



# **ANALYST BRIEFING**

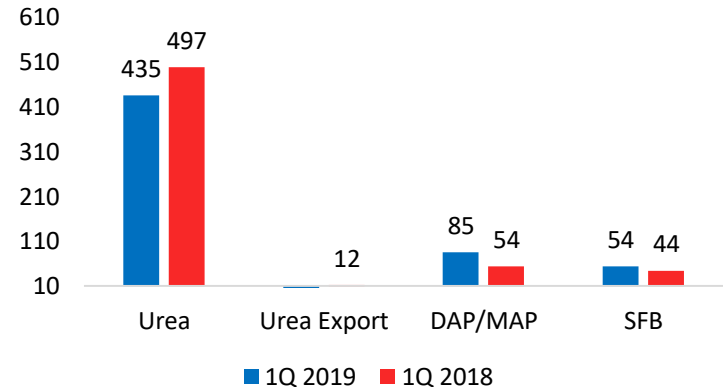
1Q 2019

# BUSINESS HIGHLIGHTS

- ▶ For 1Q 2019, EFERT's Profit After Tax (PAT) stood at PKR 4,007 M vs 1Q 2018 PAT of PKR 3,890 M
- ▶ Higher profitability was led by
  - ▶ Higher realized prices and sale of DAP and SFB; and
  - ▶ Gain on land sale to EPCL
- ▶ Sales revenue for the Company stood at PKR 23,652 M for 1Q 2019, up 30% as compared to 1Q 2018 (PKR 18,218 M)
- ▶ Finance cost was higher at PKR 799 M (vs PKR 512 M last year) as a result of higher policy rates

PKR M	1Q 2019	1Q 2018
Total Revenue	23,652	18,219
Gross Profit	7,599	7,331
Finance Cost	(799)	(512)
<b>Profit / (Loss) After Tax</b>	<b>4,007</b>	<b>3,890</b>

Sales KT (1Q 2019 vs 1Q 2018) & Exports



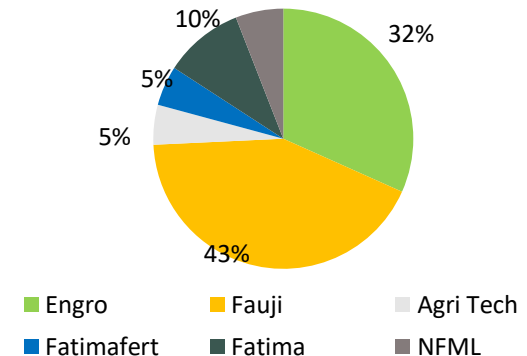
# UREA MARKET ENVIRONMENT



- ▶ Urea sales for 1Q 2019 clocked in at 1,348 KT, up by 8.5% vs SPLY
- ▶ EFERT 1Q 2019 sales were 435 KT, down 12% vs 497 KT SPLY ,due to lower production
- ▶ EFERT market share stood at 32% vs. 40% in 1Q 2018 primarily on account of operation of LNG based plants and sale of imported urea
- ▶ Industry urea production for 1Q 2019 stood at 1,335 KT VS 1,333 KT SPLY
- ▶ LNG based plants added ~160 KT to the industry production due to allocation of subsidized LNG by the Government
- ▶ ECC has approved import of 100 KT urea to maintain demand supply equilibrium
- ▶ Production during 1Q for EFERT stood at 446 KT vs 517 KT for 1Q 2018 owing to plant turnaround during the quarter
- ▶ On the international front, urea prices are currently at USD 265/T (Landed eqv. of PKR 2,237/bag) . Local urea prices are currently at PKR 1,830/bag

Urea Industry (KT)	1Q 2019		Change
	1Q 2019	1Q 2018	
Opening Inv.	186	268	
Production	1,335	1,333	
Imports	-		
Exports	-	75	
Sales	1,348	1,242	9%
Closing Inv.	167	282	

