

Pakistan Fertilizer

Ever rising urea prices

Recently we have seen frequent increase in urea prices amid inflationary pressure, PKR devaluation coupled with imposition of GST & FED. Following the trend, FATIMA and EFERT has announced increase in urea prices by PKR198/bag and PKR242/bag taking prices to PKR3,109/bag and PKR3,411/bag which is likely attributable to inflationary pressure, PKR devaluation and anticipated hike in gas tariff. To note, FFC being the major player haven't increase the prices in current round yet with its urea prices currently standing at PKR2,910/bag, lowest in the industry. We anticipate that increase in FFC urea prices is expected anytime soon.

Price disparity continues

In the past we have witnessed price unification of urea among industry players due to its homogenous nature. However, recently we have seen discrepancy in urea prices after the upward revision in gas prices. Meanwhile, manufactures on the Mari system continue to receive gas at the previously prescribed rates. The disparity in urea prices have widened by the time with the lowest price standing at PKR2,910/bag while the highest price stands at PKR3,411/bag. Furthermore, as per our channel checks, despite such disparity in prices urea is currently trading around PKR4,000/bag influenced by market dynamics. We anticipate that with the implementation of WACOG the industry would soon revert to its standard pricing model.

Price hike to catalyze earning

As per our estimates every PKR100/bag increase in urea prices would increase EPS by PKR 0.50/2.02/0.50/2.26 for FATIMA/EFERT/FFBL/FFC. To note, FATIMA and EFERT have already increased urea prices by PKR198/bag and PKR242/bag. Following the trend we could see price increase by other industry players. We opine that urea prices in the country could witness further hikes to pass on any cost pressure led by increase in gas tariffs.

The industry expects urea offtakes for CY23 to clock in at 6.5 million tons. Moreover, to meet the urea requirement of rabi season federal cabinet have allowed two RLNG based plant to operate till March'24 on indigenous gas, furthermore import of 200,000MT of urea is yet to be decided.

WACOG on the cards

With the long standing demand of IMF to implement WACOG, we anticipate that implementation of WACOG is just around the corner. The WACOG would implement uniform gas rates based on blended cost of RLNG and indigenous gas. Implementation of this price mechanism might result in higher gas tariffs, which will be passed on by urea manufacturers. After the gas price unification, players with efficient plants would be at advantageous position. However, for FFBL it would have negative impact as prices of DAP are based on import parity and there is marginal room to pass on hike in gas tariff.

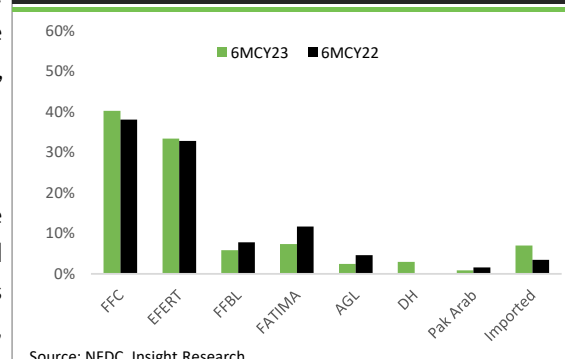
Company wise Urea price chart

EERT				
W.E.F	1-Jan-23	31-Mar-23	5-Jul-23	12-Aug-23
PKR/bag	2,440	2,994	3,169	3,411
FFC				
W.E.F	4-Jan-23	17-May-23	1-Jul-23	
PKR/bag	2,440	2,565	2,910	
FFBL				
W.E.F	4-Jan-23	17-May-23	1-Jul-23	
PKR/bag	2,585	3,050	3,212	
FATIMA				
W.E.F	20-Jan-23	26-May-23	6-Jul-23	15-Aug-23
PKR/bag	2,440	2,565	2,911	3,109

Source: Insight Research

Increa in urea prices (PKR/bag)	100	150	200	250	300
FATIMA	0.50	0.75	1.00	1.25	1.49
▲ in %	4%	6%	8%	10%	12%
EFERT	2.02	3.03	4.04	5.05	6.06
▲ in %	9%	13%	18%	22%	26%
FFBL	0.50	0.75	1.00	1.25	1.50
▲ in %	7%	11%	14%	18%	21%
FFC	2.26	3.39	4.52	5.65	6.75
▲ in %	6%	10%	13%	16%	19%

Source: Insight Research

Urea Market Share


Source: NFDC, Insight Research

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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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