PRIME

Grass Is Green on Both Sides

ABUK, MFPC updated: 12MPT raised but rating downgraded to N/M on recent price rally

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The dramatic volatility in commodity prices seen in 2022 has been driven by many factors, led by the Russia-Ukraine war, global supply chain disruptions, high energy prices, and most recently a slowdown in demand growth. In this note, we attempt to explicate the past major market movements and, within the same context, anticipate future movements and their potential effect on our top picks in the fertilizers sector, namely Abu Qir Fertilizers [ABUK] and MOPCO [MFPC]. We also update our valuation models for both names and raise the two stocks' 12MPTs, but we downgrade our ratings for both names to N/M on their recent price rallies.

The denouement: After supply chain disruptions caused by the pandemic pushed urea prices to surge by 230% in 2021, prices rose further in H1 2022 on the Russia-Ukraine war. Urea prices hit historic highs of c.USD1,100/ton by April 2022. However, extreme prices did not last long as they began to decline in October 2022 on lower demand following a wave of buyer deferrals due to the high prices. Currently, prices hover around USD340-400/ton, the lowest they have been since H1 2021. We expect prices to bounce back from the current levels throughout 2023, capped at USD500/ton which is still lower than last year's average. We then expect fertilizer prices to gradually normalize to the mid-cycle price of USD300-350/ton in the longer term.

ABUK; 12MPT raised to EGP52.8/share, downgraded to N/M: The high global urea prices in 2022/23 coupled with EGP devaluation helped ABUK deliver a phenomenal performance in 9M 2022/23, recording all-time high top line of EGP17.3bn (+44% y/y) and a bottom line of EGP12.9bn (+86% y/y). ABUK managed to maintain its GPM at 62.5%, with applying the new formula linking natural gas prices to global urea prices. Going forward, since we expect global urea prices to normalize in the long term, the new formula would come in handy. We raised our 12MPT by 32% to EGP52.8/share, thus downgrading our rating to Neutral / Medium Risk and implying 2022/23e P/E and EV/EBITDA of 4.5x and 3.3x, respectively.

MFPC; 12MPT raised to EGP220/share, downgraded to N/M: MFPC's shareholder structure changed twice in the past couple of years. First, Nutrien sold its entire stake to the Egyptian government which in turn sold 25% and 20% stakes to PIF and ADQ, respectively. With these structural changes we have seen major changes in the company's business model and sales allocation schemes. Which, in turn, directly affected its revenue mix and cost structure. With the EGP devaluation and the new natural gas cost formula, we raise our 12MPT by 22% to EGP220/share, downgrading our rating to Neutral / Medium Risk and implying 2023e P/E and EV/EBITDA of 9.6x and 4x, respectively.

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Summary of Changes

Abu Qir Fertilizers [ABUK]

	Previous	Current
12MPT	EGP40	**EGP52.8**
Rating	OW/M	**N/M**

MOPCO [MFPC]

	Previous	Current
12MPT	EGP180	**EGP220**
Rating	OW/M	**N/M**

Source: Prime Research.

Global Urea Market View

Urea Market Frenzy

Supply chain disruptions caused by the pandemic pushed urea prices to surge by 230% in 2021. Prices rose further in H1 2022 on the Russia-Ukraine war. Urea prices hit historic highs of c.USD1,100/ton by April 2022, driven by:

(1) A spike in prices of natural gas, which accounts for 60-70% of fertilizer input costs.

(2) Export restrictions in China to secure local demand.

(3) European capacity shutdowns due to high costs.

(4) Sanctions on Russian exports which account for almost 22% of global exports of ammonia.

Egypt's Slice of the Cake

The world's sixth largest urea producer and fifth largest exporter, Egypt managed to exploit supply chain disruptions and the emergence of new trade patterns, replacing Russia as a provider of fertilizers to Europe. Subsequently, Egyptian fertilizer exports reached an all-time high of USD2.7bn (+42% y/y) in 2022, with a total fertilizer production of 19mtpa, 7.8mtpa out of which are nitrogen fertilizers.

A global demand gap, coupled with the EGP devaluation, boosted Egyptian fertilizer producers' revenues to unprecedented levels. This in turn reflected positively during 2022 on EGX-listed fertilizer producers' stock prices, having risen by 76% on average and outpacing the EGX 30's 21%. The industry was led by ABUK, which jumped the most (+117%). The Egyptian government expects the exports' good omen to continue in 2023, where the combined value of chemical and fertilizers exports are expected to increase 18% y/y, according to the head of the Chamber of Chemical Industries.

