

Fertiglobe PLC

Lower nitrogen sales price coupled with lower third-party sales volume impacted profitability

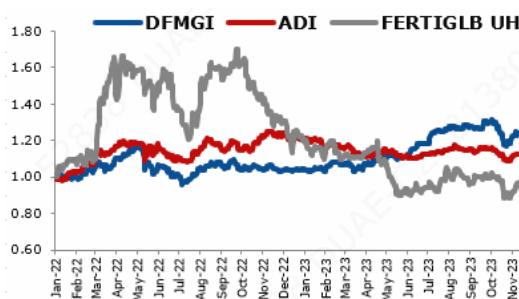
Current Price
AED 3.20

Target Price
AED 3.85

Upside/Downside (%)
+20%

Rating
BUY

- Ammonia and Urea prices bounced back c. 150% and c. 35% respectively from the trough level in June 2023 driven by demand recovery and tight supply.
- Fertiglobe's own product sales volumes rose 7.8% YOY in 3Q23 on the back of a strong order book whereas it expects to realize the benefits of increase in nitrogen prices in 4Q23 financials.
- Fertiglobe launched a program to optimize its cost structure and targets USD 50 Mn recurring annualized savings by end of 2024.
- Fertiglobe's board approved a dividend of USD 250 Mn for 1H23 equivalent to 12 fils per share.



3Q23 Net Profit lower than our estimate

Fertiglobe Plc's (FERTIGLOBE/The Company) net profit declined significantly from USD 292 Mn in 3Q22 to USD 40 Mn in 3Q23, lower than our expectation of USD 124 Mn. The decline in net profit is mainly attributable to a fall in revenue due to lower selling prices of Ammonia and Urea coupled with a fall in third-party sales volume.

P&L Highlights

Fertiglobe's revenue fell 60.2% YOY to USD 525 Mn in 3Q23 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 declined 0.3% YOY to 323 thousand metric tonnes (MT) in 3Q23 in line with our expectation of 325 thousand MT. Urea's own product sales grew 9.8% YOY to 1,144 thousand MT in 3Q23 in line with our forecast of 1,125 thousand MT. The Company also sold 3 thousand MT of diesel exhaust fuel (DEF) fluid in 3Q23 as compared to 7 thousand MT in 2Q23. On the other hand, Ammonia third-party sales volume declined 76.1% YOY to 32 thousand MT in 3Q23 as against our expectation of 54 thousand MT whereas Urea Egypt third-party sales fell significantly 96.0% YOY to 8 thousand MT in 3Q23 compared to our forecast of 162 thousand MT. Thus, total product sales volume fell 11.2% YOY to 1,510 thousand MT in 3Q23. Average Middle East benchmark ammonia prices declined 66.4% YOY to USD 310 per MT in 3Q23 compared to our expectation of USD 385 per MT. Likewise, the average granular Urea Egypt benchmark price declined 45.5% YOY to USD 422 per MT in 3Q23 in line with our forecast of USD 426 per MT. Moreover, the Company's cost of sales declined 49.4% YOY to USD 371 Mn in 3Q23 which is lower than forecast of USD 394 Mn. Weighted average natural gas feedstock price rose from USD 3.1 mmbtu in 2Q23 to USD 3.3 mmbtu in 3Q23. Thus, gross profit declined 73.7% YOY to USD 371 Mn in 3Q23.

