

Fertiglobe PLC

Lower sales prices and third-party sales volume impacted profitability

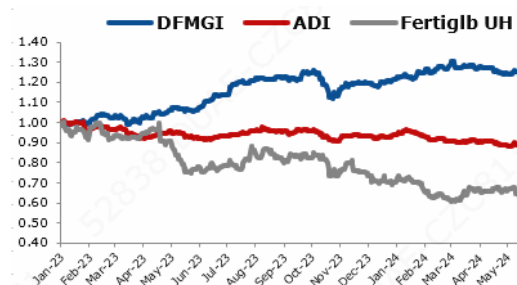
Current Price
AED 2.61

Target Price
AED 3.45

Upside/Downside (%)
+32%

Rating
BUY

- Fertiglobe's own product sales volumes rose 4.8% YOY in 1Q24 on the back of a strong order book whereas it expects to realize the benefits of the increase in nitrogen prices in the upcoming period.
- Fertiglobe recorded USD 29 Mn of cost savings until 1Q24 out of the targeted USD 50 Mn recurring annualized savings by the end of 2024.
- Fertiglobe refinanced shorter-term borrowings using the USD 500 Mn term facility received in 2023, which improved the Company's liquidity position and maturity profile.
- Fertiglobe approved a dividend of USD 200 Mn for 2H23, resulting in an annual dividend of 21 fils per share in 2023 with an attractive dividend yield of 8.1%.



1Q24 Net Profit higher than our estimate

Fertiglobe Plc's (Fertiglobe/The Company) net profit declined 14.3% YOY to USD 116 Mn in 1Q24, higher than our expectation of USD 79 Mn. The decline in net profit is mainly attributable to a fall in revenue due to lower selling and third-party sales. In addition, higher tax charges and net finance costs also impacted profitability, partially offset by a reduction in sales and operating expenses.

P&L Highlights

Fertiglobe's revenue fell 20.4% YOY to USD 552 Mn in 1Q24 mainly due to a decline in selling prices of Urea and Ammonia and a reduction in third-party sales volumes. Ammonia's own product sales volume increased 22.5% YOY to 289 thousand metric tonnes (MT). Similarly, Urea's own product sales rose marginally 1.1% YOY to 1,139 thousand MT in 1Q24. The Company also sold 1 thousand MT of diesel exhaust fuel (DEF) fluid in 1Q24. Moreover, Ammonia third-party sales volume grew 29.0% YOY to 40 thousand MT in 1Q24. On the other hand, Urea Egypt third-party sales fell significantly 48.5% YOY to 69 thousand MT in 1Q24. Thus, total product sales volume increased marginally 0.7% YOY to 1,538 thousand MT in 1Q24. Average Middle East benchmark ammonia prices declined 44.9% YOY to USD 339 per MT in 1Q24 compared to our expectation of USD 488 per MT. Ammonia prices declined in 1Q24 due to easing supply disruptions and lower gas prices. Likewise, the average granular Urea Egypt benchmark price declined 8.8% YOY to USD 373 per MT in 1Q24 compared to our forecast of USD 386 per MT. The decline in Urea prices was attributable lower than anticipated demand from India, delayed planting in Europe coinciding with mixed trends and demand in North America partially offset by healthy demand in Australia and Brazil. Moreover, the Company's cost of sales declined 11.8% YOY to USD 374 Mn in 1Q24 owing to lower raw material and freight costs partially offset by an increase in raw material cost of related party consultancy,

Stock Information

Market Cap (AED, mm)	21,666.44
Shares Outstanding(mm)	8,301.31
52 Week High	3.76
52 Week Low	2.53
3M Avg. daily value (AED)	11,439,660

1Q24 Result Review (USD, mm)

Total Assets	4,624
Total Liabilities	2,615
Total Equity	2,009
EBITDA	215
Net Profit	116

Financial Ratios

Dividend Yield (12m)	8.05
Dividend Pay-out (%)	278.38
Price-Earnings Ratio(x)	17.60
Price-to-Book Ratio (x)	3.79
Book Value (AED)	0.19
Return-on Equity (%)	17.51

