

Fertiglobe PLC

Decline in production and one-off impacted profitability

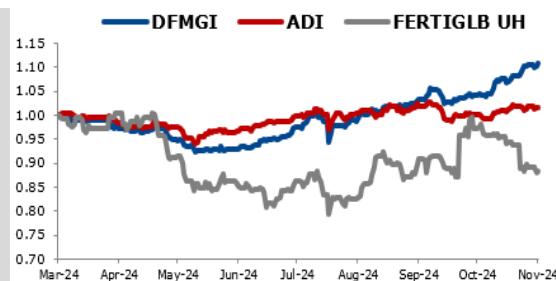
Current Price
AED 2.43

Target Price
AED 3.20

Upside/Downside (%)
+32%

Rating
BUY

- Fertiglobe's total sales volume declined 8.7% YOY to 1.38 Mn MT in 3Q24 due to gas and power supply fluctuations in Egypt & Algeria in addition to planned shutdowns.
- Achieved 92% of its USD 50 Mn run rate cost optimization target at the end of September 2024, and it expects to realize the full target by the end of 2024.
- ADNOC will transfer its equity stakes to Fertiglobe in two low-carbon ammonia projects in addition to a 35% equity interest in the Baytown Texas low-carbon ammonia project more than doubling the Company's ammonia capacity.
- The Company paid a dividend of USD 150 Mn for 1H24 in October 2024.



3Q24 Net Profit lower than our estimate

Fertiglobe Plc (Fertiglobe/The Company) recorded a net loss of USD 10 Mn in 3Q24 compared to a net profit of USD 40 Mn in 3Q23 lower than our forecast of USD 45 Mn. The decline in net profit is mainly attributable to a one-time provision of USD 37 Mn for gas pricing setup and a decline in revenue along with an increase in operating and SG&A expenses partially offset by a decrease in tax expense.

P&L Highlights

Fertiglobe's revenue declined 5.6% YOY to USD 496 Mn in 3Q24 mainly due to a decline in sales volumes and lower selling price of Urea. Ammonia's own product sales volume fell 5.6% YOY to 305 thousand metric tonnes (MT) in 3Q24 while Urea's own product sales volume declined 7.7% YOY to 1,056 thousand MT in 3Q24. Besides, the Company didn't record third-party Ammonia sales in 3Q24 compared to 32 thousand MT in 3Q23. However, Urea third-party sales more than doubled to 18 thousand MT in 3Q24 from 8 thousand MT in 3Q23. Thus, total product sales volume declined 8.7% YOY to 1,379 thousand MT in 3Q24 due to gas and power supply fluctuations in Egypt & Algeria in addition to planned shutdowns. Average Middle East benchmark ammonia prices increased 15.2% YOY to USD 357 per MT in 3Q24 compared to our expectation of USD 320 per MT. On the other hand, the average granular Urea Egypt benchmark price declined 15.4% YOY to USD 357 per MT in 3Q24 compared to our forecast of USD 411 per MT. Moreover, the Company's cost of sales increased 12.1% YOY to USD 416 Mn in 3Q24 owing an increase in raw material & finished goods cost and other costs. Price of Henry Hub natural gas used as a feedstock declined from USD 2.7 mmbtu in 3Q23 to USD 2.2 mmbtu in 3Q24. Thus, gross profit declined 48.4% YOY to USD 79 Mn in 3Q24 with a gross profit margin of 16.0% in 3Q24 compared to 29.3% in 3Q23. Fertiglobe's SG&A expenses rose 18.4%

Stock Information

Market Cap (AED, Mn)	20,421.24
Shares Outstanding(mm)	8,301.32
52 Week High	3.23
52 Week Low	2.22
3M Avg. daily value (AED)	213,898,000

3Q24 Result Review (USD, Mn)

Total Assets	4,424
Total Liabilities	2,900
Total Equity	1,524
EBITDA	109
Net Profit	-10