Market Share 1Q 2019

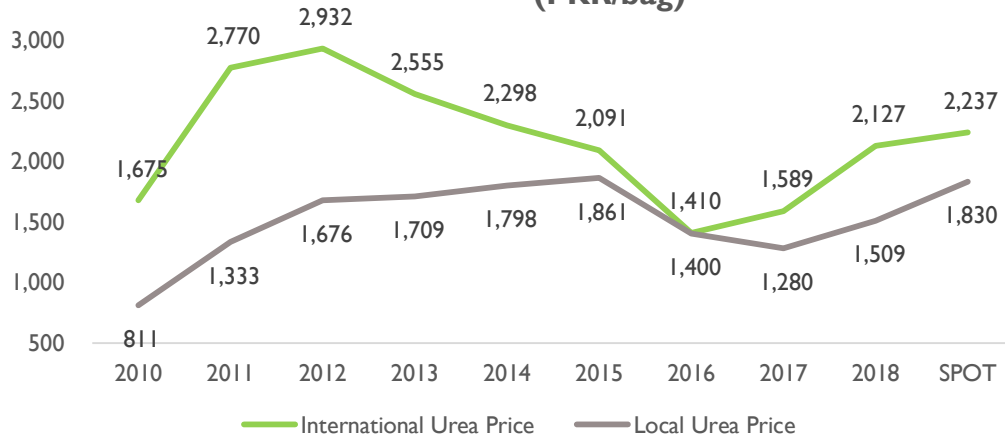


# COMPARISON OF LOCAL VS INT PRICE

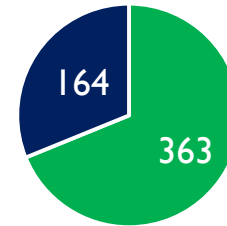


Despite significant delta vs. international Urea prices, the Fertilizer industry continues to transfer benefit to the farmer, which translates to PKR 20 Billion for the year, over and above the feed gas price subsidy

### Comparison of Local vs. International Urea Price (PKR/bag)



### Subsidy share since 2010



- Benefit passed on by Fertilizer Industry
- GoP Subsidy

- Passed on 2x benefit vs. Government since 2010
- In 2015, price of Urea was around PKR 1,900/bag vs. current price of PKR 1,830/bag

# BENEFIT PASSED ON TO FARMERS (SPOT)



	PKR/BAG	
Imported Urea price	2,338	A
Current MRP	1,830	B
<b>Benefit passed on to farmers by Industry</b>	<b>508</b>	<b>C = A – B</b>
Impact of lower feed gas price	490	J
<b>Excess benefit passed to farmer per bag</b>	<b>18</b>	<b>D=C-J</b>

Feed gas price per MMBtu	485	F
Fuel gas price per MMBtu	930	G
<b>Incremental benefit due to lower feed gas price / MMBtu</b>	<b>445</b>	<b>H = G – F</b>
<b>Feed gas consumption (MMBtu/ton)</b>	<b>22</b>	<b>I</b>
<b>Benefit per bag</b>	<b>490</b>	<b>J = (H x I) / 20</b>

# PRICE COMPARISON PRE AND POST SUBSIDY

MRP/bag	April 29, 2016	July 01, 2017	July 1, 2018	July 16, 2018	October 5, 2018	April 6, 2019	Total Impact
MRP before price change	1,790	1,400	1,400	1,560	1,610	1,740	1,790
Price (reduction) / increase	(50)	(56)	100				(6)
Cash (subsidy) / removal of cash subsidy by GoP	(156)	56	100	-			-
GST impact	(184)	-	(40)	-			(224)
Gas Price Increase					130		130
Inflation impact				50		90	140
MRP after price change	1,400	1,400	1,560	1,610	1,740	1,830	1,830
Inflation pass through				50		90	140
Inflation as per SBP (%)	3%	4%	4%		6%	3%	
Inflation as per SBP (PKR/B)	52	65	62	0	35	58	271
Inflation absorbed by the industry	52	65	62	(50)	35	(32)	131
MRP With Total inflation impact	1,452	1,517	1,739	1,739	1,904	1,961	1,961

