

Fertiglobe PLC

Lower realization of ammonia and urea impacted profitability

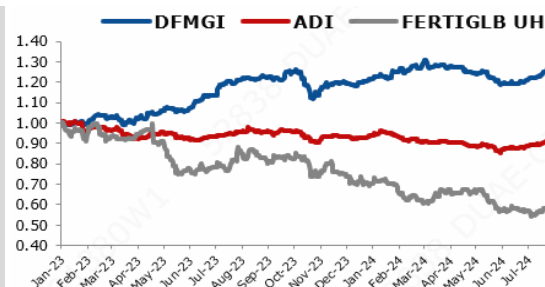
Current Price
AED 2.33

Target Price
AED 3.20

Upside/Downside (%)
+37%

Rating
BUY

- Fertiglobe's own-production sales volumes would have increased 8.1% YOY in 2Q24 excluding the impact of gas supply issues in Egypt
- Fertiglobe recorded USD 42 Mn of cost savings until 2Q24 out of the targeted USD 50 Mn recurring annualized savings by the end of 2024
- Fertiglobe and partners reached FID on the TA'ZIZ low-carbon ammonia plant with a capacity of 1 mtpa in the UAE and awarded the construction contract to Tecnimont S.p.A. (MAIRE Group).
- Fertiglobe emerged as a winner of a first-of-its-kind H2Global auction with a contract value of up to EUR 397 Mn to supply green ammonia for EUR 1,000 per ton till FY2033.
- The dividend proposal for 1H24 will be presented to the board for approval in September 2024 with payment in October 2024.



Stock Information

Market Cap (AED, Mn)	19,342.07
Shares Outstanding (Mn)	8,301,32
52 Week High	3.73
52 Week Low	2.22
3M Avg. daily value (AED)	13,172,860

2Q24 Net Profit lower than our estimate

Fertiglobe Plc's (Fertiglobe/The Company) net profit declined 81.9% YOY from USD 79 Mn to USD 14 Mn in 2Q24, lower than our expectation of USD 52 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 an increase in SG&A expenses.

2Q24 Result Review (USD, Mn)

Total Assets	4,477
Total Liabilities	2,792
Total Equity	1,685
EBITDA	154
Net Profit	14

P&L Highlights

Fertiglobe's revenue declined 10.1% YOY to USD 496 Mn in 2Q24 mainly due to a decline in selling prices of Urea and Ammonia. Ammonia's own product sales volume increased 11.7% YOY to 324 thousand metric tonnes (MT) in 2Q24. However, Urea's own product sales volume declined 4.7% YOY to 1,065 thousand MT in 2Q24. However, Ammonia third-party sales volume significantly declined 43.6% YOY to 44 thousand MT in 2Q24. Urea Egypt third-party sales also fell 8.6% YOY to 64 thousand MT in 2Q24. Thus, total product sales volume declined 4.2% YOY to 1,497 thousand MT in 2Q24. Average Middle East benchmark ammonia prices increased 19.9% YOY to USD 307 per MT in 2Q24 compared to our expectation of USD 305 per MT. Likewise, the average granular Urea Egypt benchmark price declined 4.2% YOY to USD 321 per MT in 2Q24 compared to our forecast of USD 347 per MT. The decline in Urea prices was attributable to lower-than-anticipated demand from India in April. Moreover, the Company's cost of sales marginally declined 0.2% YOY to USD 377 Mn in 2Q24 owing to lower freight costs and cost finished goods related party costs partially offset by an increase in raw material cost and consultancy costs. Price of natural gas used as a feedstock remained unchanged at USD 3.1 mmbtu in 2Q24 compared to 1Q24. Thus, gross profit declined 31.7% YOY to USD 119 Mn in 2Q24 with a gross profit margin of 24.0% in 2Q24 compared to 31.6% in 2Q23. Fertiglobe's SG&A expenses rose 24.3% YOY to USD 34 Mn in 2Q24. D&A expenses marginally grew 0.7% YOY to USD 69 Mn in

