

## Fertiglobe plc

Firm nitrogen prices drove the bottom line

### 3Q22 net profit lower than our estimates

Fertiglobe Plc's (FERTIGLOBE/The Company) net Profit more than doubled to USD 292 Mn in 3Q22 compared to USD 138 Mn in 3Q21, lower than our estimate of USD 323 Mn. This was mainly driven by growth in revenue due to higher selling prices of Urea and Ammonia backed by tight market conditions, partially offset by a rise in operating expenses and higher profit attributable to non-controlling shareholders.

### P&L Highlights

Fertiglobe's revenue grew from USD 867 Mn in 3Q21 to USD 1,318 Mn in 3Q22 due to high prices for its product portfolio backed by tight market balances in spite of a seasonal slowdown. The price of key product portfolio remained firm in 3Q22 as compared to the previous quarter. Price of Middle East Ammonia stood at USD 923 per metric tonne (MT) in 3Q22 as compared to USD 965 per MT in 2Q22. Similarly, Price of Egypt's Granular Urea stood at USD 775 per MT in 3Q22 as compared to USD 795 per MT in 2Q22. The Company's total own product sales volume declined 2.0% YOY to 1.36 Mn MT in 3Q22 due to a 4.0% decrease in urea sales volume. While the third-party volumes rose 11.0% YOY to 0.34 Mn MT due to a steep 234.0% rise in ammonia sales volumes partially offset by a 23.0% decline in urea sales volumes. Thus, FERTIGLOBE's total product sales volume remain flat at 1.7 MT in 3Q22 as compared to 3Q21. Cost of sales inclined 39.0% YOY to USD 734 Mn in 3Q22 due to an increase in feedstock prices. Average gas price rose from USD 2.9 per mmbtu during 9M21 to USD 4.9 per mmbtu during 9M22. Thus, gross profit rose 72.4% YOY to USD 584 Mn in 3Q22 with 523 bps YOY expansion in gross margin to 44.3% in 3Q22. SG&A expenses rose 26.6% YOY to USD 35 Mn in 3Q22. EBITDA rose 62.1% YOY to USD 611 Mn in 3Q22 with a EBITDA margin of 46.4% in 3Q22. Depreciation and amortization charges declined 5.8% YOY to USD 62 Mn in 3Q22. Resultantly, the operating profit rose 76.4% to AED 549 Mn in 3Q22. Finance income declined from a gain of USD 7 Mn in 3Q21 to a loss of USD 22 Mn in 3Q22 due to losses incurred in foreign exchange while, finance charges rose from 11 Mn in 3Q21 to 34 Mn in 3Q22 mainly due to a rise in benchmark rates and increase in foreign exchange loss. Fertiglobe's income tax expense declined 31.5% YOY to USD 74 Mn in 3Q22. Share of profit attributable to non-controlling interest holders more than doubled to USD 128 Mn in 3Q22 as compared to USD 62 Mn in 3Q21 owing to an increase in subsidiaries' profitability.

### Balance Sheet & Cash Flow Highlights

Fertiglobe's cash and cash equivalents stood at USD 1,783 Mn in 3Q22 indicating a healthy liquidity profile. The company reported a net cash position of USD 644 Mn in 3Q22 as compared to USD 445 Mn in 2Q22. It also generated a free cash flow of USD 189 Mn in 3Q22 and USD 1,498.8 Mn over 9M22. In addition, Fertiglobe's capex including maintenance and growth capex amounted to USD 24 Mn in 3Q22 as compared to USD 21 Mn in 3Q21. The manage-

**Rating : BUY**

### First Look Note – 3Q22

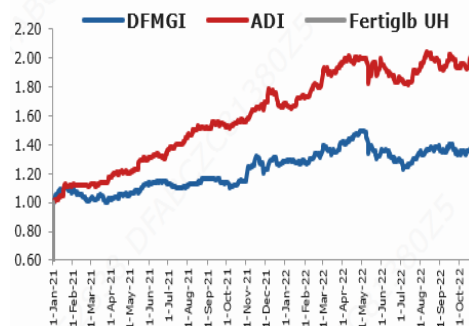
**Sector: Fertilizer**

#### Recommendation

Current Price (3-Nov-22)	4.97
Target Price (AED)	6.45
Upside/Downside (%)	+30%

#### Stock Information

Market Cap (mm)	41,174.54
Share Capital (mm)	1,328.20
52 Week High	6.11
52 Week Low	2.99
3M Avg. daily value (AED)	36,791,440



#### Financial Ratios

Dividend Yield (12m)	13.31
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	8.65
Price-to-Book Ratio (x)	4.87
Book Value (AED)	0.28
Return-on Equity (%)	53.31
Earning Per Share (AED)	0.16
Beta	N/A

#### Stock Performance

5 Days	-3.31%
1 Months	-14.48%
3 Months	-5.52%
6 Months	-10.95%
1 Year	65.33%
Month to Date (MTD)	-2.55%
Quarter to Date (QTD)	-13.44%
Year to Date (YTD)	40.91%

ment also announced minimum dividend guidance of USD 700 Mn in 2H22 as compared to USD 750 Mn dividend in 1H22.