The Slowdown

However, extreme prices did not last long as they began to decline in October 2022 on lower demand following a wave of buyer deferrals due to the high prices. This created supply overhangs pushing urea prices down, along with lower natural gas prices on milder weather in Europe contributing to further price declines towards year end to settle at USD550/ton by end of December (down 50% off its year high). Currently, prices hover around USD340-400/ton, the lowest they have been since H1 2021. In our view, all of the above creates a rebounding point as pent-up demand, ahead of the application (of fertilizers) season, meets long-awaited affordability.

GLOBAL UREA MARKET VIEW (CONT.'D)

The Outlook

There is mounting evidence that the recovery in fertilizer prices will begin sooner rather than later. We expect prices to bounce back from the current levels throughout 2023, capped at USD500/ton which is still lower than last year's average. Then, we expect fertilizer prices to gradually normalize to the mid-cycle price of USD300-350/ton in the longer term.

We believe a tactical rebound in urea prices could take place in the rest of 2023 given the following:

(1) The ongoing conflict between Russia and Ukraine.

(2) The likelihood that Chinese export restrictions will be maintained.

(3) Capacity shutdowns at some European plants due to natural gas price volatility.

(4) Strong global crop demand as we approach the planting season, supported by the lowest grain stocks-to-use (S/U) ratio in over 25 years.

(5) New fertilizer supply capacity additions to the global market will be very limited by 2024, amounting to 2mnt against 5.2mnt in 2022, according to Yara International.

On the local front, we expect urea's subsidized local prices to be liberalized by 2025, positively reflecting on companies' mandatory local quotas. Indeed, our assumption is somehow conservative since local price liberalization could happen sooner rather than later, following the EGP devaluation and subsidies removal/reduction. Furthermore, the mandatory local quota should be lower in the future with new local capacity additions entering the local market (potentially 7.6mnt of green ammonia and 2.7mnt of green hydrogen).

Abu Qir Fertilizers [ABUK]

Sunday, 30 April 2023 / 2:00 pm CLT
Egypt / Fertilizers / Core Coverage Update

PRIME

Market Price	Fair Value	12MPT		
EGP50.39	**EGP41.8** (was EGP33.9)	**EGP52.8** (was EGP40)	Investment Rating	**Neutral** ★ ★ ★
at close of 27 Apr. 2023	set on 30 Apr. 2023	set on 30 Apr. 2023	Risk Rating	**Medium** ! ! !

Still Pressing Ahead

12MPT raised to EGP52.8/share, downgraded to N/M

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Abu Qir Fertilizers [ABUK] delivered a phenomenal performance in 9M 2022/23, recording all-time high top line of EGP17.3bn (+44% y/y) and a bottom line of EGP12.9bn (+86% y/y). A multitude of factors contributed to such magnificent performance across ABUK's wide range of products, including higher global urea prices and the EGP devaluation. ABUK meets its local quota from its ammonium nitrate production at subsidized prices, thus leaving room to export almost all of its more-profitable urea production. This makes ABUK a top beneficiary (vs. peers) of the abovementioned two factors. While not all variables were in favor of such a strong display of profitability, the positive tailwinds ultimately decided the outcome. Despite global urea prices calming down in 2023, ABUK still managed to maintain its GPM at 62.5% with applying the new formula linking natural gas prices to global urea prices. Going forward, since we expect global urea prices to normalize in the long term, the new formula should come in handy.

Expect record-high revenues in 2022/23: We predict that ABUK's top line will hit EGP24.4bn, surpassing its all-time high achieved last year of EGP16.3bn, thanks to the EGP devaluation. This will come despite expected weakness in urea selling prices in 2022/23 in USD terms, averaging USD595/ton. On the other hand, we expect ABUK's revenues to grow at a 5y CAGR (2022-27) of 10% in view of:

(1) Steady annual volume growth given the periodical plant maintenance that allows for improved production levels and increased efficiency.

