

## Market Price

**EGP20.80**

at close of 13 Feb 2022

## Fair Value

**EGP27.30**

set on 21 Nov 2021

## 12M PT

**EGP31.0** (+49%)

set on 21 Nov 2021

## Investment Rating

**Overweight**

★ ★ ★

## Risk Rating

**Medium**

! ! !

## Another Record-High Quarter

Overweight and 12M PT maintained

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Source: Bloomberg.

## Earnings grew on substantial margin improvement and a top line leap: Abu Qir Fertilizers' [ABUK] Q2 2021/22 net earnings came in at EGP1.9bn (+138% y/y, +48% q/q) on revenues of EGP3.6bn (+57% y/y, +35% q/q). Top line growth was accompanied by rich GPM of 65.7% (+7.2pp q/q). Net earnings reached EGP3.2bn (+115% y/y) in H1 2021/22. Strong earnings growth came on the back of: (1) 55% y/y higher top line of EGP6.2bn, (2) a 23pp improvement in GPM to 62%. Such performance leap was due to: (1) global nitrogen fertilizers rally, where urea prices crossed the USD900/ton mark during the quarter, (2) a relatively weak base in H1 2020/21. We expect ABUK's strong performance to continue in H2 2021/22, albeit at a lighter pace than Q2 2021/22 as global urea prices are bound to correct gradually as the winter season ends.

## Astronomical urea prices created yet another historical quarter:

ABUK registered a record-high top line figure of EGP3.6bn in Q2 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 USD945/ton. We note that prices started to decelerate a bit in Q3 2021/22, penetrating the USD800/ton mark. 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 had a mild impact on Q2 2021/22: ABUK's

sales mix in H1 2021/22 witnessed nearly equal contribution from both prilled and granulated urea. Granulated urea represented 35.8% of total revenues, whereas prilled urea made 35.9%. ABUK fulfills the majority of its monthly local quota through its ammonium nitrate output. This allows it to direct the majority of its urea production towards exports, capitalizing on the current favorable run in global urea prices. We note that the effect of hiking local natural gas prices to USD5.75/MMBTu from USD4.50/MMBTu was minimal in Q2 2021/22, as the hike only covered two months of the quarter, averaging USD5.33/MMBTu. Furthermore, hiking local subsidized fertilizer's prices late November 2021 partially offset the impact of the 28% natural gas price hike undertaken early November 2021. That said, we should start to see a more magnified impact of higher local natural gas prices in H2 2021/22 as global urea prices cool down.

**Overweight and 12M PT maintained:** ABUK is currently traded at 2021/22e P/E of 4x and EV/EBITDA of 2x. In view of Q2 2021/22 results, we maintain our 12-month price target (12MPT) at EGP31.0/share (+49%).

## Key Stock Statistics

Shares outstanding (mn)	<b>1,262</b>
Free float	<b>37%</b>
Market cap (mn)	<b>EGP26,247</b>
Market cap (mn)	<b>USD1,672</b>
52w range (EGP/share)	<b>24.2-14.0</b>
EGP100 invested 5y ago	<b>EGP349</b>
TTM EPS	<b>EGP4.14</b>
TTM P/E	<b>5.0x</b>
2022e EPS	<b>EGP5.62</b>
2022e P/E	<b>3.7X</b>
Last fiscal year's DPS	<b>EGP1.3</b>
Dividend yield	<b>6.25%</b>
5Yr beta	<b>0.8</b>
4Y EPS CAGR	<b>28%</b>

Source: Bloomberg.



## Financial KPIs (figures in EGPMn, unless otherwise noted)

	H1 2021/22	H1 2020/21	y/y change
<b>Total Revenues</b>			
Prilled Urea	2,242	1,221	83.6%
Granulated Urea	2,236	1,334	67.6%
Ammonium Nitrate	1,401	1,254	11.7%
Others	367	227	62.1%
<b>Total Revenues</b>	<b>6,246</b>	<b>4,035</b>	<b>54.8%</b>
<b>COGS</b>			
Prilled Urea	707	724	-2.4%
Granulated Urea	745	804	-7.3%
Ammonium Nitrate	739	696	6.3%
Others	149	218	-31.5%
<b>Total COGS</b>	<b>2,340</b>	<b>2,441</b>	<b>-4.1%</b>
<b>Gross Profit</b>			
Prilled Urea	1,535	497	209.1%
Granulated Urea	1,491	531	180.9%
Ammonium Nitrate	661	558	18.5%
Others	218	9	2316%
<b>Total Gross Profit</b>	<b>3,905</b>	<b>1,594</b>	<b>145.0%</b>
<b>GPM</b>			
Prilled Urea	68.5%	40.7%	28 pp
Granulated Urea	66.7%	39.8%	27 pp
Ammonium Nitrate	47.2%	44.5%	3 pp
<b>Blended GPM</b>	<b>62.5%</b>	<b>39.5%</b>	<b>23 pp</b>
<b>EBITDA</b>			
<b>EBITDA</b>	<b>3,699</b>	<b>1,451</b>	<b>154.9%</b>
<i>EBITDA margin</i>	<i>59.2%</i>	<i>36.0%</i>	<i>23 pp</i>
<b>Net income</b>			
<b>Net income</b>	<b>3,203</b>	<b>1,491</b>	<b>114.8%</b>
<i>NPM</i>	<i>51.3%</i>	<i>37.0%</i>	<i>14 pp</i>

Source: Company financials, Prime Research.

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