

Pakistan Research

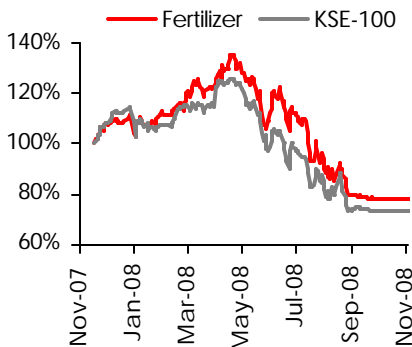
Fertilizer Sec. Market Cap. (KSE): Rs134.39bn
 Top Pick (s): ENGRO, FFC, FFBL
 Sector Outlook: Positive
 Fertilizer Univ. P/E (2008E): 6.37x
 Fertilizer Univ. Div. Yield (2008E): 12.6%
 Fertilizer Univ. Ear. Growth (2008E): 18.9%

Global credit crunch hits int'l fertilizers, prices plunge!

Highlights

- Fertilizer prices crash amid the global liquidity crunch
- Gap between int'l urea and domestic urea prices shrinking
- Sulphur's spectacular fall!

In today's Value Seeker, we have provided an overview of int'l fertilizers where prices have witnessed a sharp decline recently.

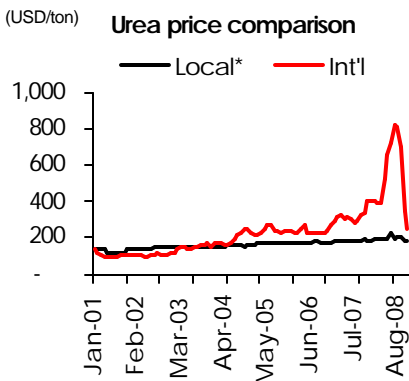


Fertilizer prices crash amid the global liquidity crunch

Like all other major commodities, fertilizer prices have also taken the plunge. Urea and DAP prices are down by 68.2% and 53.2% respectively from their peak levels to USD260/ton and USD575/ton. The near free fall in fertilizer prices can be chiefly attributed to the global credit crunch that has slowed down the entire fertilizer supply chain, leading to reduced fertilizer trading. Other factors in our opinion include, i) falling food prices (FAO food price index down by 25.1% from peak), and ii) resumption of fertilizer exports from China, which was previously reduced owing to very high export tax rates.

Gap between int'l urea and domestic urea prices shrinking

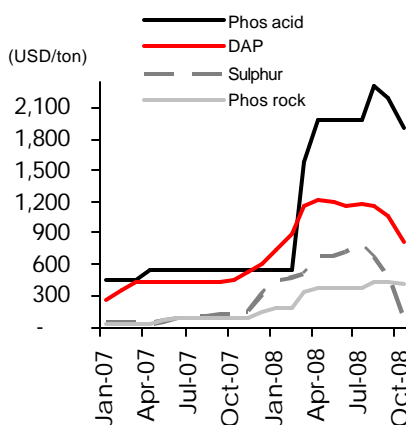
The sudden fall in global urea prices has sharply reduced the difference between the int'l and local urea prices. The ratio of int'l to local urea prices (USD/ton) had risen to 4.30x in Jul-08 following steep rises in int'l urea prices coupled with the depreciating PKR/USD. However, currently this ratio has reduced to 1.39x and is converging towards its long term avg. (2001-07) of 1.22x. During the period of Feb-01 to Jul-03, domestic urea traded at a premium to int'l urea (avg. of 21%); however from Aug-03 onwards, int'l urea prices exceeded local urea, as the oil bull-run gained momentum.



Sulphur's spectacular fall!

Sulphur prices experienced a spectacular run till Jul-08, rising by 167% (Jan to Jul-08) to peak at USD800/ton as prices rose on account of, i) the commodity super cycle, ii) shortfall in global supply, following increased demand from phosphatic fertilizer manufacturers, and iii) enhanced pricing power of fertilizer manufacturers which enabled them to absorb the excessive sulphur price hikes. However, prices began to slip from Aug-08 largely due to depressed Chinese demand (largest sulphur importer) following the closure of factories for Olympics and decline in phosphatic fertilizer manufacturing owing to i) export restrictions and ii) capping of domestic phosphate prices. Sulphur prices (down by 94.4% to USD45/ton from peak) are expected to remain under pressure going forward as major oil/gas fields come online by CY10 (sulphur supply comes mostly from oil refineries). The precipitous fall in sulphur prices has been reflected in the phos acid prices (cfr India, main DAP raw material), which at present is down to USD1,300/ton (-43.7% from peak). With Pakistan phos acid prices linked to Indian phos acid prices, we expect a substantial fall in phos acid prices next quarter (currently at USD1,950/ton). Assuming sulphur prices to remain at current levels of USD45/ton and phos rock prices of USD414/ton, the current phosacid price is estimated at USD697/ton. Phos rock prices, which have so far lagged the drop in DAP and sulphur, are expected to slide further, which may result in phos acid prices for 1QCY09 settling as low as USD290-300/ton. FFBL stands to gain the most from the declining phosacid prices as it will make local DAP fertilizer more affordable going forward.

Source: Bloomberg, SBP, NFDC & InvestCap Research
 *Based on retail Sona Urea monthly prices



Source: Bloomberg & World Bank

Ayub Ansari

ayub@investcapital.com

+92 21 111 111 097 (ext. 8636)