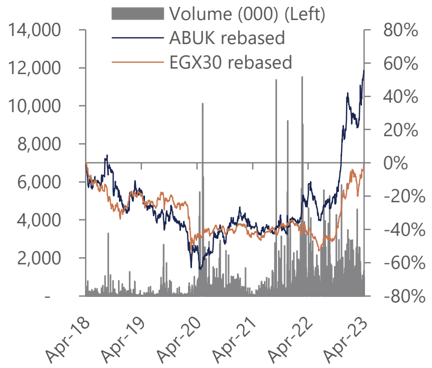
(2) Gradual depreciation in the EGP to average of EGP31.3 in 2023/24 before settling at EGP45.3 in 2026/27.

(3) Local subsidized prices of both urea and ammonium nitrate to be liberalized by 2025/26, according to our projection.

(4) Export prices of granulated urea to average USD600/ton in 2022/23 before gradually normalizing to USD300/ton in 2026/27.

We note that we removed from our forecasts Abu Qir III expansion project after its tender was halted by the company's management. However, we are keeping an eye out for any updates on the technical and financial feasibility of this - or any other- expansion project. Once on line, the added production capacity from these expansion projects would make ABUK more compatible with new environmental export requirements, thus assuring a stable exports revenue stream.

Relative Performance (5Y)



Source: Bloomberg, Prime Research.

Key Stock Statistics

Shares outstanding (mn)	**1,262**
Free float	**24.3%**
Market cap (EGPmn)	**63,592**
Market cap (USDmn)	**2,057**
52w range (EGP/share)	**20.9-51.0**
EGP100 invested 5y ago	**EGP156**
EPS (2022a / 2023e) (EGP)	**7.18 / 11.68**
P/E (2022a / 2023e)	**3.2x / 4.3x**
P/BV (2022a / 2023e)	**1.6x / 3.0x**
Last fiscal year's DPS (EGP)	**3.00**
Dividend yield	**6%**
5y historical beta	**0.9**
5y Proj. EPS CAGR (2022-27)	**-14%**

Source: Prime Research.

Overall lower margins to limit earnings growth: In view of stupendous revenue growth, we predict that ABUK's bottom line will hit EGP14.7bn in 2022/23, surpassing its all-time high achieved last year of EGP9.05bn. However, as top line revenues normalize on weaker selling prices, we expect profitability indicators to calm down. We predict GPM to fall from 59% in 2022/23 to settle at 34% in 2026/27. On the other hand, we predict the EBITDA margin to normalize from 59% in 2022/23 to 34% in 2026/27.

ABUK boasts the healthiest balance sheet within the sector: ABUK was able to accumulate a strong cash balance that currently amounts to 22% of its total market cap, thanks to exceptional performance in H1 2022/23. This lends ABUK sufficient resilience in times of unusual uncertainty, besides making it a natural winner in a high interest rate environment.

12MPT raised to EGP52.8/share; OW/M maintained: We valued ABUK using a DCF approach, assuming a terminal WACC of 19% and a long-term growth rate of 3%. We raise our 12MPT by 32% to EGP52.8/share, thus we downgrade our rating to Neutral / Medium Risk. We note that our valuation is highly sensitive to global urea prices as well as changes in the FX rate. Implying 2022/23e P/E and EV/EBITDA of 4.5x and 3.3x, respectively, our new 12MPT reflects:

(1) A higher FX rate.

(2) The new natural gas price formula.

(3) A much higher net cash position.

(4) The exclusion of debt and capex related to Abu Qir III project.

(5) The revaluation of equity stakes in other fertilizers companies (namely **Alexfert** and **Helwan Fertilizers**).