Financial Ratios

Dividend Yield (12m)	6.34
Dividend Pay-out (%)	278.38
Price-Earnings Ratio(x)	25.63
Price-to-Book Ratio (x)	4.58
Book Value (AED)	0.15
Return-on Equity (%)	15.18

Stock Performance

5 Days	-3.15%
1 Months	-12.14%
3 Months	1.65%
6 Months	-4.28%
1 Year	-23.13%
Month to Date (MTD%)	-9.23%
Quarter to Date (QTD%)	-5.75%
Year to Date (YTD%)	-17.17%

YOY to USD 41 Mn in 3Q24. The Company recorded a one-time provision of USD 37 Mn in 3Q24 relating to changes in Sorfert's gas pricing setup. D&A expenses declined 2.5% YOY to USD 71 Mn in 3Q24. Meanwhile, EBITDA declined 43.3% YOY to USD 109 Mn in 3Q24. The decline in EBITDA is mainly due to the provision of gas pricing setup. EBITDA margin declined from 36.5% in 3Q23 to 22.0% in 3Q24. Furthermore, finance income fell 19.0% YOY to USD 3 Mn in 3Q24 while finance cost grew 8.2% YOY to USD 34 Mn. Moreover, net foreign exchange gain fell from USD 10 Mn in 3Q23 to USD 1 Mn in 2Q24. Tax expenses declined 16.9% YOY to USD 27 Mn in 3Q24. In addition, the share of loss attributable to non-controlling interest holders stood at USD 9 Mn in 3Q24 compared to a profit of USD 30 Mn in 3Q23.

Balance Sheet Highlights

Fertiglobe's cash and cash equivalents stood at USD 669 Mn in 3Q24 compared to USD 726 Mn in 2Q24. The Company's borrowings remained flat at USD 1.6 Bn in 3Q24 compared to the previous quarter. Fertiglobe incurred a capex including maintenance and growth capex of USD 50 Mn in 3Q24 compared to USD 23 Mn in 2Q24. In addition, the Company's free cash flow turned negative to USD 61 Mn in 3Q24 from positive USD 70 Mn in 2Q24. The Company reported a net debt position of USD 957 Mn in 3Q24 with a net debt / LTM adjusted EBITDA ratio of 1.2x.

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 3Q24 due to lower production impacted by gas and power supply fluctuations in Egypt & Algeria in addition to planned shutdowns. Total product sales volume declined 8.7% YOY to 1,379 thousand MT in 3Q24. Fertiglobe expects such fluctuations to decline with improving efficiency in its plants in Egypt and the addition of a new boiler in Algeria which will reduce the reliance on external power grid. Besides, the Company expects the short-term outlook for nitrogen fertilizer to remain favorable owing to low urea Chinese exports and tighter markets. The long-term urea market is expected to remain favourable, driven by growth in demand from new and existing applications, with limited supply increase from green field projects. The Company achieved 92% of its USD 50 Mn run rate cost optimization target as of 3Q24, and it expects to realize the full target by the end of 2024. The Manufacturing Improvement Plan and Cost Optimization Program are expected to contribute USD 150 Mn EBITDA annually by the end of 2025. Fertiglobe maintained its maintenance capex guidance of USD 110 to USD 130 Mn and growth capex of lower than USD 50 Mn in 2024. Furthermore, Fertiglobe is now ADNOC's vehicle for low-carbon ammonia, as ADNOC will transfer its equity stakes in two low-carbon ammonia projects in addition to a 35% equity interest in the Baytown Texas low-carbon ammonia project in the US. These projects will be transferred at cost when ready for startup. As a result, these projects will more than double the Company's net ammonia capacity from 1.6 mtpa to c. 9.0 mtpa. Fertiglobe focuses on maximizing shareholder value creation and aims to earn double-digit returns on all projects along with balanced dividend distribution. The Company paid a dividend of USD 150 Mn for 1H24 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	7.89	4.44	15.88	28.92
PB	3.00	2.69	3.84	4.06
EV/EBITDA	4.26	2.60	6.95	9.66
Dividend yield	31.2%	26.2%	8.6%	7.3%