Financial Ratios

Dividend Yield (12m)	9.01
Dividend Pay-out (%)	278.38
Price-Earnings Ratio(x)	19.59
Price-to-Book Ratio (x)	3.86
Book Value (AED)	0.16
Return-on Equity (%)	17.96

Stock Performance

5 Days	-7.54%
1 Months	0.00%
3 Months	-17.67%
6 Months	-12.73%
1 Year	-33.05%
Month to Date (MTD%)	-6.05%
Quarter to Date (QTD%)	-3.32%
Year to Date (YTD%)	-21.55%

2Q24. Meanwhile, EBITDA declined 29.0% YOY to USD 154 Mn in 2Q24. The decline in EBITDA is mainly due to the lower selling prices. EBITDA margin declined 827 bps YOY to 31.1% in 2Q24. Furthermore, finance income rose from USD 3 Mn in 2Q23 to USD 5 Mn in 2Q24. Finance cost grew 9.0% YOY to USD 34 Mn in 2Q24. However, foreign exchange gain increased 4.5% YOY to USD 5 Mn in 2Q24. Tax expenses rose 7.2% YOY to USD 18 Mn in 2Q24. In addition, the share of profit attributable to non-controlling interest holders declined 3.1% YOY to USD 28 Mn in 2Q24, supporting profit attributable to shareholders.

Balance Sheet Highlights

Fertiglobe's cash and cash equivalents stood at USD 726 Mn in 2Q24 compared to USD 854 Mn in 1Q24. The Company's borrowings stood at USD 1.6 Bn in 2Q24. Fertiglobe incurred a capex including maintenance and growth capex of USD 23 Mn in 2Q24 compared to USD 21 Mn in 1Q24. In addition, the Company's free cash flow stood at USD 70 Mn in 2Q24, down from USD 156 Mn in 1Q24. The Company reported a net debt position of USD 881 Mn in 2Q24 with a net debt / LTM adjusted EBITDA ratio of 1.0x.

Target Price and Rating

We maintain our BUY rating on Fertiglobe with a revised target price of AED 3.20. The Company's revenue declined in 2Q24 due to lower selling prices and a decline in third-party sales volumes. However, Fertiglobe witnessed a marginal decline in its own product sales volume, recording a 2% YOY fall in 2Q24 due to gas supply disruptions in Egypt, which was supported by improved production in Algeria and Egypt. Own-production sales volumes would have increased 8.1% YOY in 2Q24 excluding the impact of gas supply issues in Egypt. The Company expects a favorable market outlook in the short term for urea and ammonia supported by tight markets. The long-term outlook is driven by increasing demand from new and existing applications coupled with limited growth in the supply. Fertiglobe expects more tender from India in August due to the good monsoon season. The Company is actively making efforts on cost savings and has successfully implemented USD 42 Mn savings by 2Q24 and is on track to achieve its targeted savings of USD 50 Mn by the end of 2024. Fertiglobe and partners have reached FID (Final Investment Decision) on the TA'ZIZ low-carbon ammonia plant with a capacity of 1 mtpa in the UAE and awarded the construction contract to Tecnimont S.p.A. (MAIRE Group). The plant is expected to start operations in FY2027. Additionally, the Company was the winner of a first-of-its-kind H2Global auction with a contract value of up to EUR 397 Mn to supply renewable ammonia from Egypt at a delivered price of EUR 1,000 per ton until 2033. The H2Global award will provide pricing support and critical demand to help Fertiglobe and the Egypt Green Hydrogen consortium reach FID on the project in 1H25, with the aim to start production by FY2027. The dividend proposal for 1H24 will be presented to the board for approval in September 2024 with payment in October 2024. Thus, based on the above-mentioned factors, we assign a BUY rating on the stock.