### Target price and recommendation

We maintain our BUY rating on Fertiglobe with a target price of AED 6.45. Fertiglobe benefitted from firm ammonia and urea and fundamentals for price outlook remain constructive going forward. The nitrogen price is expected to benefit from attractive demand and supply dynamics, favourable farm economics, and low grain inventory. The capacity addition in urea is expected to be below the demand growth leading to a firm price outlook. The market expects a capacity addition of 10.7 MT between 2022-26 while the demand is expected to grow 16.4 MT during the same period. While the reverse happened in the previous cycle from 2015-19. Ammonia is also expected to benefit from structural tightening with limited net capacity addition thus, resulting in a supply deficit of 5 Mn MT during 2023-26. In addition, the Company is also favourably placed due to higher gas and coal prices. Low gas storage levels and constrained supply likely to support high energy prices at least in the short-term to medium-term. High energy prices are likely to increase the cost floor of ammonia and urea which is likely to support higher urea and ammonia prices. Fertiglobe further benefits from long-term attractive gas supply agreements with EGPC in Egypt, Sonatrach in Algeria, and ADNOC in Abu Dhabi providing a favorable cost position. Fertiglobe holds a combined 10% global market share of Ammonia and Urea. The company also benefits from supportive farm economics owing to the shortage of grain stocks globally which can be restored earliest by 2024 based on current forecasts. Fertiglobe continues to generate healthy free cash flow and enables to pay an attractive dividend. The company paid a dividend of USD 750 Mn in 1H22 and expected to pay a minimum dividend of USD 700 Mn in 2H22. Moreover, the company's financial position stood strong with a net cash position of USD 644 Mn in 3Q22. In addition, the company announces a trial shipment of DEF to Europe diversifying its product offering. Thus, based on our analysis, we retain our BUY rating on the stock.

### Fertiglobe - Relative valuation

(at CMP)	2020*	2021	2022F
P/E	NA	16.2	8.0
P/B	NA	6.2	6.5
EV/EBITDA	NA	8.0	4.3
Dividend yield**	NA	15.2%	12.7%

FABS Estimates & Co Data

Note: \*Since the company was listed on 27 Oct 2021 hence valuation multiples for FY2019 and 2020 are not included. \*\*Dividend yield for FY2021 includes a special pre-IPO dividend of USD 850 Mn, an advance dividend of USD 93.6 mn paid to OCI and ADNOC in relation to Sorfert, and the remaining is a regular dividend.

Fertiglobe - P&L

USD mm	3Q21	2Q22	3Q22	3Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Sales	867	1,471	1,318	1,291	-2.1%	52.1%	-10.4%	3,311	5,375	62.4%
Cost of Sales	-528	-724	-734	-684	-6.8%	39.0%	1.5%	-1,904	-2,755	44.7%
<b>Gross profit</b>	<b>339</b>	<b>748</b>	<b>584</b>	<b>607</b>	<b>3.9%</b>	<b>72.4%</b>	<b>-21.9%</b>	<b>1,407</b>	<b>2,620</b>	<b>86.2%</b>
SG&A Exps	-27	-40	-35	-26	-25.6%	26.6%	-14.1%	-102	-164	59.8%
<b>Operating profit</b>	<b>311</b>	<b>707</b>	<b>549</b>	<b>581</b>	<b>5.8%</b>	<b>76.4%</b>	<b>-22.4%</b>	<b>1,305</b>	<b>2,456</b>	<b>88.3%</b>
Depr. & Amort	66	62	62	62	0.0%	-5.8%	0.0%	267	251	-6.0%
<b>EBITDA</b>	<b>377</b>	<b>769</b>	<b>611</b>	<b>643</b>	<b>5.2%</b>	<b>62.1%</b>	<b>-20.6%</b>	<b>1,572</b>	<b>2,710</b>	<b>72.4%</b>
Financial income	7	23	-22	10	NM	NM	-196.9%	20	47	137.2%
Financial charges – net	-11	-42	-34	-28	-18.1%	210.9%	-18.6%	-53	-80	51.8%
<b>Profit before zakat</b>	<b>307</b>	<b>688</b>	<b>493</b>	<b>563</b>	<b>14.1%</b>	<b>60.7%</b>	<b>-28.3%</b>	<b>1,272</b>	<b>2,423</b>	<b>90.6%</b>
Income tax	-107	-65	-74	-101	37.7%	-31.5%	13.8%	-296	-341	NM
<b>Profit before NCI</b>	<b>199</b>	<b>623</b>	<b>420</b>	<b>462</b>	<b>10.0%</b>	<b>110.4%</b>	<b>-32.7%</b>	<b>976</b>	<b>2,082</b>	<b>113.4%</b>
NCI	-62	-194	-128	-138	8.3%	107.3%	-34.0%	-273	-586	114.3%
<b>Profit for the period</b>	<b>138</b>	<b>430</b>	<b>292</b>	<b>323</b>	<b>10.8%</b>	<b>111.8%</b>	<b>-32.1%</b>	<b>703</b>	<b>1,497</b>	<b>113.0%</b>

FABS estimate & Co Data

Fertiglobe - Margins

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Gross Profit Margin	39.1%	50.8%	44.3%	523	-652	42.5%	48.7%	625
EBITDA Margin	43.5%	52.3%	46.4%	287	-592	47.5%	50.4%	294
Operating Profit Margin	35.9%	48.1%	41.7%	575	-641	39.4%	45.7%	629
Net Profit Margin	15.9%	29.2%	22.1%	624	-707	21.2%	27.8%	662

FABS estimate & Co Data

**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%

**FAB Securities Contacts:**
**Research Analysts**

Ahmad Banihani                      +971-2-6161629                      [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

**Sales & Execution**

Abu Dhabi Head Office

Trading Desk                      +971-2-6161700/1                      [Online Trading Link](#)  
    +971-2-6161777

Institutional Desk                      +971-4-4245765

Sales and Marketing                      +971-2-6161703

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