Stock Performance

5 Days	-2.61%
1 Months	-8.74%
3 Months	-1.14%
6 Months	-18.44%
1 Year	-18.18%
Month to Date (MTD%)	-6.45%
Quarter to Date (QTD%)	-8.10%
Year to Date (YTD%)	-12.12%

and maintenance & repair cost. Weighted average Henry Hub natural gas feedstock price stood at USD 2.1 mmbtu in 1Q24 compared to USD 2.9 mmbtu in 4Q23. Moreover, gross profit declined 34.0% YOY to USD 178 Mn in 1Q24. Fertigllobe's SG&A expenses fell 24.3% YOY to USD 31 Mn in 1Q24. D&A expenses grew 2.2% YOY to USD 69 Mn in 1Q24. Meanwhile, EBITDA declined 27.1% YOY to USD 215 Mn in 1Q24. The decline in EBITDA is mainly due to the lower selling prices. EBITDA margin declined 356 bps YOY to 39.0% in 1Q24. Furthermore, finance income rose 43.5% YOY to USD 3.3 Mn in 1Q24. Finance cost grew 61.9% YOY to USD 35 Mn in 1Q24. However, foreign exchange loss narrowed from USD 22 Mn in 1Q23 to USD 7 Mn in 1Q24. Fertigllobe recorded a tax reversal of USD 47 Mn in 1Q24 compared to a tax reversal of USD 2 Mn in 1Q23. In addition, the share of profit attributable to non-controlling interest holders declined 28.2% YOY to USD 38 Mn in 1Q24.

Balance Sheet Highlights

Fertigllobe's cash and cash equivalents stood at USD 854 Mn in 1Q24 as compared to USD 760 Mn in 4Q23. The Company's borrowings marginally declined from USD 1.7 Bn in 4Q23 to USD 1.6 Bn in 1Q24. Fertigllobe incurred a capex including maintenance and growth capex of USD 21 Mn in 1Q24 as compared to USD 34 Mn in 4Q23. In addition, the Company's free cash flow stood at USD 156 Mn in 1Q24, up from negative USD 658 Mn in 4Q23. The USD 500 Mn term facility approved in 2023 was used to refinance shorter-term borrowings, which improved the Company's liquidity position and maturity profile. The Company reported a net debt position of USD 743 Mn in 1Q24 with a net debt / LTM adjusted EBITDA ratio of 0.8x compared to debt of USD 905 Mn in 4Q23.

Target Price and Rating

We maintain our BUY rating on Fertigllobe with a target price of AED 3.45. The Company's revenue declined in 1Q24 due to lower selling prices and a decline in third-party sales volumes. However, Fertigllobe witnessed strong growth in its own product sales volume recording a 22.5% YOY rise in 1Q24 supported by improved production and lower ending inventory. The Company estimates the nitrogen and ammonia market continues to be supported by improved demand from new and existing sources coupled with constrained supply additions expected in the medium term. Urea demand is expected to exceed supply with a growth in demand of 13 Mn Tons compared to a supply addition of 8 Mn Tons by FY2028 will support urea prices. The Company is actively making efforts on cost savings and has successfully implemented USD 29 Mn savings by 1Q24 and is on track to achieve its targeted savings of USD 50 Mn by the end of 2024. In addition, the Manufacturing Improvement Plan is expected to add USD 100 Mn in incremental annual adj EBITDA from 2023-25 due to enhanced production and energy efficiency. ADNOC's acquisition of OCI's 50% stake in Fertigllobe is expected to be completed in 2024, making it the majority shareholder of Fertigllobe with 86.2% of the stake after the acquisition. The transaction backs ADNOC's ambitious chemicals strategy and its aim to establish a worldwide growth platform for ammonia. It also supports Fertigllobe's growth objectives by unlocking additional potential in its core products of urea and ammonia. Furthermore, it accelerates the exploration of new market and product avenues for Fertigllobe, while expanding focus on clean ammonia. The shareholders approved a dividend of USD 200 Mn, equivalent to 9 fils per share for 2H23 resulting in an annual dividend of 21 fils per share in 2023 with an attractive dividend yield of 8.1%. Thus, based on the above-mentioned factors, we assign a BUY rating on the stock.

