

Fertiglobe plc

Decline in Urea selling prices dragged bottom line

1Q23 net profit lower than our estimates

Fertiglobe Plc's (FERTIGLOBE/The Company) net Profit decreased significantly from USD 357 Mn in 1Q22 to USD 136 Mn in 1Q23, lower than our estimate of USD 164 Mn. The decrease was primarily attributable to lower revenue owing to a decline in selling prices of Urea & ammonia, an increase in SG&A, and finance charges partially offset by a decrease in the cost of sales and reversal of income tax along with a lower share of NCI.

P&L Highlights

Fertiglobe's revenue declined 41.5% YOY to USD 694 Mn in 1Q23 mainly driven by a decline in selling prices of Urea and Ammonia partially offset by 8.7% YOY growth in own product sales to 1,363 thousand metric tonnes (MT) in 1Q23. Ammonia own product sales volumes rose 5.8% YOY to 236 thousand MT whereas urea own product sales volumes grew 9.3% YOY to 1,127 thousand MT in 1Q23. On the other hand, third-party sales volumes declined 40.2% YOY to 165 thousand MT in 1Q23. Thus, total product sales volumes stood flat at 1,528 thousand MT in 1Q23 as compared to 1Q22. Middle East benchmark ammonia price stood at USD 615 per MT in 1Q23 as compared to USD 897 per MT in 1Q22. Consequently, Middle East Granular Urea price stood at USD 359 per MT in 1Q23 as against USD 776 per MT in 1Q22. Cost of sales declined 28.9% YOY to USD 425 Mn in 1Q23 due to natural gas prices. Average Henry Hub natural gas price fell to USD 2.8 per mmbtu during 1Q23 as compared to USD 4.6 per mmbtu in 1Q22. Thus, total gross profit declined 54.2% YOY to USD 269 Mn in 1Q23. SG&A expenses rose 36.4% YOY to USD 41 Mn in 1Q23. As a result, total operating profit declined 59.1% YOY to USD 228 Mn in 1Q23. Depreciation and amortization charges rose 8.7% YOY to USD 67 Mn in 1Q23 resulting in a 52.4% YOY decline in EBITDA to USD 295 Mn with an EBITDA margin of 42.6% in 1Q23 as compared to 52.3% in 1Q22. Furthermore, Fertiglobe's finance income rose 16.5% YOY to USD 30 Mn in 1Q22 while finance cost almost doubled to USD 71 Mn in 1Q23 as compared to USD 36 Mn in 1Q22. Income tax reversal stood at USD 2 Mn in 1Q23 as compared to a tax expense of USD 90 Mn in 1Q22. Share of profit attributable to non-controlling interest holders declined 51.9% YOY to USD 53 Mn in 1Q23.

Balance Sheet & Cash Flow Highlights

Fertiglobe's cash and cash equivalents stood at USD 1,678 Mn in 1Q23 as compared to USD 1,442 Mn in 4Q22 improving the liquidity profile. The Company's debt declined to USD 1,114 Mn in 1Q23 from USD 1,155 Mn in 4Q22. The Company refinanced its existing bridge facility with a three-year facility of USD 300 Mn and a five-year facility of USD 600 Mn in December 2022 and also extended the maturity from two years to four years. In addition, Fertiglobe also expanded its Revolving Credit facility by USD 300 Mn. Fertiglobe generated a free cash flow of USD 301 Mn in 1Q23 as compared to USD 519 Mn in 4Q22. Furthermore, the company incurred a capex including maintenance and growth capex of USD 13 Mn in 1Q23. Fertiglobe paid a total dividend of USD 1,450 Mn for the year 2022.

Rating : BUY

First Look Note – 1Q23

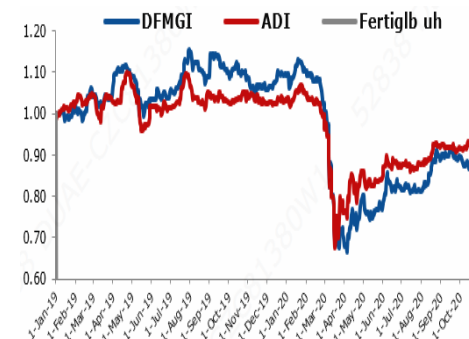
Sector: Fertilizer

Recommendation

Current Price (18-May-23)	3.18
Target Price (AED)	4.00
Upside/Downside (%)	+26%

Stock Information

Market Cap (AED mm)	26,398.19
Shares Outstanding (mm)	8,301.3
52 Week High	6.11
52 Week Low	3.11
3M Avg. daily value (AED)	34,853,430



Financial Ratios

Dividend Yield (12m)	20.12
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	7.00
Price-to-Book Ratio (x)	3.26
Book Value (AED)	0.27
Return-on Equity (%)	46.57
Earning Per Share (AED)	0.12
Beta	1.04

Stock Performance

5 Days	-7.02%
1 Months	-24.64%
3 Months	-20.10%
6 Months	-32.63%
1 Year	-40.45%
Month to Date (MTD)	-17.19%
Quarter to Date (QTD)	-20.50%
Year to Date (YTD)	-24.82%