FABS Estimates & Co Data

FERTIGLOBE – P&L

USD Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	525	496	496	517	-4.1%	-5.6%	0.0%	2,416	2,160	-10.6%
Cost of Sales	-371	-377	-416	-379	9.7%	12.1%	10.6%	-1,564	-1,593	1.8%
Gross profit	154	119	79	137	-42.2%	-48.4%	-33.5%	852	567	-33.4%
SG&A Expenses	-35	-34	-41	-31	32.9%	18.4%	20.1%	-145	-147	1.7%
Operating profit	119	85	38	106	-64.1%	-68.1%	-55.1%	710	421	-40.8%
D&A	73	69	71	69	2.7%	-2.5%	1.9%	279	284	1.8%
EBITDA	192	154	109	175	-37.9%	-43.3%	-29.5%	989	705	-28.8%
Financial income	4	5	3	4	-2.9%	-19.0%	-30.6%	16	17	4.3%
Financial charges – net	-32	-34	-34	-33	3.2%	8.2%	1.2%	-119	-133	11.7%
Foreign exchn g loss/gain	10	5	1	0	NM	-94.0%	-87.0%	-20	-3	NM
Profit before zakat	102	60	8	76	-89.9%	-92.4%	-87.3%	587	302	-48.7%
Income tax	-33	-27	-27	-11	NM	-16.9%	0.0%	-82	-30	NM
Profit before NCI	69	33	-19	65	NM	NM	NM	505	271	-46.3%
NCI	-30	-28	9	-19	NM	NM	NM	-156	-82	-47.4%
Net Profit	40	5	-10	45	NM	NM	NM	349	189	-45.8%

FABS estimate & Co Data

FERTIGLOBE - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	29.3%	24.0%	16.0%	-1,329	-805	35.3%	26.3%	-899
EBITDA margin	36.5%	31.1%	22.0%	-1,457	-917	40.9%	32.6%	-832
Operating margin	22.7%	17.1%	7.7%	-1,503	-944	29.4%	19.5%	-992
Net profit margin	7.5%	1.0%	-2.1%	-962	-313	14.4%	8.8%	-569

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	3.39	70.0%	2.38
Relative Valuation (RV)	2.75	30.0%	0.82
Weighted Average Valuation (AED)			3.20
Current market price (AED)			2.43
Upside/Downside (%)			+32%

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 8.6%. It is arrived after using the cost of equity of 9.0% and after-tax cost of debt of 7.0% with a debt-to-equity ratio of 29.3%. The cost of equity is calculated by using a 10-year government bond yield of 5.0%, 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)	2,086
Terminal value (USD, Mn)	6,856
FV to Common shareholders (USD, Mn)	7,675
No. of share (Mn)	8,301
Current Market Price (AED)	2.43
Fair Value per share (AED)	3.39

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT (1-Tax)	378	443	409	411	413
D&A	284	282	283	284	286
Change in working capital	95	16	18	11	16
(-) Capex	-112	-99	-96	-96	-96
Free Cash Flow to Firm (FCFF)	645	641	614	610	619
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Discounted FCFF	71	586	516	472	441

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 10.6x compared to the peer multiple of 7.6x. 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	7,326	5.26	5.13	14.27	11.08
SAFCO AB EQUITY	14,050	10.69	9.61	16.04	14.46
CF US Equity	15,234	8.21	8.33	14.05	15.08
NTR CAN Equity	22,491	6.89	6.81	12.62	12.34
OCI NV Equity	2,462	28.74	17.54	NM	54.37
COROMANDEL IN Equity	6,160	18.80	16.01	29.38	24.37
ABUK EY Equity	1,352	3.87	2.97	6.23	6.58
MFPC EY Equity	1,755	6.95	5.26	6.73	8.81
Average		11.2x	9.0x	14.2x	18.4x
Median		7.6x	7.6x	14.1x	13.4x
Max		12.7x	11.2x	15.2x	17.4x
Min		6.5x	5.2x	9.7x	10.5x

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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