

Fertiglobe PLC

Correction in Nitrogen sales price coupled with lower sales volume impacted profitability

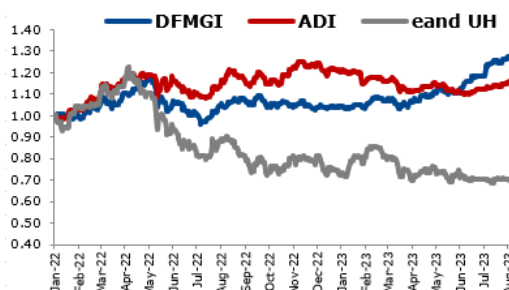
Current Price
AED 3.59

Target Price
AED 4.00

Upside/Downside (%)
+11.4%

Rating
HOLD

- Egypt urea prices bounced back 60% from the trough level in June 2023 driven by demand recovery, low inventories, and tight supply.
- Fertiglobe expects to start front end engineering design (FEED) process for the green hydrogen project in the UAE and Egypt during 2H23. The final investment decision on the Ta'ziz 1 mtpa low-carbon ammonia project is expected in the upcoming period.
- Fertiglobe launched a program to optimize its cost structure and targets USD 50 Mn recurring annualized savings by the end of 2024 while 25-30% of the same is aimed to be achieved in 2023.
- Fertiglobe proposed a dividend of USD 250 Mn for 1H23, subject to board approval.



2Q23 Net Profit higher than our estimate

Fertiglobe Plc's (FERTIGLOBE/The Company) net profit declined significantly from USD 430 Mn in 2Q22 to USD 79 Mn in 2Q23, higher than our expectation of USD 48 Mn. The decline in net profit was mainly attributable to a fall in revenue due to lower selling price and sales volume, partially offset by a decline in operating expenses, non-controlling income, and tax expenses.

P&L Highlights

Fertiglobe's revenue fell significantly from USD 1,471 Mn in 2Q22 to USD 552 Mn in 2Q23 mainly due to a decline in prices of Urea and Ammonia and a reduction in sales volume due to high base effect owing to deferrals from 1Q22 to 2Q22 along with higher ammonia inventories in 2Q23. Ammonia's own product sales declined 19% YOY to 290 thousand metric tonnes (MT) in 2Q23, while Urea's own product sales declined 6% YOY to 1,117 thousand MT. The Company also made its trial diesel exhaust fuel (DEF) fluid shipment and sold 7 thousand MT in 2Q23. On the other hand, third-party sales volume declined 37% YOY to 148 thousand MT in 2Q23. Resultantly, total product sales volume declined 12% YOY to 1,562 thousand MT in 2Q23. Middle East benchmark ammonia prices stood at USD 256 per MT in 2Q23 as compared to USD 965 per MT in 2Q22. Likewise, the Middle East granular Urea price stood at USD 302 per MT in 2Q23, down from USD 721 per MT. Moreover, the cost of sales declined 47.9% YOY to USD 377 Mn in 2Q23, primarily due to a decline in natural gas prices. Average Henry Hub natural gas price stood at USD 2.3 mmbtu as in 2Q23 as compared to USD 8.1 mmbtu in 2Q22. Thus, gross profit declined 76.7% YOY to USD 174 Mn in 2Q23. SG&A expenses fell 30.3% YOY to USD 28 Mn in 2Q23 resulting in a 79.0% YOY decline in total operating profit to USD 148 Mn. D&A expenses increased 9.7% YOY to USD 69 Mn in 2Q23. EBITDA declined 71.8% YOY to USD 217 Mn in 2Q23 whereas EBITDA margin declined from

Stock Information

Market Cap (AED, mm)	30,050.77
Share Capital (mm)	1,328.2
52 Week High	6.11
52 Week Low	3.11
3M Avg. daily value (AED)	30,246,530

2Q23 Result Review (USD, mm)