The industry has passed on the benefit of reduction in GST and change in subsidy to the farmers (PKR 224/bag)

The price would be PKR ~2,050/bag if inflation impact is taken from 2015

# UREA KEY CHALLENGES

- ▶ Fertilizer industry continues to face challenges in the form of prior **subsidy** despite of the fact that the subsidy given on fertilizers was timely passed on to farmers whereas the government is yet to pay back the subsidy (Industry - PKR 20 B, Efert PKR 6.5 B)

Subsidy ageing	PKR B
Over Two years	2.5
Over 1 year	2.6
Less than 1 year	1.4
<b>Efert Subsidy Receivable</b>	<b>6.5</b>

- ▶ There has been a lot of discussions with the Government over the **settlement of GIDC and past subsidy**
- ▶ The Government is contemplating on the following decisions:
  - 50% waiver of arrear amounts in GIDC which are held up due to protracted litigations
  - 50% reduction in prospective GIDC Feed and Fuel rates
  - No GIDC on concessionary gas going forward

# UREA: GIDC PASS THROUGH IMPACT



- ▶ The government started levying GIDC on Feed and Fuel gas in Dec 2011. To date, pass through of GIDC to farmers has been as follows:

<b>GIDC Impact</b>	<b>PKR/bag</b>
Feed GIDC (PKR 300/MMBTU * 22.4 Feed Index)	342
Fuel GIDC (PKR 150/MMBTU * 5.6 Feed Index)	43
<b>Total GIDC Impact per bag</b>	<b>385</b>
Urea Price in Dec 2011	1,580
GIDC Impact per bag with GST	385
Price decrease due to reduction in GST (from 16% to 2%)	(191)
Price increase due to non gas costs (salaries, maintenance etc.) – based on 8% (avg. inflation)	148
Price increase due to gas cost other than GIDC	162
<b>Urea Price if all cost is passed on to farmers</b>	<b>2,084</b>
<b>Current Urea Price</b>	<b>1,830</b>

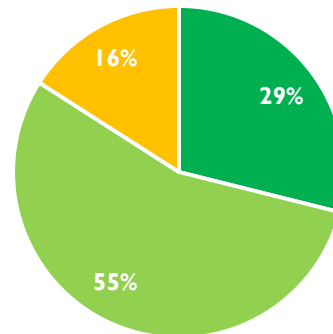


# CONTRIBUTION TO NATIONAL EXCHEQUER

	PKR/B
Sales Tax	64
Tax charge (Corporate tax)	122
Other Duties (WWF, WPPF etc)	35
<b>Total tax impact</b>	<b>221</b>

- The Company contributes PKR 221/bag in the form of taxes to the National Exchequer (excluding GIDC)

PKR 12.5 B contributed to exchequer



■ Sales Tax ■ Tax Charge ■ Other Duties etc

# DIRECT SUBSIDIES TO FARMERS

## Government laid special focus on small farmers in its manifesto:

*'The gross neglect of the agriculture sector, especially small farmers, will hamper Pakistan's GDP growth rate if left unattended and an aggressive turnaround is now pertinent'*

*'We will make inputs cheaper for farming to be profitable; we cannot encourage a commodity price increase to achieve profitability as it will add to inflation, but a one-time price adjustment may be required. However, we will decrease costs by:*

- ▶ (1) *Optimising existing and introducing new subsidy programmers'*
- ▶ The smart subsidy by Punjab Government to small farmers (below 5 acres), which make up approximately 65% of the total farms (19% in acreage), impacts the lives of farmers directly. The subsidy program should be extended to other provinces as well to in order to uplift the lives of small farmers across the country
- ▶ The current sticker based subsidy announced by GoPb:

