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15 January 2024

Pakistan Fertilizers

Recent developments in urea market

Recent ECC notified price hike to be earnings neutral for manufacturers

Cost of imported urea incorporated in market's weighted average selling price: Government has notified increase in urea price ranging between PKR158/bag to PKR171/bag for different manufacturers. This hike is to incorporate cost of imported urea in weighted average selling price of urea in local market. Thus, it serves to effectively shift burden of subsidy from government to farmers. Under this modus operandi, government won't have to shoulder PKR14.5bn subsidy on imported urea. Prescribed modality suggests that manufacturers will have to lift imported urea from NFML warehouses as per their share in production and then sell it at recently notified prices. SOCAR is providing urea under government to government contract at price of USD388.5/Ton reflecting FOB price of PKR5,478/bag. Fertilizer manufacturers will pay PKR30.344bn for 220KT. This indicates that cost of provision to local manufacturers is at PKR6896/bag. Thus, the differential of PKR1,418/bag includes shipping, bagging, loading and other incidentals.

We are of the view that this development is neutral from profitability perspective when finance charge of entire year is incorporated. However, since these shipments are primarily meant for application in Rabi season, so, offloading this urea by Kharif sowing will save on estimated finance charges. If we take financing charges for only 6 months at 20%, this will result in marginal increase in CY24 earnings as shown below.

Incremental earnings

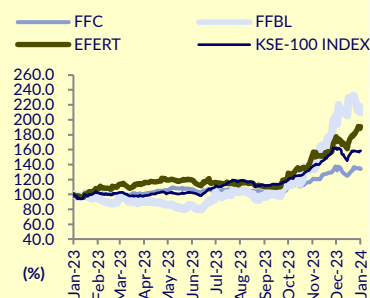
	Product Uplift (Tons)	Urea cost (PKR Mn)	Financing cost at 10% (PKR Mn)	Urea price hike PKR per bag	Benefit excluding FED (Mn)	Net Benefit (PKR Mn)	EPS Impact
FFC	85,953	11,855	1,186	171	14,380	1,338	0.64
FFBL	11,938	1,647	165	158	1,987	176	0.09
EFERT	79,132	10,914	1,091	171	13,236	1,231	0.56

Source: Alfalah CLSA Research

Moreover, in our opinion, in the long run, this will benefit urea manufacturers. Companies won't revert this hike at the end of CY24 and thus will have higher base to increase prices further in CY25. If such an arrangement is not followed by government in CY25, then incremental EPS impact of this hike in CY25 is PKR 3.9/0.7/3.4 for FFC/FFBL/EFERT respectively.

Urea Price hike by Fauji group to propel profitability: Apart from above mentioned price hike to incorporate imported urea cost in selling price, FFC and FFBL have also hiked their output prices separately by PKR186/bag and neem coated urea by PKR226/bag. This price hike has resulted in FFC raising its price to equate that of EFERT at PKR3596/bag. EFERT has not increased its urea price yet. In our base case, we had taken PKR100/bag hike in CY24 apart from that dictated by gas price hike due to inflationary concerns. For Fauji group companies, price hike of PKR86/bag over our base case of PKR100/bag will result in CY24 incremental earnings for FFC/FFBL at PKR1.9/0.4 respectively taking new CY24E EPS to PKR 36.7/8.4 respectively. Moreover, if EFERT follows and hikes urea price by similar quantum, then its CY24 EPS estimate will shift upwards by PKR1.7/sh to PKR34.2/sh.

Fertilizer vs. KSE100 performance



Source: PSX, Alfalah CLSA Research

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