Total Assets	5,461
Total Liabilities	3,542
Total Equity	1,919
EBITDA	217
Net Profit	79

Financial Ratios

Dividend Yield (12m)	17.67
Price-Earnings Ratio(x)	12.13
Price-to-Book Ratio (x)	5.20
Book Value (AED)	0.19
Return on Capital	28.40
Return-on Equity (%)	34.94

Stock Performance

5 Days	2.54%
1 Months	11.38%
3 Months	11.04%
6 Months	-10.17%
1 Year	-36.27%
Month to Date (MTD%)	1.40%
Quarter to Date (QTD%)	9.34%
Year to Date (YTD%)	-14.18%

52.3% in 2Q22 to 39.4% in 2Q23. Furthermore, finance income declined from USD 23 Mn in 2Q22 to USD 4 Mn in 2Q23, whereas finance cost fell 34.8% YOY to USD 27 Mn in 2Q23. Income tax expense declined from USD 65 Mn in 2Q22 to USD 17 Mn in 2Q23 in line with a decline in profitability. Additionally, share of profit attributable to non-controlling interest holders declined to USD 29 Mn in 2Q23, down from USD 194 Mn in 2Q22.

Balance Sheet Highlights

Fertiglobe's cash and cash equivalents stood at USD 1,270 Mn in 2Q23 as compared to USD 1,576 Mn in 1Q23. The Company's borrowings declined marginally 0.3% QOQ to USD 1,610 Mn in 2Q23. Fertiglobe incurred a capex including maintenance and growth capex of USD 35 Mn in 2Q23 as compared to USD 13 Mn in 1Q23. In addition, the Company's free cash flow stood at USD 60 Mn in 2Q23 as compared to USD 271 Mn in 1Q23.

Target Price and Rating

We revise our rating from BUY rating to HOLD on Fertiglobe with a target price of AED 4.00. The Company share price moved up 14.4% since our last rating on 18 May 2023. Fertiglobe's Ammonia and Urea production volumes remained higher in 2Q23 as compared to 2Q22 despite the turnaround of Sorfert (Algeria). The Company's net profit in 2Q23 was impacted due to lower selling prices of Urea and Ammonia coupled with a decline in sales volume as compared to 2Q22. However, nitrogen prices bottomed in 2Q23 and started to rebound in 3Q23. The upward trend in nitrogen prices is mainly owing to demand recovery, low inventory levels, and limited supply. Additionally, normalization of trade flows post-EU revoking duty suspension on ammonia and urea along with rising Indian imports will support the nitrogen prices. Furthermore, China's urea exports are anticipated to stay lower in the forthcoming period. As a result, we expect nitrogen prices to increase which will aid the Company's revenue growth. The Company diversified its product offering with Diesel Exhaust Fuel (DEF) sales in Europe. Fertiglobe also aims to progress Ta'ziz 1 mtpa low-carbon ammonia project for which the final investment decision is expected in the upcoming period. Likewise, the Company expects to start front end engineering design (FEED) process for the green hydrogen project in the UAE and Egypt during 2H23. Additionally, Fertiglobe launched a program to optimize its cost structure and targets USD 50 Mn recurring annualized savings by 2024 year-end while 25-30% of the same is aimed to be achieved in 2023. The Company proposed a dividend of USD 250 Mn for 1H23 subject to board approval. Thus, based on the above-mentioned factors, we maintain our BUY rating on the stock.

