

Pakistan Fertilizers

Gas tariff obscurity resulted in urea price disparity

The country has been experiencing several economic challenges that have caused halt in production across multiple industries led by demand contraction and disruptions in supply-chain. Despite these economic challenges, the demand for urea remains stable due to its price inelasticity as the nutrient offtake is necessary to ensure food security in the country. Similarly, urea manufacturers in the country are capable of passing on their production costs to customers due to discounted prices in local market as compared to international prices. Generally, industry sells urea at identical price despite disparity in natural gas price. In recent development, EFERT has increased its urea prices by PKR555/bag to pass on cost pressures arising from hike in gas tariff and PKR devaluation. To note, AGL and Fatima Fert also increased urea prices to pass on rising gas cost. However, FFC and FATIMA have not yet announced any price hikes as OGRA's notification did not explicitly mention a gas price hike for the Mari network.

In current market scenario, there are three different quotes available for the bag of urea. However, it has been observed that urea is being sold at higher than retail prices by dealers i.e, PKR3,000-3,200 per bag. We anticipate that the industry will soon revert to the standard pricing model of identical urea prices. However, we cannot rule out the possibility of the market with multiple prices of nutrient in short run, as observed during CY20.

Multiple urea prices in play

The government of Pakistan recently raised gas tariff for the SSGC and SNGPL network, in line with the IMF's demand for electricity and gas tariff rationalization. However, major fertilizer players source gas from the Mari network, for which an explicit notification of a price hike has not been issued yet. FFBL and EFERT's Enven plant were hit by the cost escalation due to gas price hikes by 69% and 47% for feed and fuel, respectively, on the SNGPL and SSGCL network. The impact has been passed on to urea prices, with FFBL raising granular urea prices by PKR440/bag to PKR3,025/bag, while EFERT initially kept prices unchanged but has recently announced a urea price hike of PKR555/bag, which took prices to PKR2,994/bag. This increase is mainly attributable to the price hike for Enven and cost escalation on PP-12 billed gas due to PKR devaluation. In addition rampant inflation in the country has also resulted in higher cost of production.

In addition, to ensure sufficient supply of nutrient during the Kharif season and to spare the government from subsidizing expensive RLNG, the government has decided to allow the operations of RLNG-based plants on indigenous gas over importing urea to ensure supply. Therefore, after approval from the ECC, indigenous gas has been allocated to both plants and as per channel checks, their gas tariff has been increased from PKR839/mmbtu to PKR1,050/mmbtu for feed and fuel, respectively. Consequently, the prices of TARA urea (AGL) and Bubber Sher urea (Fatima Fert) witnessed a price hike of PKR350/bag to reach PKR2,791/bag.

Gas price impact on urea prices		EFERT	FFC	FATIMA	FFBL*	Fatima - Fert	AGL
Urea price at 1st Jan'23	PKR/bag	2,440	2,440	2,440	2,585	2,440	2,440
Increase in Cost after 1st Jan'23							
Devaluation cost push (PP-12)	PKR/bag	145	-	-	-	-	-
Revised Gas Prices OGRA	PKR/bag	225	-	-	275	-	-
Revised Gas Prices ECC	PKR/bag	-	-	-	-	340	340
Total Cost Impact		370	-	-	275	340	340
Price Increase	PKR/bag	555	-	-	440	350	350
Difference	PKR/bag	185	-	-	165	10	10
Current MRP	PKR/bag	2,995	2,440	2,440	3,025	2,790	2,790

* Urea granular

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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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