Nitrogen Fertilizers Local Price Hike

Impact	**POSITIVE**
Degree	**STRONG**

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White Friday Gift

What higher nitrogen fertilizers prices mean for EGX stocks

What happened?

Thursday night, the Egyptian government handed Egyptian nitrogen fertilizer producers a White Friday gift. It revised local nitrogen fertilizers prices upward, sending the local subsidized price 37-50% higher from nearly EGP3,000-3,290/ton to EGP4,500/ton. Effectively, this will raise the average price per sack from EGP150-165 to as high as EGP225 for both urea and ammonium nitrate. The decision came following the recent hike in natural gas prices three weeks ago by c.28% to USD5.75/MMBTu. The new regime will see fertilizers, in addition to their monthly quota, required to sell an additional 10% of their output in the "free" local market (where prices are not subsidized) to ensure availability of fertilizers in the local market. Official announcement by the Ministry of Agriculture cited the abnormally-high global prices as the reason behind such a move, the same exact reason that was attributed to the recent natural gas price hike. Two questions remain unanswered:

(1) Will the prices of either natural gas or local fertilizers be ever revised downward in the future when things get back to normal?

(2) If yes, will the two (i.e. natural gas price and local fertilizers price) be changed simultaneously, or just one of them?

In this note, we assess the impact of higher nitrogen fertilizers prices on three names, Abu Qir Fertilizers [**ABUK**], MOPCO [**MFPC**], and Egypt Kuwait Holding Co. [**EKHO/EKHOA**]. We believe ABUK will be the most beneficiary of the recent nitrogen fertilizers price hike, followed by MFPC then EKHO/EKHOA. We note that this assumes higher local nitrogen fertilizers prices and the natural gas pricing scheme effective since early November 2021.

Figure 1: Summary

Abu Qir Fertilizers	ABUK
12M PT (EGP)	31.0
Closing price (EGP)	19.77
Up/(downside) potential	57%
MOPCO	**MFPC**
12M PT (EGP)	84.0
Closing price (EGP)	91.11
Up/(downside) potential	(8%)
Egypt Kuwait Holding Co.	**EKHO/ EKHOA**
Impact (USD / EGP)	0.042 / 0.7
Closing price (USD / EGP)	1.460 / 21.15
Up/(downside) potential	3% / 3%

* As of 18 November 2021.

Source: Prime Research.

Abu Qir Fertilizers [ABUK]

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Most Beneficiary of Higher Local Fertilizer Prices

Upgrade 12M PT to EGP31.0/share, Overweight maintained

Three weeks ago

Back on 31 October 2021, we had revised our previous 12M PT for Abu Qir Fertilizers [**ABUK**] downward to EGP25.4/share, after taking into account the then-new higher natural gas prices. Back then, our assumptions reflected:

(1) Higher natural gas costs of USD5.33/MMBTu in 2021/22, then stabilizing at USD5.75/MMBTu thereafter.

(2) Granular urea prices ranging from USD610/ton in 2021/22 to USD335/ton in 2025/26.

(3) The annual sale of c.940,000 tons at local subsidized prices, c.80% of which is ABUK's total ammonium nitrate output.

Today

Going forward, we are revising the third assumption above to incorporate the new nitrogen fertilizers subsidies regime in our financial model. Since ABUK fulfils most of its local commitment through ammonium nitrate, the additional 10% local quota at free-market prices will be fulfilled through Abuqir I and Abuqir III production (i.e. prilled and granular urea). Thus, we calculate that 10% of ABUK annual output (i.e. c.206,000 tons) will be sold at free-market local urea prices which are pretty close to export urea prices, representing c.90-95% of spot export prices.

Global urea prices

As for global urea prices in 2021/22, we believe the abnormally-high price levels will remain robust yet at a slower momentum all the way to Q3 2021/22 (ending March 2022). Our view is basically based on conclusion of the winter season, resulting in tamer global natural gas prices. Also, the behavior of Chinese urea exports will play a massive role later on, as China limits exports, ensuring ample stocking for the spring season. Thus, we expect global granular urea prices to fall gradually from USD660/ton in 2021/22 to USD333/ton in 2025/26.

So what for ABUK?

Based on the above, ABUK is bound to witness an exceptional year in 2021/22, capitalizing on the robust global nitrogen fertilizers market and the historic improvement in local urea prices. For 2021/22, we now expect ABUK to generate EGP15.7bn (+78% y/y) in revenues, with EBITDA margin expected to improve by as much as 17pp y-y to 57.7%. Hence, we now expect net earnings to cross over the EGP7bn mark. At current market price, ABUK's dividend yield for 2021/22 could be as high as c.12%. The above changes push our 12M PT higher by c.22% from EGP25.4/share all the way to EGP31.0/share, implying an upside potential of 57%.

MOPCO [MFPC]

Positive Impact from Higher Local Fertilizer Prices

Upgrade 12M PT to EGP84.0/share

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Three weeks ago

Back on 31 October 2021, we had initially assigned MOPCO [**MFPC**] a 12M PT of EGP75/share, post the recent natural gas price hike at the beginning of November. Back then, our valuation was based on:

(1) The expiry of gas pricing equation post 2023.

(2) Granular urea prices ranging from USD485/ton in 2022 to USD300/ton in 2026.

(3) Annual local quota representing 25% of MFPC's total sales volume.

Today

Given the recent updates in the global nitrogen fertilizers market, we are changing our granular urea prices in 2022 to USD600/ton, with a gradual normalization all the way to USD330/ton in 2026. With the fate of MFPC's gas pricing formula totally unknown, we opt to maintain the natural gas pricing formula all the way through 2026. However, we calculate the terminal natural gas price for MFPC at USD5.75/MMBTu thereafter, with 100% of total output having access to export in our terminal projections.

So what for MFPC?

After incorporating the new fertilizers subsidies regime in our financial model, we revise our 12M PT for MFPC higher by 12% to EGP84/share (ETR -8%). On a different note, if we assume the natural gas pricing formula will never be changed, our 12M PT will be adjusted higher at EGP104/share (ETR +14%).

Egypt Kuwait Holding [EKHO/EKHOA]

Higher Local Fertilizer Prices Partially Positive

Per-share incremental fair value of c.3%

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Today

Alexfert, 55.4% owned by Egypt Kuwait Holding Co. [**EKHO/EKHOA**], sells urea in addition to ammonium sulphate. Alexfert's annual local quota is c.25% of its urea production (or 171,000 tons per year) sold at EGP3,290/ton. Thus, we calculate that the new fertilizer subsidies regime will impact Alexfert's top line positively, adding on average USD13.2mn annually.

So what for EKHO/EKHOA?

In return, this will improve Alexfert's bottom line by USD10.2mn, implying USD5.7mn attributable to EKHO/EKHOA, as follows:

- An estimated positive impact of USD0.042/EKHO share.
- An estimated positive impact of EGP0.7/EKHOA share.

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