Fertiglobe - Relative valuation

(at CMP)	2021	2022	2023	2024F
PE	7.27	4.09	14.65	19.74
PB	2.77	2.48	3.54	3.75
EV/EBITDA	3.98	2.42	6.51	8.01
Dividend yield	32.5%	27.3%	8.9%	8.3%

FABS Estimates & Co Data

FERTIGLOBE – P&L

USD Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	552	552	496	480	3.2%	-10.1%	-10.2%	2,416	2,124	-12.1%
Cost of Sales	-377	-374	-377	-328	14.9%	-0.2%	0.6%	-1,564	-1,484	-5.1%
Gross profit	174	178	119	153	-22.0%	-31.7%	-32.8%	852	640	-24.9%
SG&A Expenses	-28	-31	-34	-36	-4.8%	24.3%	9.9%	-145	-127	-11.8%
Operating profit	148	146	85	117	-27.3%	-42.8%	-42.0%	710	512	-27.9%
D&A	69	69	69	69	0.8%	0.7%	0.7%	279	275	-1.4%
EBITDA	217	215	154	186	-16.8%	-29.0%	-28.3%	989	788	-20.4%
Financial income	3	3	5	4	14.8%	44.1%	48.5%	16	14	-14.1%
Financial charges – net	-31	-35	-34	-28	20.6%	9.0%	-2.3%	-119	-120	0.3%
Foreign exchnng loss/gain	4	-7	5	0	NA	4.5%	NA	-20	-3	-86.7%
Profit before zakat	125	108	60	93	-34.9%	-51.7%	-43.9%	587	404	-31.2%
Income tax	-17	47	-18	-19	-4.1%	7.2%	NA	-82	-37	-55.6%
Profit before NCI	108	154	43	74	-42.6%	-60.7%	-72.4%	505	367	-27.2%
NCI	-29	-38	-28	-22	27.1%	-3.1%	-25.7%	-156	-111	-28.9%
Net Profit	79	116	14	52	-72.5%	-81.9%	-87.7%	349	256	-26.5%

FABS estimate & Co Data

FERTIGLOBE - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	31.6%	32.2%	24.0%	-758	-811	35.3%	30.1%	-514
EBITDA margin	39.4%	39.0%	31.1%	-827	-786	40.9%	37.1%	-386
Operating margin	26.9%	26.5%	17.1%	-978	-938	29.4%	24.1%	-527
Net profit margin	14.4%	21.1%	2.9%	-1,148	-1819	14.4%	12.1%	-237

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	3.32	70.0%	2.32
Relative Valuation (RV)	2.94	30.0%	0.88
Weighted Average Valuation (AED)			3.20
Current market price (AED)			2.33
Upside/Downside (%)			+37%

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 8.3%. It is arrived after using the cost of equity of 8.9% and after-tax cost of debt of 6.4% with a debt-to-equity ratio of 31.4%. The cost of equity is calculated by using a 10-year government bond yield of 4.9%, 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. The cost of debt is calculated using the cost of 7.0% after adjusting a tax rate of 9.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	2,281
Terminal value (USD, Mn)	6,429
FV to Common shareholders (USD, Mn)	8,710
No. of share (Mn)	8,301
Current Market Price (AED)	2.33
Fair Value per share (AED)	3.32

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT (1-Tax)	466	463	434	431	426
D&A	275	281	282	283	286
Change in working capital	86	-24	8	-21	-53
(-) Capex	-106	-97	-94	-94	-94
Free Cash Flow to Firm (FCFF)	721	623	631	600	565
Discounting Factor	0.97	0.89	0.82	0.76	0.70
Discounted FCFF	349	557	521	457	397

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 10.0x compared to the peer multiple of 6.6x. 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	7,270	5.58	5.03	22.7	11
SAFCO AB EQUITY	14,930	11.8	9.88	20.1	15.2
CF US Equity	13,960	6.83	6.82	14.1	14.8
NTR CAN Equity	25,400	6.51	6.36	14.2	14.3
OCI NV Equity	5,070	3.67	2.68	58.6	39.3
COROMANDEL IN Equity	5,850	18.4	16.2	25.7	22.3
ABUK EY Equity	1,607	5.97	4.64	6.78	7.58
MFPC EY Equity	1,961	6.77	5.23	8.1	9.59
Average		8.2x	7.1x	21.3x	16.8x
Median		6.6x	5.8x	17.2x	14.6x
Max		8.1x	7.6x	23.5x	17.0x
Min		5.9x	4.9x	12.6x	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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