Key Assumptions

Summary	2022/23	2023/24	2024/25	2025/26	2026/27
FX Rate (EGP/USD)	**25.98**	**31.31**	**35.44**	**40.50**	**45.29**
Total Revenues (EGPmn)					
Prilled urea	8,694	7,103	7,615	8,661	8,302
Granulated urea	10,229	8,291	8,914	9,402	9,012
Ammonium nitrate	3,884	3,884	3,884	6,990	7,427
Others	1,604	1,300	1,398	1,471	1,410
Total Revenues (EGPmn)	**24,411**	**20,577**	**21,811**	**26,524**	**26,152**
Volumes (ktpa)					
Prilled urea	611	611	611	611	611
Granulated urea	644	644	644	644	644
Ammonium nitrate	863	863	863	863	863
Total Volumes (ktpa)	**2,118**	**2,118**	**2,118**	**2,118**	**2,118**
Blended Average Prices (EGP/ton)					
Prilled urea	14,229	11,625	12,463	14,175	13,588
Granulated urea	15,884	12,874	13,842	14,599	13,994
Ammonium nitrate	4,500	4,500	4,500	8,100	8,606
Blended Average Prices (EGP/ton)	**11,526**	**9,715**	**10,298**	**12,523**	**12,347**
Blended Average Prices (USD/ton)					
Prilled urea	548	371	352	350	300
Granulated urea	611	411	391	360	309
Ammonium nitrate	173	144	127	200	190
Blended Average Prices (USD/ton)	**444**	**310**	**291**	**309**	**273**
Key Assumptions & Margins					
Gas cost (USD/MMBtu)	5.25	4.50	4.50	5.83	5.00
Urea export selling price (USD/ton)	595	400	380	350	300
Urea local selling price (EGP/ton)	4,500	4,500	4,500	14,175	13,588
Local quota %	55%	55%	55%	55%	55%
Gross profit margin	59%	47%	43%	36%	34%
EBITDA margin	56%	43%	39%	32%	30%
Net Income (EGPmn)	**14,741**	**8,418**	**7,776**	**7,689**	**7,125**

Source: Bloomberg, Prime Research.

Valuation Model

EGPmn (ended 30 Jun.)	2023e	2024e	2025e	2026e	2027e	Terminal
EBIT (1 - t)	10,510	6,689	6,416	6,528	5,975	7,940
Non-Cash Items (D&A)	132	144	156	169	182	
Gross Cash Flow	**10,643**	**6,833**	**6,573**	**6,697**	**6,157**	
Appropriations	(2,028)	(1,158)	(1,070)	(1,058)	(980)	
Change in Operating Working Capital	(250)	243	(3)	(65)	31	
Capital Expenditures	(242)	(257)	(274)	(291)	(309)	
Gross Investment	**(492)**	**(14)**	**(276)**	**(356)**	**(278)**	
Free Cash Flow to the Firm (FCFF)	**8,123**	**5,661**	**5,227**	**5,283**	**4,898**	**32,395**
Discount factor	0.95	0.72	0.57	0.46	0.39	
Present Value of FCFF	**7,716**	**4,052**	**2,970**	**2,456**	**1,913**	**12,653**
DCF Enterprise Value	**31,761**					
Net (Debt)/ Cash	15,352					
Other investments	5,645					
DCF Equity Value	**52,758**		**Reinvestment rate**			**16%**
NOS	1,262					
FV (EGP/share)	**41.8**		**ROIC**			**19%**
Market price	50.39					
12M PT (EGP/share)	**52.8**		**TGR**			**3%**
Upside/downside	5%					

Sensitivity Analysis

Terminal growth rate	Terminal WACC 17.0%	18.0%	19.0%	20.0%	21.0%
5.0%	54.6	53.8	53.1	52.4	51.9
4.0%	54.5	53.7	53.0	52.3	51.7
3.0%	54.3	53.5	52.8	52.2	51.6
2.0%	54.2	53.4	52.7	52.1	51.5
1.0%	54.1	53.3	52.6	52.0	51.4

Change in urea price vs. 2023	Change in FX rate vs. 2023 -20%	-10%	0%	10%	20%
20%	53.1	57.2	61.3	65.3	69.4
10%	49.9	53.5	57.1	60.7	64.3
0%	46.6	49.8	52.8	55.9	59.0
-10%	43.2	45.8	48.5	51.1	53.8
-20%	38.0	40.0	42.0	44.0	46.0

Peers Analysis (as of 27-Apr-2023)

Ticker	Name	Country	Market cap (USDmn)	P/E	EV/EBTDA	EV/Sales	ROE	ROA
NTR CN	Nutrien	Canada	34,541	4.9x	3.8x	1.2x	31%	15%
SAFCO AB	SABIC AgriNutrients Co.	Saudi Arabia	16,955	6.2x	4.7x	2.7x	57%	45%
YAR NO	Yara International	Norway	10,705	4.2x	2.9x	0.6x	35%	16%
FERTIGLB UH	Fertiglobe plc	UAE	8,704	6.9x	4.0x	1.9x	64%	34%
OCI NA	OCI NV	Netherland	5,618	4.4x	2.5x	0.9x	57%	25%
ABUK EY	**Abu Qir Fertilizers**	**Egypt**	**2,057**	**4.8x**	**3.7x**	**2.3x**	**62%**	**51%**
MFPC EY	MOPCO	Egypt	1,345	5.7x	2.9x	1.7x	21%	17%

Source: Bloomberg, Prime Research.