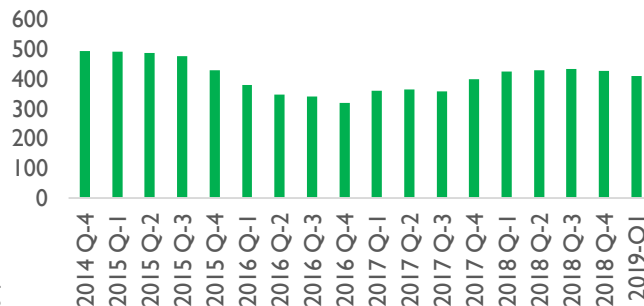
Product	Subsidy per bag 50kg
DAP	500
NP 18-18	200
NP 22-20 & 20-20	220
SOP	800
MOP	500
NPK	300

# PHOSPHATES MARKET ENVIRONMENT

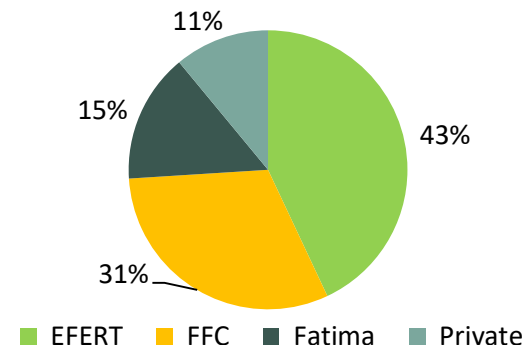


- ▶ 1Q 2019 industry sales stood at 197 KT vs 363 KT in 1Q 2018 (down 46%)
- ▶ Lower industry offtake was mainly due to escalating DAP international prices and rupee devaluation
- ▶ EFERT recorded sales of 85 KT during 1Q 2019 vs 54 KT in 1Q 2018
- ▶ EFERT's market share has improved to 43% for 1Q 2019 vs 15% in SPLY
- ▶ Sales were significantly higher primarily due to proactive sales and pricing strategy
- ▶ Closing industry inventory stands at 600 KT (sufficient to last 4-5 months based on five year trend) vs. 190 KT in SPLY
- ▶ International DAP prices have dropped from a high of USD 422/T in January-2019 to USD 403/T by 1Q 2019 end ,forecasted to fall further in 2Q (range bound USD 393/T-400) due to restricted demand from India and increased export availability from China

**DAP Prices CFR (USD/t)**



**Market Share 1Q 2019**

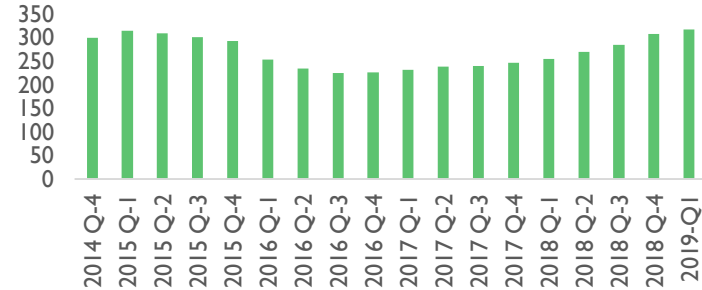


# SPECIALITY FERTILIZER BUSINESS

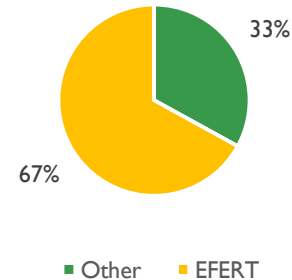


- ▶ Major products of SFB include Zarkhez (Potash based product), NP and other specialized products
- ▶ Total sales for SFB stood at 54 KT vs sales of 44 KT in 1Q 2018, an increase of 23%
- ▶ EFERT's potash market share clocked in at 67% vs. 42% in SPLY on account of competitive pricing vs private importers
- ▶ The overall potash market declined by 13% to 13 KT in 1Q 2019 vs 15 KT in 1Q 2018, owing to higher level of prices

Potash Prices (CFR) USD/t



Potash Market Shares



# THANK YOU

## Q & A