

- As per the data released by NFDC, Total urea sales in 4MCY18 has clock in at 1.6mnt an increase of ~49% compared to SPLY, while local DAP offtake has declined by 31% from SPLY
- Average domestic urea price in April-18 has also surged to ~Rs1,420/bag (increase of 2.3% from SPLY) due to reduced inventory level
- Earlier IRSA has anticipated that owing to reduced water inflow in the Indus Basin Irrigation System (IBIS), early Kharif season 2018, starting from April, would face around 40 percent irrigation water shortage that could delay crop sowing
- As per NFDC rain fall during 4MCY18 has been reduced by 31% compared to SPLY
- Our channel checks has also pointed out a water dearth specially in Southern Punjab and Sindh

**Fertilizer offtake 4MCY18**

- Total urea offtake has upsurge by 49% this year possibly due to pre season buying by dealers in anticipation of discontinuation of cash subsidy by federal Government
- Company wise Urea sales increased by 58.4%/138%/69% of FFC/FFBL/EFERT respectively. However market share stands at 48%/31%/14% of FFC/EFERT/FFBL respectively

**Urea Prices during May-18 appreciates to Rs1,500/bag from Rs1,420/bag**

- Improved sector dynamics due to improved international urea prices (currently ex-Karachi prices is ~Rs1,950/bag as per NFDC) and subdued inventory level has pushed the urea prices to Rs1,500/bag, moreover removal of pricing cap of Rs1,400/bag has also provided relief to local players
- International fertilizer prices are expected to remain strong primarily due to increase in energy costs. Moreover China's, stiff ecological set of laws in the form of new tax regime on coal has led producers to switch from coal (coal prices has increased by ~33% since last Jul-17) to natural gas, resultantly prices of fertilizer have increased in Asia

**Pakistan's Water Situation**

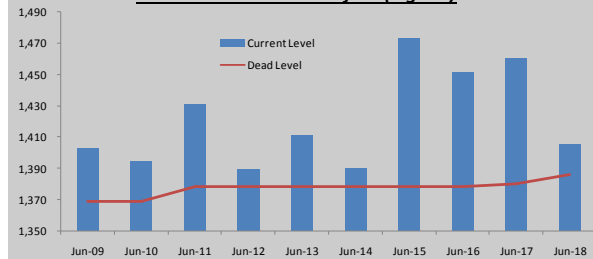
- The average annual river flows is approximately 138 MAF (Million Acre-Feet), out of which 82% (113.16 MAF) occurs during summer seasons and 18% (24.84 MAF) in winter, 104 MAF is available at the canal heads for irrigation purposes, whereas, only 58.3 MAF reaches at the farm gate and 45.7 MAF is lost in conveyance system
- Most parts of the country are facing ~40% of water shortage these days principally due to change in climate as a result of global warming which has changes the pattern of rainfall across the globe (about 25% increase in summer & 12% decrease in winter). As a result Kharif sowing in southern Punjab and Sindh has started after a month delay, which may increase a chance of lower crop yield per hectares
- Climate changes, poor strategy of government institutions, policies of neighbouring countries and poor distribution of water within the country are reasons behind the growing water crisis
- Climate Change will affect the crop yields negatively (about 17% for rice and 14 % for wheat)
- Rainfall during the season has also shown significant decline (fig. 04). Moreover Pakistan Dams reservoirs also hovering around their dead levels (see fig.02 and 03)
- Moreover India is continuously building up dams on Eastern rivers (i.e. Beas, Ravi, and Sutlej) which are almost at verge of drought, and now India is trying to take control of western rivers on which Pakistan has full right of use as per Indus River Treaty 1960 (includes Indus, Chenab and Jhelum river) which could further worsen the situation

**Fertilizer offtake (Fig.01)**

Figure in tonne	Apr-18	Mar-18	MoM	Apr-17	YoY	4MCY18	4MCY17	YoY
<b>FFC</b>								
Urea	180,894	193,219	-6%	99,519	82%	753,787	476,022	58%
<b>FFBL</b>								
Urea	51,145	47,149	8%	20,575	149%	138,671	58,166	138%
DAP	20,131	69,864	-71%	60,986	-67%	161,921	234,266	-31%
<b>EFERT</b>								
Urea	115,036	89,833	28%	92,852	24%	612,266	362,661	69%
NP	5,699	6,066	-6%	8,992	-37%	16,594	20,539	-19%
NPK	5,010	7,704	-35%	5,384	-7%	24,129	21,860	10%
<b>FATIMA</b>								
Urea	28,122	11,802	138%	25,724	9%	113,988	124,649	-9%
NP	53,746	23,430	129%	24,591	119%	154,911	127,469	22%
CAN	48,148	19,562	146%	19,281	150%	122,237	146,898	-17%
<b>Total Urea</b>	<b>375,459</b>	<b>342,093</b>	<b>10%</b>	<b>248,564</b>	<b>51%</b>	<b>1,626,784</b>	<b>1,092,970</b>	<b>49%</b>
<b>Total DAP</b>	<b>20,131</b>	<b>69,864</b>	<b>-71%</b>	<b>60,986</b>	<b>-67%</b>	<b>161,921</b>	<b>234,266</b>	<b>-31%</b>