Stock Information

Market Cap (AED, mm)	26,564.22
Shares Outstanding(mm)	8,301.30
52 Week High	4.76
52 Week Low	3.10
3M Avg. daily value (AED)	15,328,980

3Q23 Result Review (USD, mm)

Total Assets	5,434
Total Liabilities	3,456
Total Equity	1,978
EBITDA	191.8
Net Profit	40

Financial Ratios

Dividend Yield (12m)	13.43
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	16.85
Price-to-Book Ratio (x)	4.47
Book Value (AED)	0.19
Return-on Equity (%)	24.49

Stock Performance

5 Days	-4.76%
1 Months	2.56%
3 Months	-8.57%
6 Months	1.27%
1 Year	-30.43%
Month to Date (MTD%)	-0.31%
Quarter to Date (QTD%)	-8.31%
Year to Date (YTD%)	-24.35%

Fertiglobe's SG&A expenses declined 7.4% YOY to USD 35 Mn in 3Q23 in line with our expectations. D&A expenses rose 20.6% YOY to USD 73 Mn in 3Q23. Meanwhile, EBITDA declined 68.5% YOY to USD 192 Mn in 3Q23 lower than our forecast of USD 331 Mn. The decline in EBITDA is mainly due to the lower selling prices and decline in the sales volumes. EBITDA margin declined 971 bps YOY to 36.5% in 3Q23. Furthermore, finance income turned positive to USD 2 Mn in 3Q23 from negative USD 22 Mn in 3Q22 due to higher interest income and lower foreign exchange loss. Finance cost fell 43.6% YOY to USD 19 Mn in 3Q23 owing to lower foreign exchange gain compared to a loss in 3Q22 partially offset by an increase in interest expense. Income tax expense declined from USD 74 Mn in 3Q22 to USD 33 Mn in 3Q23 higher than our estimate of USD 21 Mn. In addition, the share of profit attributable to non-controlling interest holders declined to USD 30 Mn in 3Q23 from USD 128 Mn in 3Q22 compared to our estimate of USD 67 Mn.

Balance Sheet Highlights

Fertiglobe's cash and cash equivalents stood at USD 1,599 Mn in 3Q23 as compared to USD 1,554 Mn in 2Q23. The Company's borrowings declined marginally 3.0% QOQ to USD 1,571 Mn in 3Q23. Fertiglobe incurred a capex including maintenance and growth capex of USD 33 Mn in 3Q23 as compared to USD 35 Mn in 2Q23. In addition, the Company's free cash flow stood at USD 126 Mn in 3Q23 as compared to USD 60 Mn in 2Q23.

Target Price and Rating

We revise our rating on Fertiglobe from HOLD to BUY with a revised target price of AED 3.85. The Company's revenue declined on the back of lower selling prices and significant decline in third party sales volumes. However, nitrogen prices recovered significantly from their troughs in 2Q23 and 3Q23 owing to supply disruptions, restocking demand, and expectations of lower exports from China. Nitrogen prices are expected to further support the Company's revenue growth as the outlook stays positive in medium term supported by elevated European gas pricing, positive crop fundamentals, and tight supply dynamics. Fertiglobe's order book stood strong in the beginning of 3Q23, leading to a lag effect on realized prices. The Company expects to realize the benefits of increasing nitrogen prices during 4Q23. Whereas a healthy growth is experienced in own-product sales of 7.8% YOY in 3Q23 due to higher production and inventory sales in addition, the Manufacturing Investment Plan (MIP) also supported the production growth. The Company launched an initiative to optimize its cost structure and targets USD 50 Mn recurring annualized savings by 2024-year end. Fertiglobe already witnessed a drop in operating expenses during 3Q23, while further initiatives taken by the Company will enhance its margins in the forthcoming period. The Company's low net leverage aids in healthy dividend payment. Fertiglobe board approved an interim dividend of USD 275 Mn equivalent to 12 fils per share for 1H23. Thus, based on the above-mentioned factors, we assign a BUY rating on the stock.

