

Market Price

EGP19.37

at close of 11 Nov 2021

Fair Value

EGP21.9

set on 31 Oct 2021

12M PT

EGP25.4 (+31%)

set on 31 Oct 2021

Investment Rating

Overweight

★

★

★

Risk Rating

Medium

!

!

!

A "One-of-a-Kind" Quarter

Overweight and 12M PT maintained

Mohamed Saad

Senior Equity Analyst

T +202 3300 5719

msaad@egy.primegroup.org



Source: Bloomberg.

Earnings coming broadly in line: Abu Qir Fertilizers' [ABUK] Q1 2021/22 net earnings came in at EGP1.29bn (+87% y/y, +20% q/q), in line with our estimates (-0.8% vs. PRe). Revenues for the quarter recorded EGP2.66bn (+52% y/y, +5% q/q). Despite revenues missing our estimates of EGP2.9bn, net profit came in line as GPM during the quarter came 3pp better than we expected, registering 58.4%. The strong y/y performance can be attributed to significantly better average selling prices, coupled with improved sales volumes (total sales volume rose 3% y/y during the quarter).

Robust urea prices made for a historical quarter: ABUK registered a record-high top line figure of EGP2.66bn in Q1 2021/22. Similarly, ABUK's net earnings is the highest on record. Such results came against the backdrop of robust global urea prices, with an intra-quarter high of USD555/ton. We note that prices continued to be elevated through Q2 2021/22, breaking above the USD900/ton. The reason behind such unprecedented nitrogen-based fertilizer market can be attributed to: (1) lower-than-expected Chinese exports, (2) overall tight global supply of ammonia driving urea prices higher, (3) the jump in major crops prices, such as corn, wheat, and soybeans, and (4) higher global natural gas prices, which continued to add fuel to the current price rally in urea prices.

Natural gas price hike will begin materialize by H2 2021/22:

ABUK's sales of granulated urea continued to contribute the most to its top line, representing 40% of total revenues. ABUK fulfills the majority of its monthly local quota through its ammonium nitrate output. This allowed ABUK to direct the majority of its urea production (prilled or granulated) towards exports, capitalizing on the current favorable run of global market prices. We note that the effect of hiking natural gas prices to USD5.75/MMBTu from USD4.50/MMBTu will be minimal going through Q2 2021/22, as the hike will only cover two months of the quarter, costing USD5.33/MMBTu on average. Furthermore, the considerable jump in global urea prices in Q2 2021/22 so far will help keep margins elevated. That said, we should start to see a more magnified impact of higher natural gas prices in H2 2021/22.

Overweight and 12M PT maintained: ABUK is currently traded at 2021/22e P/E of 3.9x and EV/EBITDA of 4.1x. In view of Q1 2021/22 results, we maintain our 12-month price target (12M PT) for the name at EGP25.4/share, implying an upside potential of +31%. Key catalysts are: (1) liberalization of local urea prices and (2) ABUK qualifying for the free-zone status.

Key Stock Statistics

Shares outstanding (mn)	1,262
Free float	30%
Market cap (mn)	EGP24,443
Enterprise value (mn)	EGP17,549
52w range (EGP/share)	24.2-14.0
EGP100 invested 5y ago	EGP342
TTM EPS	EGP3.26
TTM P/E	5.9x
2022e EPS	EGP5.0
2022e P/E	3.9x
Last fiscal year's DPS	EGP1.3
Dividend yield	7%
5Yr beta	1.0
4Y Proj. EPS CAGR	1%



FINANCIAL KPIs (figures in EGPmn, unless otherwise noted)

	Q1 2021/22	Q1 2020/21	y/y
Total Revenues			
Prilled Urea	719	460	56%
Ammonium Nitrate	624	600	4%
Granulated Urea	1,075	590	82%
Others	237	98	142%
Total Revenues	2,655	1,749	52%
Gross Profit by Factory (EGPmn)			
Abu Qir I	451	177	155%
Abu Qir II	270	258	5%
Abu Qir III	693	228	203%
Others	137	(6)	NA
Gross Profit (EGPmn)	1,550	657	136%
GPM			
Abu Qir I	62.7%	38.5%	2420 bps
Abu Qir II	43.2%	42.9%	28 bps
Abu Qir III	64.5%	38.7%	2578 bps
ABUK GPM	58.4%	37.6%	2083 bps
EBIT by Factory			
Abu Qir I	417	145	187%
Abu Qir II	221	214	3%
Abu Qir III	651	190	242%
Others	133	(12)	NA
EBIT	1,421	538	164%
EBIT margin			
Abu Qir I	58.0%	31.6%	2645 bps
Abu Qir II	35.4%	35.7%	-37 bps
Abu Qir III	60.5%	32.2%	2830 bps
ABUK EBIT margin	53.5%	30.8%	2277 bps

Source: Company financials, Prime Research.

Prime Securities**Shawkat El Maraghy**

Managing Director

T +202 3300 5622

SElmaraghy@egy.primegroup.org**Sales****Mohamed Ezzat**

Head of Sales & Branches

T +202 3300 5784

MEzzat@egy.primegroup.org**Mohamed Ashmawy**

Head of Institutional Sales

T +202 3300 5612

MAshmawy@egy.primegroup.org**Amr Alaa CFTe**

Team Head –Institutional Desk

T +202 3300 5609

AAAlaa@egy.primegroup.org**Mohamed El Metwaly**

Manager

T +202 3300 5610

MElmetwaly@egy.primegroup.org**Emad El Safoury**

Manager

T +202 3300 5624

EElsafoury@egy.primegroup.org**Shawkat Raslan**

Heliopolis Branch Manager

T +202 3300 8130

SRaslan@egy.primegroup.org**Nashwa Abuelatta**

Alexandria Branch Manager

T +202 3300 5173

NAbuelatta@egy.primegroup.org**Research****Amr Hussein Elalfy CFA**

Head of Research

T +202 3300 5724

AElalfy@egy.primegroup.org**Head Office**

Prime Securities S.A.E.

Regulated by FRA License No. 179.
Member of the Egyptian Exchange.2 Wadi Elnil St, Liberty Tower, 7th Fl.
Mohandessin, Giza, Egypt

T +202 3300 5700 / 770 / 650 / 649

F +202 3760 7543

Branches**Heliopolis**

7 Elhegaz Square

Heliopolis, Cairo, Egypt

T +202 2777 0600

F +202 2777 0604

Alexandria

7 Albert Al Awal St.

Smouha, Alexandria, Egypt

T +202 3300 8170

F +202 3305 4622

Websitewww.primeholdingco.com**Disclaimer**

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