Target price and recommendation

We maintain our BUY rating on Fertiglobe with a revised target price of AED 4.00. Despite the deferral of two 50 thousand mt Urea shipments, the Company managed to increase its own product sales volumes. Fertiglobe's own product sales rose 8.7% YOY to 1,363 thousand MT in 1Q23. The Company's revenue declined in 1Q23 due to a decrease in the selling prices of Urea and ammonia. The outlook of nitrogen prices remains positive in the long to medium term as markets have started tightening while low supply will further keep the prices high. The global grain stock supplies reached 20 year low and will be replenished until 2025. Nitrogen supply is expected to stay low in the market in the medium term due to lower urea exports expected from China whereas no significant supply and additions are expected. As a result, we expect the nitrogen prices to increase and support the Company's revenue growth. The Company produced on-spec green ammonia at its Egypt Green Hydrogen facility in 1Q23 which started in November 2022. The Green Hydrogen plant is Africa's first integrated plant of its kind with a strategic location benefiting from Fertiglobe's global ammonia logistics capabilities. The plant can produce around 15 thousand tons of green hydrogen feedstock which can produce up to 90 thousand tons per annum of green ammonia. The Final Investment Decision (FID) on the plant is expected to be done in 2023. Fertiglobe further benefits from long-term attractive gas supply agreements signed until 2044 with EGPC in Egypt, Sonatrach in Algeria, and ADNOC in Abu Dhabi providing a favorable cost position. The Company is continuously generating robust free cash flows and is further expected to increase the cash flow generation due to supportive prices. Thus, based on the above-mentioned factors, we maintain our BUY rating on the stock.

Fertiglobe - Relative valuation

(at CMP)	2019*	2020*	2021	2022	2023F
P/E	NA	NA	10.2	5.8	12.2
P/B	NA	NA	3.9	3.5	4.6
EV/EBITDA	NA	NA	6.4	3.7	6.7
Dividend yield**	NA	NA	24.0%	20.2%	9.7%

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	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Sales	1,185	1,054	694	848	-18.2%	-41.5%	-34.2%	5,028	3,030	-39.7%
Cost of Sales	-597	-621	-425	-556	-23.7%	-28.9%	-31.6%	-2,675	-1,712	-36.0%
Gross profit	588	433	269	291	-7.7%	-54.2%	-37.8%	2,352	1,318	-44.0%
SG&A Exps	-30	-61	-41	-28	45.0%	36.4%	-32.7%	-169	-151	-10.7%
Operating profit	558	371	228	263	-13.4%	-59.1%	-38.6%	2,185	1,167	-46.6%
Depr. & Amort	62	81	67	66	1.7%	8.7%	-17.2%	266	266	-0.1%
EBITDA	620	453	295	329	-10.3%	-52.4%	-34.8%	2,452	1,433	-41.5%
Financial income	36	31	30	0	NM	-16.5%	-2.3%	67	31	-53.7%
Financial charges – net	-36	-80	-71	-20	256.2%	94.8%	-12.1%	-193	-238	23.5%
Profit before zakat	557	321	187	244	-23.2%	-66.4%	-41.8%	2,060	960	-53.4%
Income tax	-90	-11	2	-28	NM	NM	NM	-239	-132	-44.8%
Profit before NCI	467	311	189	215	-12.3%	-59.6%	-39.2%	1,820	828	-54.5%
NCI	-111	-139	-53	-52	2.8%	-51.9%	-61.7%	-571	-240	-58.0%
Profit for the period	357	172	136	164	-17.0%	-61.9%	-21.0%	1,250	588	-52.9%

FABS estimate & Co Data

Fertiglobe - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit Margin	49.6%	41.1%	38.8%	-1082	-227	46.8%	43.5%	-329
EBITDA Margin	52.3%	43.0%	42.6%	-974	-41	48.8%	47.3%	-147
Operating Profit Margin	47.1%	35.2%	32.8%	-1422	-240	43.5%	38.5%	-495
Net Profit Margin	30.1%	16.3%	19.6%	-1054	326	24.9%	19.4%	-545

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF	4.46	70.0%	3.12
Relative Valuation	2.95	30.0%	0.88
Weighted Average Valuation (AED)			4.00
Current market price (AED)			3.18
Upside/Downside (%)			+25.8%

1) DCF Method:

Fertiglobe is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.6%. It is arrived after using cost of equity of 9.0% and after tax cost of debt of 5.8% with debt to equity ratio of 15.4%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.00 and equity risk premium of 4.7%. 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 5.8% after adjusting a tax rate of 11.6%. Also, assumed a terminal growth rate of 1.5%.

Sum of PV (USD, Mn)	3,479
Terminal value (USD, Mn)	6,741
FV to Common shareholders (USD, Mn)	10,084
No. of share (Mn)	8,301
Current Market Price (AED)	3.18
Fair Value per share (AED)	4.46

DCF method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	1,007	686	589	587	531
D&A	266	269	274	279	285
Change in working capital	-24	30	5	-2	4
(-) Capex	-83	-108	-133	-135	-134
Free Cash Flow to Firm (FCFF)	1,166	877	735	730	687
Discounting Factor	0.95	0.88	0.81	0.74	0.68
Discounted FCFF	1,108	767	593	542	469

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 EV/EBITDA of 4.8x.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Abou Kir Fertilizers & Chemica	1,620	3.6	4.4	4.7	6.2
Yara International ASA	11,043	4.7	4.7	6.8	8.5
Misr Fertilizers Production Co	1,025	3.2	3.5	4.9	5.4
SABIC Agri-Nutrients Co	17,391	9.4	9.3	15.4	12.7
CF Industries Holdings Inc	13,951	4.8	5.6	6.3	8.4
Nutrien Ltd	37,106	6.0	6.4	7.8	10.1
OCI NV	6,431	4.3	4.4	9.7	10.3
Coromandel International Ltd	3,085	10.1	9.1	12.5	12.5
Average		5.8x	5.9x	8.5x	9.3x
Median		4.8x	5.1x	7.3x	9.3x
Max		6.8x	7.0x	10.4x	10.9x
Min		4.1x	4.4x	5.9x	7.8x

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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