

FDM FOCUS

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For Further queries;

Ahsen Kaleem Khan
Sr. Research Analyst
Ahsen.kaleem@fdm.com.pk
021-111-336-336 ext: 121
021-2275157

History of Fertilizer Sector:

The fertilizer sector remained in glare of publicity last year due to price instability along with improvement in profitability of the companies supported by sector revenue growth of 28% in 2008. Following is a glance of last five years performance of the four quoted companies of fertilizer sector in Pakistan:

Growth in Sales Revenue YOY					Growth in Profitability YOY				
Company	2005	2006	2007	2008	Company	2005	2006	2007	2008
FFC	21%	18%	-5%	8%	FFC	22%	-5%	16%	22%
ENGRO	43%	-4%	32%	1%	ENGRO	44%	10%	24%	34%
FFBL	24%	3%	-17%	119%	FFBL	34%	0%	4%	14%
DAWH	22%	18%	29%	48%	DAWH	131	-28	393	-70

Budget Overview regarding Fertilizers:

In the light of governments' support to agriculture sector enormously, we deem to assume that forthcoming Budget FY 09-10 would remain positive for fertilizer sector and would not bring any significant changes thereon. We expect the following for fertilizer sector:

- Subsidy for urea will hopefully remain intact in the range of PKR 7.5-10 Billion. Due to sharp fall in international fertilizer prices, government can reduce its overall subsidy for the fertilizer sector in the upcoming budget.
- The sharp fall in global DAP prices would encourage government not to announce any subsidy on DAP further.
- Last budget FY 08-09 had PKR 35 Billion as subsidy for fertilizers which could now fall to PKR 10-15 Billion due to falling global prices of fertilizers.
- Agriculture growth target is expected to be set at modest rate of 3.5-3.8% for FY 09-10 as compared to 3% last fiscal year.
- Agri-credit disbursement during 10M FY09 grew 11% to PKR 174.8 Billion as compared to PKR 157.6 Billion last year. The target set for total disbursement is PKR 250 Billion for the whole year. The government is likely to set FY09-10 disbursement targets at PKR 300 Billion.

Our Stance on Fertilizers:

Government is expected to maintain its focus on Agriculture sector due to its significant contribution towards GDP in FY08-09. Growth in agriculture complemented with enhanced agri loans and falling global prices will lead to increased demand of Fertilizers. And hence, will be beneficial for Fertilizer companies.

Budgetary impact

Fertilizer sector : Neutral to positive