

## Market Price

**EGP19.05**

at close of 24 August 2021

## Fair Value

**EGP22.6**

set on 5 July 2021

## 12M PT

**EGP26.0** (+36%)

set on 5 July 2021

## Investment Rating

**Overweight**

★

★

★

## Risk Rating

**Medium**

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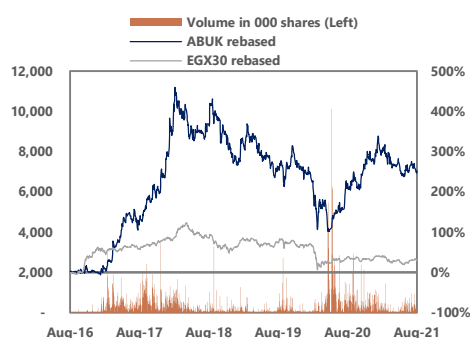
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Source: Bloomberg.

## When the Stars Align

Overweight and 12M PT maintained

**A strong earnings beat on multiple factors:** Abu Qir Fertilizers [ABUK] has managed to achieve in 2020/21 top line of EGP8.8bn (+3.3% vs. Prime Research estimates "Pre"), achieving an annual growth of 12.2%. Consequently, pretax income reached EGP4.3bn (+2.8% vs. Pre). However, a lower effective tax rate of 19% resulted in relatively a wider beat in net earnings, recording EGP3.5bn (+8.0% vs. Pre). ABUK managed to achieve a strong y/y earnings growth of 30%, capitalizing on robust urea prices during H2 2020/21. ABUK managed to enrich its margins, with GPM registering 45.5% in 2020/21 (+8pp y/y, -50bps vs. Pre).

**Volume growth complemented urea price action:** Exports volume improved to 1.16mn tons in 2020/21 (+16% y/y) on the back of a 57% contribution by Abu Qir III. In terms of exports growth, Abu Qir I and Abu Qir III added c.81,000 tons each to their 2020/21 export output when compared to the previous year. Total fertilizers' volume upped 5% y/y, as ABUK was able to sell around 2.97mn tons in 2020/21. We note that growth in overall volume was dominated by growth in granulated urea, produced by Abu Qir III. Despite the strong run in urea prices in H2 2020/21, prices of ammonium nitrate slipped marginally y/y by 2% to USD189/ton.

**Upbeat outlook for the nitrogen fertilizer market:** Urea prices had a perfect set of conditions to shine in 2021 so far. On one hand, solid global demand was depicted by a number of Indian tenders as well as rebounding Brazilian demand. On the other hand, lower-than-expected Chinese exports and overall tight global supply of ammonia drove urea prices higher. Meanwhile, the upping in major crops prices, such as corn, wheat, and soybeans, in addition to higher global natural gas prices continued to add fuel to the current price rally in urea prices. Going forward, we believe a correction in urea prices will follow although we expect prices to remain elevated above the USD300/ton mark for the rest of 2021/22.

**Overweight and 12M PT maintained:** ABUK is currently traded at 2021/22e P/E of 6.8x and EV/EBITDA of 8.2x. In view of Q4 2020/21 results, we maintain our 12-month price target (12M PT) for the name at EGP26/share, implying an upside potential of +36%. Key catalysts are: (1) liberalization of local urea prices, and (2) ABUK qualifying for the free zone status, and (3) any cut in natural gas prices by the Egyptian government, as a cut of USD1.0/MMBtu will add a 20% upside to our 12M PT.

## Key Stock Statistics

Shares outstanding (mn)	<b>1,262</b>
Free float	<b>30%</b>
Market cap (mn)	<b>EGP24,039</b>
Enterprise value (mn)	<b>EGP31,264</b>
52w range (EGP/share)	<b>24.2-14.0</b>
EGP100 invested 5y ago	<b>EGP350</b>
TTM EPS	<b>EGP2.79</b>
TTM P/E	<b>6.8x</b>
2022e EPS	<b>EGP2.79</b>
2022e P/E	<b>6.8x</b>
Last fiscal year's DPS	<b>EGP1.10</b>
Dividend yield	<b>5.7%</b>
5Yr beta	<b>1.0</b>
5Y Proj. EPS CAGR	<b>3.7%</b>



## FINANCIAL KPIs (figures in EGPmn, unless otherwise noted)

	2019/20	2020/21	y/y change
<b>Total Revenues</b>			
Prilled Urea	2,221	2,633	18.5%
Granulated Urea	2,713	3,233	19.1%
Ammonium Nitrate	2,502	2,531	1.1%
Others	445	443	-0.4%
<b>Total Revenues</b>	<b>7,882</b>	<b>8,839</b>	<b>12.2%</b>

<b>COGS</b>			
Prilled Urea	1,495	1,446	-3.3%
Granulated Urea	1,614	1,711	6.0%
Ammonium Nitrate	1,475	1,430	-3.0%
Others	413	346	-16.2%
<b>Total COGS</b>	<b>4,997</b>	<b>4,933</b>	<b>-1.3%</b>

<b>Gross Profit (net of depreciation)</b>			
Prilled Urea	726	1,188	63.6%
Granulated Urea	1,099	1,522	38.5%
Ammonium Nitrate	1,027	1,100	7.1%
Others	32	97	202.4%
<b>Gross Profit</b>	<b>2,884</b>	<b>3,907</b>	<b>35.4%</b>

<b>GPM</b>			
Prilled Urea	32.7%	45.1%	1241 bps
Granulated Urea	40.5%	47.1%	658 bps
Ammonium Nitrate	41.1%	43.5%	243 bps
<b>GPM</b>	<b>37.9%</b>	<b>45.5%</b>	<b>762 bps</b>

<b>EBITDA</b>	<b>2,560</b>	<b>3,602</b>	<b>40.7%</b>
<i>EBITDA margin</i>	<i>32.5%</i>	<i>40.8%</i>	<i>827 bps</i>

<b>Net income</b>	<b>2,695</b>	<b>3,516</b>	<b>30.5%</b>
<i>NPM</i>	<i>34.2%</i>	<i>39.8%</i>	<i>558 bps</i>

Source: Company financials, Prime Research.

PRe	Variance vs. PRe
<b>8,561</b>	<b>3.3%</b>

<b>4,788</b>	<b>3.0%</b>
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<b>3,774</b>	<b>3.5%</b>
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<b>46.0%</b>	<b>-52 bps</b>
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<b>3,508</b>	<b>2.7%</b>
<i>41.0%</i>	<i>-22 bps</i>

<b>3,256</b>	<b>8.0%</b>
<i>38.0%</i>	<i>174 bps</i>

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