Fertiglobe - Relative valuation

(at CMP)	2020	2021	2022	2023F
PE	NA	10.30	5.79	20.37
PB	NA	3.92	3.52	5.02
EV/EBITDA	NA	6.43	3.69	10.80
Dividend yield	NA	23.9%	20.0%	3.3%

FABS Estimates & Co Data

FERTIGLOBE – P&L

USD mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Sales	1,318	552	525	694	-24.3%	-60.2%	-4.8%	5,028	2,411	-52.1%
Cost of Sales	-734	-377	-371	-394	-5.8%	-49.4%	-1.5%	-2,675	-1,570	-41.3%
Gross profit	584	174	154	300	-48.7%	-73.7%	-11.8%	2,352	841	-64.3%
SG&A Exps	-38	-28	-35	-35	-0.7%	-7.4%	26.1%	-169	-141	-16.4%
Operating profit	549	148	119	265	-55.0%	-78.3%	-19.6%	2,185	701	-67.9%
Depr. & Amort	60	69	73	66	9.6%	20.6%	5.2%	266	283	6.2%
EBITDA	609	217	192	331	-42.1%	-68.5%	-11.7%	2,452	984	-59.9%
Financial income	-22	4	2	4	-57.5%	NM	-57.5%	67	40	-39.8%
Financial charges – net	-34	-27	-19	-57	-65.9%	-43.6%	-29.6%	-193	-147	-23.6%
Profit before zakat	493	125	102	212	-52.1%	-79.4%	-18.6%	2,060	594	-71.1%
Income tax	-74	-17	-33	-21	53.0%	-55.8%	95.8%	-239	-73	-69.7%
Profit before NCI	420	108	69	191	-63.8%	-83.5%	-36.2%	1,820	522	-71.3%
NCI	-128	-29	-30	-67	-55.6%	-76.8%	1.7%	-571	-166	-70.9%
Net Profit	292	79	40	124	-68.2%	-86.5%	-50.1%	1,250	355	-71.6%

FABS estimate & Co
Data

FERTIGLOBE - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	44.3%	31.6%	29.3%	-1,502	-233	46.8%	34.9%	-1,192
EBITDA margin	46.2%	39.4%	36.5%	-971	-288	48.8%	40.8%	-794
Operating margin	41.7%	26.9%	22.7%	-1,895	-419	43.5%	29.1%	-1,438
Net profit margin	22.1%	14.4%	7.5%	-1,460	-684	24.9%	14.7%	-1,011

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	4.12	70.0%	2.89
Relative Valuation (RV)	3.20	30.0%	0.96
Weighted Average Valuation (AED)			3.85
Current market price (AED)			3.20
Upside/Downside (%)			+20%

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 8.9%. It is arrived after using the cost of equity of 9.4% and after-tax cost of debt of 6.4% with a debt-to-equity ratio of 21.71%. The cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 1.00 and equity risk premium of 4.2%. 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 6.4% after adjusting a tax rate of 12.2%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	2,482
Terminal value (USD, Mn)	7,451
FV to Common shareholders (USD, Mn)	9,324
No. of share (Mn)	8,301
Current Market Price (AED)	3.20
Fair Value per share (AED)	4.12

DCF Method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	616	646	539	546	541
D&A	283	267	271	275	279
Change in working capital	-56	5	3	6	0
(-) Capex	-103	-89	-106	-106	-107
Free Cash Flow to Firm (FCFF)	739	829	706	720	713
Discounting Factor	0.99	0.91	0.84	0.77	0.70
Discounted FCFF	83	754	590	553	502

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 8.0.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
YAR Equity	8,821	7.2	5.5	NM	11.6
SAFCO AB EQUITY	17,300	11.5	10.5	16.9	16.1
CF US Equity	14,800	5.0	5.6	9.4	11.5
NTR CAN Equity	27,930	6.4	6.2	15.8	11.7
OCI NV Equity	4,875	5.9	4.1	NM	12.5
COROMANDEL IN Equity	3,960	8.5	10.3	12.9	16.8
ABUK EY Equity	1,998	3.7	5.0	4.5	7.0
MFPC EY Equity	1,675	4.1	4.3	7.7	9.1
Average		6.5x	6.4x	11.2x	12.0x
Median		6.1x	5.5x	11.2x	11.7x
Max		7.5x	7.2x	15.1x	13.4x
Min		4.8x	4.8x	8.2x	10.9x

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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