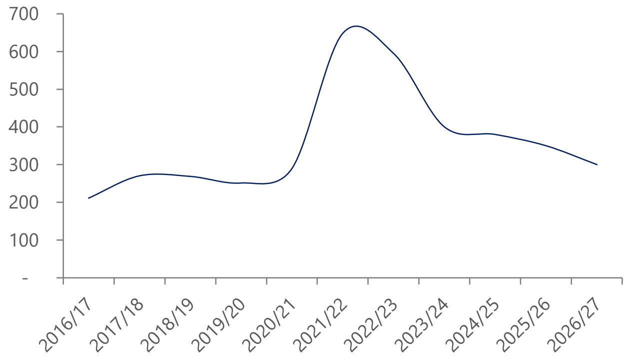
FINANCIAL MODEL

FY ends on 30 June. (EGPmn)	2021a	2022a	2023e	2024e	2025e	2026e
Financial summary						
Revenues	**8,839**	**16,331**	**24,411**	**20,577**	**21,811**	**26,524**
Gross profit	3,907	10,628	14,347	9,548	9,254	9,451
EBITDA	**3,602**	**9,940**	**13,694**	**8,775**	**8,436**	**8,592**
Net income before tax	4,318	11,568	19,021	10,862	10,033	9,921
Net income after tax	**3,516**	**9,054**	**14,741**	**8,418**	**7,776**	**7,689**
Total assets	10,848	22,372	27,422	25,516	27,704	31,210
Total liability	**2,487**	**4,566**	**5,941**	**6,245**	**6,726**	**8,150**
Total equity	8,361	17,806	21,481	19,271	20,977	23,060
Total cash & equivalents	**7,225**	**14,202**	**16,095**	**14,015**	**15,601**	**17,497**
Total debt	0	0	0	0	0	0
Net (Cash) Debt	**(7,225)**	**(14,202)**	**(16,095)**	**(14,015)**	**(15,601)**	**(17,497)**
Invested capital (IC)	1,135	3,605	5,386	5,256	5,376	5,563
Capex	**165**	**352**	**242**	**257**	**274**	**291**
FCFF	1,878	6,030	8,123	5,661	5,227	5,283
Per-Share Data & Valuation Multiples						
Stock price (EGP)	**19.2**	**22.7**	**50.4**	**50.4**	**50.4**	**50.4**
# Shares (WA,in mn)	1,262	1,262	1,262	1,262	1,262	1,262
EPS (EGP)	**2.79**	**7.18**	**11.68**	**6.67**	**6.16**	**6.09**
DPS (EGP)	1.30	3.00	6.50	3.70	3.45	3.40
BVPS (EGP)	**6.63**	**14.11**	**17.02**	**15.27**	**16.62**	**18.27**
P/E	6.9x	3.2x	4.3x	7.6x	8.2x	8.3x
DY	**7%**	**13%**	**13%**	**7%**	**7%**	**7%**
P/BV	2.9x	1.6x	3.0x	3.3x	3.0x	2.8x
EV/Sales (x)	**1.9x**	**0.9x**	**1.9x**	**2.4x**	**2.2x**	**1.7x**
EV/EBITDA (x)	4.7x	1.5x	3.5x	5.6x	5.7x	5.4x
EV/IC (x)	**15.0x**	**4.0x**	**8.8x**	**9.4x**	**8.9x**	**8.3x**
Net debt (cash) to EBITDA	-2.0x	-1.4x	-1.2x	-1.6x	-1.8x	-2.0x
Margins & Profitability						
Gross margin	**44%**	**65%**	**59%**	**46%**	**42%**	**36%**
EBITDA margin	41%	61%	56%	43%	39%	32%
NPM	**40%**	**55%**	**60%**	**41%**	**36%**	**29%**
ROE	42%	51%	69%	44%	37%	33%
ROIC	**300%**	**671%**	**292%**	**124%**	**122%**	**121%**
Growth ratios						
Revenue Growth	12%	85%	49%	-16%	6%	22%
EBITDA Growth	**41%**	**176%**	**38%**	**-36%**	**-4%**	**2%**
EPS Growth	30%	158%	63%	-43%	-8%	-1%
Consensus Estimates						
Consensus revenues (EGPmn)			**22,190**	**20,700**	**20,336**	**19,942**
Prime Research vs. Consensus			10.0%	-0.6%	7.3%	33.0%
Consensus net income (EGPmn)			**12,040**	**10,532**	**10,526**	**9,685**
Prime Research vs. Consensus			22.4%	-20.1%	-26.1%	-20.6%
Fwd P/E (x), 12M - Price Target			**4.5x**	**7.9x**	**8.6x**	**8.7x**
Fwd EV/EBITDA (x), 12M - Price Target			3.3x	6.0x	6.1x	5.7x

