

Fertiglobe

Favorable Nitrogen Outlook Underpins Our Rating

1Q22 net profit lower than our estimates

Fertiglobe's net Profit increased more than three-fold to USD 357 Mn in 1Q22 from USD 85 Mn in 1Q21, lower than our estimate of USD 407 Mn. This was mainly driven by significant increase in benchmark prices of Ammonia and Granular Urea along with, effective cost management, partially offset by lower sales volume and higher profit attributable to non-controlling shareholders.

P&L Highlights

Fertiglobe's revenue rose 118.0% YoY to USD 1,185 Mn due to significant increase in selling price across its product portfolio, partially offset by 8% YOY decline in sales volume. The benchmark prices of Middle East Ammonia rose 178.6% YoY to USD 1,180 per metric tonne (mt) in 1Q22, while Egypt's Granular Urea price rose 129.1% YoY to USD 841 per mt in 1Q22. Increase in strong pricing is partially offset by a 7.8% YoY drop in total sales volumes. The company's total own-production sales volumes declined 16.6% YoY to 1.3 mt in Q12022, while total third-party product sales volumes rose 78.1% YoY to 0.3 mt in Q12022. The decline is mainly due to re-phasing of Urea and Ammonia shipment to 2Q22 at better net-backs. Cost of sale rose 68.5% YOY to USD 597 Mn in 1Q22, while SG&A expenses rose by 36% to USD 30 Mn in 1Q22. Thus, EBITDA more than doubled to USD 620 Mn in 1Q22 from USD 231 Mn in 1Q21. Depreciation expense remained stable at USD 62 Mn in 1Q22 as a result EBIT more than doubled from USD 167 Mn in 1Q21 to USD 558 Mn in 1Q22. Net finance cost declined from USD 6 Mn in 1Q21 to USD 1 Mn in 1Q22 due to increase in both finance income and expense. Finance income rose due to higher foreign exchange gain, while finance expense increase due to increase in finance cost and foreign exchange loss. Fertiglobe recorded a tax rate of 23.7% 1Q21 compared to 36.7% in 1Q22. Profit attributable to non-controlling interest holders rose from USD 49 Mn in 1Q21 to USD 111 Mn due to a higher share of profit attributable to subsidiaries.

Balance Sheet & Cash Flow Highlights

Fertiglobe maintained robust liquidity profile with cash & bank balance of USD 1,326.2 Mn in 1Q22. Fertiglobe reported a net cash position of USD 2.4 Mn in 1Q22, as compared to net debt of USD 486.6 Mn in 4Q21. It generated a free cash flow before growth Capex of USD 521 Mn in 1Q22 compared to USD 151 Mn in 1Q21, due to record profitability despite, higher investment in working capital. Total cash capital expenditure including growth and maintenance capex stood at USD 9 Mn in 1Q22 as compared to USD 8 Mn in 1Q21. The management expects to spend USD 120-140 Mn on capex in FY2022. The Company now expects to declare a minimum dividend of USD 700 Mn in 2Q22 compared to USD 200 Mn announced earlier.

Rating : BUY

First Look Note – 1Q22

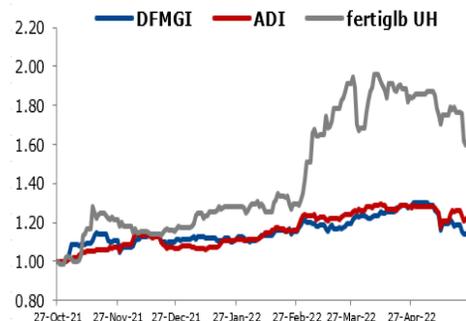
Sector: Fertilizer

Recommendation

Current Price (25-May-22)	4.83
Target Price (AED)	6.45
Upside/Downside (%)	+34%

Stock Information

Market Cap (mm)	40,344.41
No Of Share (mm)	8,301
52 Week High	5.95
52 Week Low	2.92
3M Avg. daily value (AED)	81,304,860



Financial Ratios

Dividend Yield (12m)	3.09
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	7.00
Price-to-Book Ratio (x)	0.79
Book Value (AED)	1.66
Return-on Equity (%)	49.61
Earning Per Share (AED)	0.19
Beta	0.89

Stock Performance

5 Days	-9.50%
1 Months	-12.12%
3 Months	24.94%
6 Months	33.15%
1 Year	-
Month to Date (MTD)	-12.93%
Quarter to Date (QTD)	-3.19%
Year to Date (YTD)	37.78%

