	YoY	4MCY24	4MCY23	YoY
Urea								
EFERT	148	75	-49.0%	157	-51.9%	624	708	-11.9%
FFC	232	187	-19.3%	134	40.0%	849	765	10.9%
FFBL	21	35	70.8%	37	-5.0%	100	125	-20.3%
FATIMA	55	26	-53.1%	25	2.9%	163	112	46.3%
Total Urea	**671**	**328**	**-51.1%**	**408**	**-19.7%**	**2,155**	**2,032**	**6.1%**
DAP								
EFERT	21	10	-52.9%	11	-7.7%	93	56	67.4%
FFC	0	29	N/A	1	2.89x	47	24	91.8%
FFBL	78	52	-33.3%	28	88.7%	222	155	42.8%
FATIMA	2	0	-97.9%	0	-71.7%	5	20	-74.3%
Total DAP	**107**	**93**	**-13.1%**	**51**	**82.5%**	**381**	**295**	**29.1%**

Source: NFDC, ASL Research



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FFC and EFERT to diverge on price mechanism during CY24

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Unified Gas pricing to implement from MARI

- Three giant fertilizer companies i.e. FFC, EFERT and FATIMA have recently invested in PEF (Pressure Enhance Facility) project of MARI network worth \$300mn in order to facilitate sustainable Urea production and ensure fair gas price mechanism.
- The project is expected to complete by end of CY25, comprised of 2 phases in which phase 1 will complete by end of CY24 and phase 2 by end of CY25.

FFC as an opportunist of Urea pricing unlike EFERT

- FCC (along with FATIMA) is currently benefitting from cheaper gas (Rs.580/MMBTU) facility from MARI network. Its current Urea price per bag (Rs.4,286/bag) is selling at 3% discount to EFERT (Rs.4,435/bag). We believe it will take time to shift fertilizer plants under SNGPL/SSGC network to MARI due to ongoing PEF project which is expected to complete in 2 years. So, we expect FFC will take advantage to avail cheap MARI gas facility unlike EFERT, which is procuring gas facility from SNGPL (Rs.1,597/MMBTU). Further, we anticipates FFC's offtakes to grow during the ongoing Kharif season 2024 amid facilitating farmers with discounted prices. Further, we also believe FFC will increase its gross margins in between 38-43% when comparing with 5y avg. of 35%.
- On the other side, EFERT has recently ended concessionary gas facility with SNGPL and immediately increased Urea price per bag in order to maintain gross margins of approx. 30-33%. Moreover, EFERT's EnVen Plant is under maintenance from mid of Apr'24 to Mid of Jun'24. So, we anticipate EFERT's offtakes to drop along with contribution from ongoing wheat crisis in Pakistan.

FFC: Buy	
Target Price	Rs 194.97
Last Day Closing	Rs 142.98
Upside	36%
52 Week High/Low	Rs 90.45/Rs 152.40
Market Capitalization	Rs 181.80 billion
Average Daily Volume	295,911,899
Free Float	699.73 million (55%)
Outstanding Shares	1272.23 million
EFERT: Buy	
Target Price	Rs 182.91
Last Day Closing	Rs 154.22
Upside	16%
52 Week High/Low	Rs 75.30/Rs 176.99
Market Capitalization	Rs 203.29 billion
Average Daily Volume	491,478,431
Free Float	600.88 million (45%)
Outstanding Shares	1335.29 million

Source: PSX, ASL Research

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