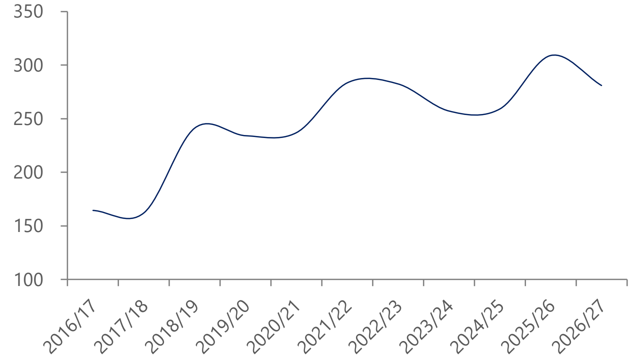
Source: Company reports, Prime Research.

Story in Charts

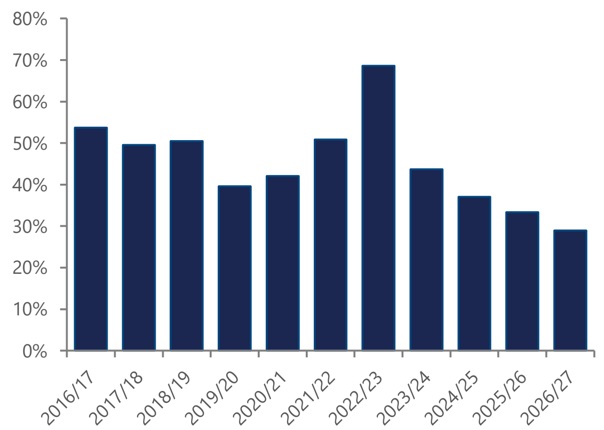
Urea export price (USD/ton)



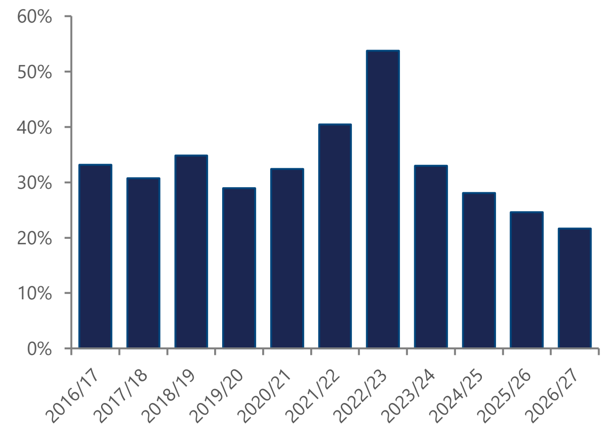
Ammonia cash cost (USD/ton)