Fertiglobe - Relative valuation

(at CMP)	2020	2021	2022	2023F
PE	NA	11.72	6.59	22.00
PB	NA	4.46	4.00	6.07
EV/EBITDA	NA	7.19	4.14	11.32
Dividend yield	NA	21.0%	17.6%	6.1%

FABS Estimates & Co Data

FERTIGLOBE – P&L

USD mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Sales	1,471	694	552	551	0.1%	-62.5%	-20.5%	5,028	2,525	-49.8%
Cost of Sales	-724	-425	-377	-397	-5.0%	-47.9%	-11.2%	-2,675	-1,620	-39.4%
Gross profit	748	269	174	154	13.3%	-76.7%	-35.2%	2,352	905	-61.5%
SG&A Exps	-40	-41	-28	-32	-12.8%	-30.3%	-33.0%	-169	-144	-14.8%
Operating profit	707	228	148	122	21.3%	-79.0%	-34.9%	2,185	763	-65.1%
Depr. & Amort	63	67	69	66	4.2%	9.7%	2.2%	266	269	0.8%
EBITDA	770	295	217	188	15.3%	-71.8%	-26.4%	2,452	1,031	-57.9%
Financial income	23	30	4	21	-81.0%	-82.3%	-86.6%	67	46	-32.2%
Financial charges – net	-42	-71	-27	-70	-60.8%	-34.8%	-61.2%	-193	-215	11.7%
Profit before zakat	688	187	125	74	69.9%	-81.8%	-33.2%	2,060	593	-71.2%
Income tax	-65	2	-17	-7	125.7%	-74.3%	NM	-239	-50	-79.0%
Profit before NCI	623	189	108	66	63.7%	-82.6%	-42.6%	1,820	543	-70.2%
NCI	-194	-53	-29	-19	57.5%	-84.9%	-45.0%	-571	-168	-70.5%
Net Profit	430	136	79	48	66.2%	-81.6%	-41.6%	1,250	374	-70.0%

FABS estimate & Co Data

FERTIGLOBE - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	50.8%	38.8%	31.6%	-1,920	-717	46.8%	35.8%	-1,094
EBITDA margin	52.3%	42.6%	39.4%	-1,295	-315	48.8%	40.8%	-793
Operating margin	48.1%	32.8%	26.9%	-2,117	-593	43.5%	30.2%	-1,327
Net profit margin	29.2%	19.6%	14.4%	-1,484	-520	24.9%	14.8%	-1,003

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 RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.53	70.0%	3.17
Relative Valuation (RV)	2.78	30.0%	0.83
Weighted Average Valuation (AED)			4.00
Current market price (AED)			3.64
Upside/Downside (%)			+10%

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 7.9%. It is arrived after using the cost of equity of 8.3% and after-tax cost of debt of 5.8% with a debt-to-equity ratio of 19.7%. The cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 3.8%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Cost of debt is calculated using cost of 6.5% after adjusting a tax rate of 11.6%. Also, assumed a terminal growth rate of 1.5%.

Sum of PV (USD, Mn)	2,940
Terminal value (USD, Mn)	8,072
FV to Common shareholders (USD, Mn)	11,012
No. of share (Mn)	8,301
Current Market Price (AED)	3.64
Fair Value per share (AED)	4.53

DCF Method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	698	496	462	479	484
D&A	269	268	272	276	280
Change in working capital	-15	17	1	-3	-1
(-) Capex	-99	-87	-107	-109	-110
Free Cash Flow to Firm (FCFF)	852	694	628	642	653
Discounting Factor	0.97	0.90	0.83	0.77	0.72
Discounted FCFF	828	624	524	496	468

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 a premium to peer EV/EBITDA of 4.8x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
YAR Equity	9,913	6.7	5.8	24.1	11.5
SAFCO AB EQUITY	17,621	5.3	6.0	9.5	11.9
CF US Equity	15,428	7.0	7.1	16.0	13.6
NTR CAN Equity	33,185	5.3	4.5	19.5	15.3
OCI NV Equity	5,951	9.3	8.4	15.0	13.9
COROMANDEL IN Equity	3,787	6.7	5.8	24.1	11.5
Average		7.6x	7.1x	17.2x	13.6x
Median		6.8x	6.6x	17.5x	13.8x
Max		8.7x	8.1x	19.4x	14.8x
Min		5.6x	5.9x	15.3x	12.3x

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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