Fertigllobe - Relative valuation

(at CMP)	2020	2021	2022	2023	2024F
PE	NA	8.37	4.71	16.86	18.47
PB	NA	3.19	2.86	4.07	4.57
EV/EBITDA	NA	4.47	2.73	7.29	7.58
Dividend yield	NA	29.4%	24.7%	8.1%	9.4%

FABS Estimates & Co Data

FERTIGLOBE – P&L

USD mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	694	646	552	622	-11.3%	-20.4%	-14.6%	2,416	2,310	-4.4%
Cost of Sales	-425	-391	-374	-387	-3.3%	-11.8%	-4.3%	-1,564	-1,488	-4.9%
Gross profit	269	255	178	235	-24.4%	-34.0%	-30.3%	852	822	-3.5%
SG&A Expenses	-41	-41	-31	-44	-28.3%	-24.3%	-23.7%	-145	-156	7.7%
Operating profit	228	215	146	191	-23.5%	-35.8%	-31.8%	710	667	-6.1%
D&A	67	71	69	69	0.2%	2.2%	-2.3%	279	275	-1.5%
EBITDA	295	285	215	260	-17.2%	-27.1%	-24.5%	989	942	-4.8%
Financial income	2.3	8	3	2	106.3%	43.5%	-60.2%	16	2	-90.2%
Financial charges – net	-22	-51	-35	-30	16.3%	61.9%	-32.0%	-119	-120	0.3%
Foreign exchange loss	-22	2	-7	0	NM	NM	NM	-20	0	NM
Profit before zakat	187	174	108	163	-33.9%	-42.5%	-38.1%	587	548	-6.6%
Income tax	2	-35	47	-41	NM	NM	NM	-82	-99	19.8%
Profit before NCI	189	139	154	122	26.4%	-18.2%	11.4%	505	450	-10.9%
NCI	-53	-44	-38	-43	-10.9%	-28.2%	-13.6%	-156	-131	-15.8%
Net Profit	136	94	116	79	46.5%	-14.3%	23.1%	349	318	-8.8%

FABS estimate & Co Data

FERTIGLOBE - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	38.8%	39.4%	32.2%	-663	-727	35.3%	35.6%	33
EBITDA margin	42.6%	44.1%	39.0%	-356	-515	40.9%	40.8%	-18
Operating margin	32.8%	33.2%	26.5%	-633	-672	29.4%	28.9%	-54
Net profit margin	19.6%	14.6%	21.1%	151	644	14.4%	13.8%	-66

FABS estimate & Co Data

Valuation:

We use Discounted Cash Flow (DCF) and Relative Valuation (RV) methods to value Fertiglobe. We have assigned 70% weight to DCF and 30% weight to the RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.54	70.0%	2.48
Relative Valuation (RV)	3.24	30.0%	0.97
Weighted Average Valuation (AED)			3.45
Current market price (AED)			2.61
Upside/Downside (%)			+32%

1) DCF Method:

Fertiglobe is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.5%. It is arrived after using the cost of equity of 9.3% and after-tax cost of debt of 5.7% with a debt-to-equity ratio of 27.16%. The cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.00 and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Cost of debt is calculated using cost of 7.0% after adjusting a tax rate of 18.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	2,556
Terminal value (USD, Mn)	6,648
FV to Common shareholders (USD, Mn)	8,008
No. of share (Mn)	8,301
Current Market Price (AED)	2.61
Fair Value per share (AED)	3.54

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	547	534	504	500	496
D&A	275	281	282	284	287
Change in working capital	71	-16	9	-22	-57
(-) Capex	-92	-106	-102	-103	-103
Free Cash Flow to Firm (FCFF)	800	694	693	660	623
Discounting Factor	0.95	0.88	0.81	0.74	0.68
Discounted FCFF	473	607	559	490	426

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Fertiglobe and it is valued using the EV/EBITDA multiple. It is valued at an EV/EBITDA of 9.0x compared to the peer multiple of 7.5x. We value Fertiglobe in line with its regional peer SAFCO due to the feedstock advantage in the region.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
YAR Equity	7,688	5.99	5.52	15.36	10.94
SAFCO AB EQUITY	14,394	9.63	9.24	16.73	13.94
CF US Equity	13,932	7.79	7.97	13.02	13.12
NTR CAN Equity	28,567	7.4	7.33	14.71	13.5
OCI NV Equity	5,851	6.1	5.02	26.57	18.96
COROMANDEL IN Equity	4,454	12.76	11.4	19.73	17.24
ABUK EY Equity	1,747	7.67	5.71	8.32	6.95
MFPC EY Equity	1,950	6.67	6.11	10.47	9.71
Average		8.0x	7.3x	15.6x	13.0x
Median		7.5x	6.7x	15.0x	13.3x
Max		8.3x	8.3x	17.5x	14.8x
Min		6.5x	5.7x	12.4x	10.6x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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