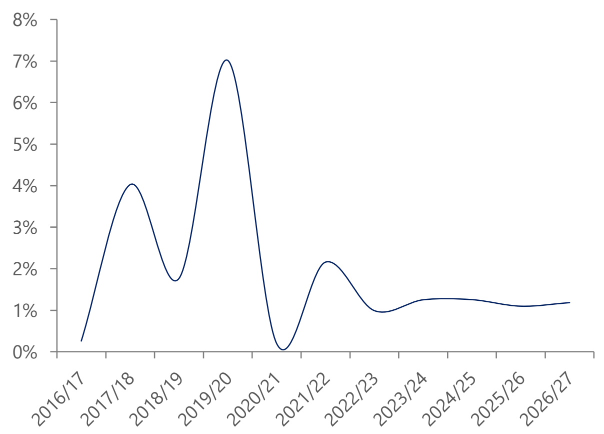
Return on equity



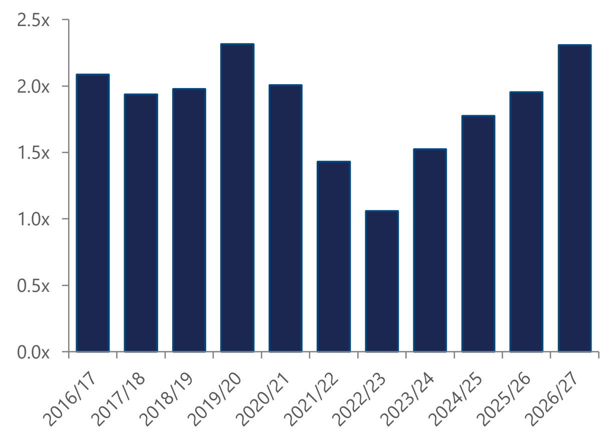
Return on assets



Capex as % of sales



Net debt (cash)/ EBITDA



Source: Company reports, Prime Research.

Market Price	Fair Value	12MPT		
EGP181.43	EGP161 (was EGP153)	EGP220 (was EGP180)	Investment Rating	Neutral
at close of 27 Apr. 2023	set on 30 Apr. 2023	set on 30 Apr. 2023	Risk Rating	Medium

Abiding Paradigm Shifts

12MPT raised to EGP220/share, downgraded to N/M

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Misr Fertilizers Production Co. (MOPCO) [MFPC] acquired E-Agrium through a share swap back in 2008 to turn it into a fully-owned subsidiary under a new name: Egyptian Nitrogen Products Company (ENPC). By virtue of this deal, MFPC retained two additional urea factories as well as:

(1) A marketing agreement that was signed between MFPC and Agrium Canada (Nutrien) to export 90% of ENPC's production, which reinforced MFPC'S presence in international urea market.

(2) A gas supply agreement that allows MFPC a catered price formula different than the rest of the market.

MFPC's shareholder structure changed twice in the past couple of years. First, Nutrien sold its entire stake to the Egyptian government which in turn sold 25% and 20% stakes to PIF and ADQ, respectively. With these structural changes we have seen major changes in the company's business model and sales allocation schemes.

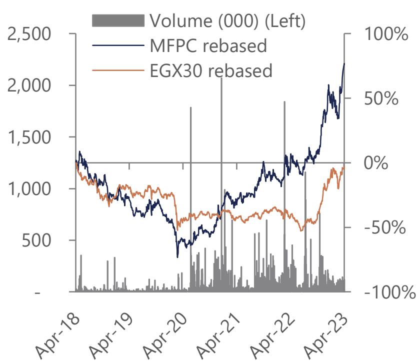
Saved by the "EGP devaluation" bell: Ever since the aforementioned changes, we have seen MFPC's revenue mix gradually tilting more towards the local market. However, we believe the EGP devaluation, coupled with higher global urea prices, have helped MFPC counterbalance the negative effect of this business model change. MFPC's 2022 net profit grew by 51% y/y to EGP7.2bn on the back of an 84% y/y higher revenues of EGP18.8bn. This leap in revenues was mainly due to higher export revenues which increased by 87% y/y to EGP13.3bn, contributing 72% to total revenues growth, on higher global urea prices averaging USD790/ton.

Meanwhile, GPM (excluding depreciation) declined by 6.3pp y/y to 60.4% for two main reasons:

(1) MFPC used to commit 25-30% of its urea production to the local market, which helped the company capitalize considerably on the weaker EGP over the course of the last six years. However, looking at MFPC's performance in 2022, we saw the company committing more of its urea production (around 55%) to the local market. Since locally-subsidized prices are at a steep discount to export prices, the new local-tilted mix has put a lid on MFPC's ability to capitalize on a weaker EGP.

(2) MFPC has historically obtained natural gas (NG) at a cheaper cost given its pricing contract. However, in view of high urea prices in 2022 and the EGP devaluation, MFPC's formula pushed the natural gas cost higher in 2022 by 57% y/y to USD7.65/MMBtu vs. USD4.87/MMBtu in 2021.