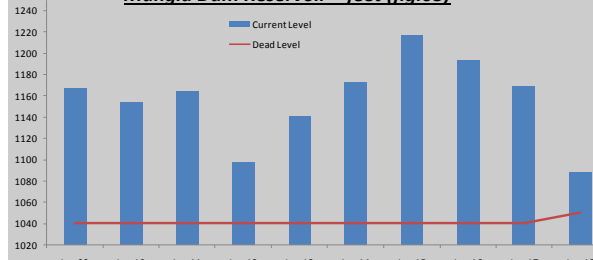
Source: NFDC, ASL Research

**Tarbela Dam Reservoir-feet (Fig. 02)**



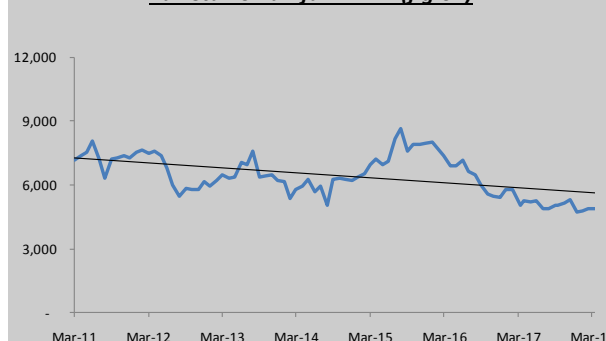
Source: NDMC, ASL Research

**Mangla Dam Reservoir—feet (fig.03)**



Source: NDMC, ASL Research

**Pakistan's Rainfall - mm (fig.04)**



Source: NFDC, National Agromet Centre, ASL Research

**Outlook and possible impact on fertilizer industry**

- Pakistan's total sowing area is estimated ~20.8mn hectares. Out of which 3.3mn hectares in Punjab and 0.9mn hectares in Sindh (i.e. ~20% of total sowing area) are facing most of the water shortage during this season. We expect this may negatively impact the UREA demand by 0.23mnt (i.e. 4.1% of total urea demand), at present total fertilizer demand is ~5.6-5.7mnt
- Amongst listed fertilizer players we foresee EFERT,FFBL and FFC to be most affected by this situation with more than 5% estimated decline in earnings, while FATIMA will have a mild impact due to tilted product mix towards import substitution (refer to Fig.05)
- Based on our analysis we have concluded that recent rally in the fertilizer sector along with developing water crises has led prices to a level where there is limited upside left therefore we have **Reduce** stance on sector

**Key risk**

- Higher than estimated fertilizer demand
- Higher than estimated increase in Urea prices
- Normal rain fall during Kharif and Rabi seasons

**Earning Estimates (Fig.05)**

<b>CY18 EPS estimates</b>	<b>FFC</b>	<b>EFERT</b>	<b>FFBL</b>	<b>FATIMA</b>
Revise estimate	8.54	8.13	2.08	4.75
Previous estimate	9.12	8.80	2.23	4.89
Δ	-6%	-8%	-7%	-3%
<b>Target Price - Rs</b>	<b>102.00</b>	<b>79.20</b>	<b>41.00</b>	<b>33.25</b>
Current Price - Rs	98.50	74.93	38.89	28.97
P/E - x	11.53	9.22	18.70	6.10

Source: ASL Research

**Disclaimer**

Disclaimer: This document is prepared for information purposes only. The information and data on which this report is based are obtained from sources which we believe to be reliable but we do not guarantee that it is accurate or complete. This document does not take account of the investment and trading objectives, financial situation and particular needs of clients, who should seek further professional advice or rely upon their own judgment and acumen before making any investment / trading decision.

**Analyst Certification**

The author (s) of this report hereby certifies(y) that this report accurately reflects his/their own independent opinions and views as of the time this report went into publication and that no part of his/their compensation was, is or will be affected by the recommendation(s) in this report. The research analyst or any of his/their close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or their close relatives have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or his/their close relatives have not traded in the subject security in the past 7 days and will not trade for 5 days post publication of the report.

**Valuation Methodology**

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method ( P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

**Rating**

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price

**Outlook and possible impact of current drought situation on fertilizer**

- Pakistan's total sowing area is estimated ~20.8mn hectares. Out of which 3.3mn hectares in Punjab and 0.9mn hectares in Sindh (i.e. ~20% of total sowing area) are facing most of the water shortages during this season. We expect this may negatively impact the UREA demand by 0.23mnt (i.e. 4.1% of total urea demand), at present total fertilizer demand is ~5.6-5.7mnt
- Apportioning the same with respect to market share, FFC EPS may be reduced to Rs8.54/share from Rs9.12/share, EFERT earning will reduce to Rs8.13/share from Rs8.8/share while FFBL and FATIMA earnings is expected to remain relatively less effected

**Key risk**

- Higher than estimated fertilizer demand
- Increase in urea price than estimated
- Normal rain fall during Kharif and Rabi seasons