Target price and recommendation

We upgrade our rating to BUY on Fertiglobe with a revised target price of AED 6.45. Fertiglobe strong earnings outlook is supported by favorable Nitrogen outlook. This is underpinned by structural shift in demand environment led by low global grain inventory, high farm income, strong demand outlook in India and Chinese exports curb to prioritize domestic supply. 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. Due to its young assets base, the company is able to produce Ammonia and Urea with high gas efficiency and high reliability at a lower cost. It is positioned in the first quartile cost curve among the global ammonia and urea producers. Fertiglobe has competitive advantage over other greenfield project due to its plug-and-play ability for low carbon ammonia i.e. to add both blue and green ammonia capacity at minimal capex. Additionally, Fertiglobe balance sheet remained strong with a net cash balance of USD 2 Mn in 1Q22. It is able to generate sustainable free cash flow (FCF) across the period and FCF as percentage of adjusted EBITDA stood at 83.4% in 1Q22. Due to this, the company would be able to pay USD 700 Mn in dividend in 2Q22 after providing for growth opportunities, while maintaining its investment grade credit profile. Considering all the above factors and favorable outlook for global benchmark prices of Ammonia and granular Urea, we assign Buy rating on the stock.

Fertiglobe - Relative valuation

(at CMP)	2019*	2020*	2021	2022F
P/E	NA	NA	15.5	7.8
P/B	NA	NA	5.9	3.7
EV/EBITDA	NA	NA	7.7	5.1
Dividend yield**	NA	NA	15.8%	12.8%

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. Total cash dividends paid to shareholders during 2021 amounted to \$1,443.6 million, including the \$850.0 million pre-IPO special dividend to OCI and ADNOC. Dividends paid to non-controlling interests (NCI) were \$193.4 million, including Sorfert dividends paid to Sorfert's minority shareholder in August 2021 (accumulated dividend covering 2018 to 2020).

Fertiglobe - P&L

USD mm	1Q21	4Q21	1Q22A	1Q22F	VAR	YOY Ch	QOQ Ch	2021	2022F	Change
Sales	543	1,184	1,185	1,243	-4.7%	118.0%	0.1%	3,311	4,363	31.8%
Cost of Sales	-354	-558	-597	-684	-12.7%	68.5%	7.0%	-1,904	-2,182	14.6%
Gross profit	189	626	588	559	5.1%	210.7%	-6.1%	1,407	2,182	55.0%
SG&A Exps	-22	-30	-30	43	-170.8%	36.0%	0.7%	-102	-109	6.4%
Operating profit	167	596	558	602	-7.4%	233.9%	-6.5%	1,305	2,035	56.0%
Depr. & Amort	-64	-65	-62	-67	-7.2%	-2.8%	-4.6%	-267	-272	1.8%
EBITDA	231	661	620	669	-7.4%	168.5%	-6.3%	1,572	2,307	46.8%
Financial income	5	6	36	5	616.0%	602.0%	539.3%	20	27	35.7%
Financial charges – net	-11	-18	-36	-13	179.2%	242.5%	103.9%	-53	-56	6.3%
Profit before zakat	162	584	557	594	-6.2%	245.0%	-4.6%	1,272	2,006	57.7%
Income tax	-27	-124	-90	-119	-24.2%	233.3%	-27.5%	-296	-327	NM
Profit before NCI	135	460	467	475	-1.7%	247.3%	1.6%	976	1,679	72.0%
NCI	-49	-93	-111	-68	62.5%	124.1%	18.3%	-273	-279	2.1%
Profit for the period	85	367	357	407	-12.4%	318.5%	-2.7%	703	1,400	99.2%

FABS estimate & Co Data

Fertiglobe - Margins

	1Q21	4Q21	1Q22	YoY Ch	QoQ Ch	2021	2022F	Change
Gross Profit Margin	34.8%	52.9%	49.6%	1479	-329	42.5%	50.0%	750
EBITDA Margin	42.5%	55.9%	52.3%	982	-356	47.5%	52.9%	540
Operating Profit Margin	30.7%	50.4%	47.1%	1633	-330	39.4%	46.6%	724
Net Profit Margin	15.7%	31.0%	30.1%	1442	-86	21.2%	32.1%	1085

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"