Relative Performance (5Y)



Source: Bloomberg, Prime Research.

Key Stock Statistics

Shares outstanding (mn)	229
Free float	17.5%
Market cap (EGPmn)	41,547
Market cap (USDmn)	1,345
52w range (EGP/share)	91.0-184.0
EGP100 invested 5y ago	EGP176
EPS (2022a / 2023e) (EGP)	31.67 / 22.90
P/E (2022a / 2023e)	4.5x / 7.9x
P/BV (2022a / 2023e)	0.9x / 1.2x
Last fiscal year's DPS (EGP)	15
Dividend yield	8%
5y historical beta	0.86
5y Proj. EPS CAGR (2022-27)	0.4%

Source: Prime Research.

Free at last: MFPC has successfully managed to make its balance sheet debt free, thus offloading the heavy burden of debt service in the current hawkish monetary environment. This should make MFPC a more pronounced dividend payer in the future. In addition, absent major capex commitments (except for the small-scale new melamine facility that has no specific timeframe still), MFPC should be earning high interest on its huge cash balance (currently 24% of its market cap).

2023 outlook: We expect lower average global urea prices of USD450/ton (-43% y/y) would pressure MFPC's top line. However, the 54% higher FX rate should partially offset the decrease in prices, pushing the revenues to EGP17.9bn in 2023 (-5% y/y). Accordingly, we expect GPM (excluding depreciation) to narrow to 47% in 2023 from 60.4% in 2022, leading, in turn, to a 28% y/y lower bottom line of EGP5.2bn.

12MPT raised to EGP220/share; rating downgraded to N/M: We valued MFPC using a DCF approach, assuming a terminal WACC of 17% and a long-term growth rate of 3%. We raise our 12MPT by 22% to EGP220/share, thus we downgrade our rating to Neutral / Medium Risk rating. We note that our valuation is highly sensitive to natural gas cost as well as urea prices and changes in the FX rate. Implying 2023e P/E and EV/EBITDA of 9.6x and 4x, respectively, our new 12MPT reflects:

(1) The old natural gas formula expiring by 2024 then we expect MFPC to join the rest of the market in applying the new current formula which rewards producers with higher local exposure, thus translating into good margins for MFPC.

(2) Liberalized local urea prices by 2025.

(3) Stable capacity and utilization rates.

Key Assumptions

Summary	2023e	2024e	2025e	2026e	2027e
FX Rate (EGP/USD)	**31.07**	**32.75**	**38.01**	**42.99**	**47.25**
Total Revenues (EGPmn)					
Local urea	4,762	4,762	14,076	13,646	15,001
Export urea	12,104	10,776	11,517	11,165	12,273
Ammonia	1,058	942	1,007	976	1,073
Total Revenues (EGPmn)	**17,924**	**16,480**	**26,600**	**25,788**	**28,346**
Volumes (ktpa)					
Local urea	1,058	1,058	1,058	1,058	1,058
Export urea	866	866	866	866	866
Ammonia	57	57	57	57	57
Total volumes (ktpa)	**1,981**	**1,981**	**1,981**	**1,981**	**1,981**
Blended Average Prices (EGP/ton)					
Local urea	4,500	4,500	13,302	12,896	14,175
Export urea	13,980	12,447	13,302	12,896	14,175
Ammonia	18,641	16,595	17,736	17,195	18,901
Blended Average Prices (EGP/ton)	**9,049**	**8,320**	**13,429**	**13,019**	**14,311**
Blended Average Prices (USD/ton)					
Local urea	145	137	350	300	300
Export urea	450	380	350	300	300
Ammonia	600	507	467	400	400
Blended Average Prices (USD/ton)	**291**	**254**	**353**	**303**	**303**
Key Assumptions & Margins					
Gas cost (USD/MMBtu)	4.25	4.50	5.83	5.00	5.00
Local quota %	55%	55%	55%	55%	55%
Gross profit margin	47%	36%	41%	40%	40%
EBITDA margin	44%	32%	37%	37%	37%
Net Income (EGPmn)	**5,248**	**3,232**	**6,780**	**6,586**	**7,410**

Source: Bloomberg, Prime Research.

Valuation Model

EGPmn (ended 31 Dec.)	2023e	2024e	2025e	2026e	2027e	Terminal
EBIT (1 - t)	4,465	2,646	6,228	6,062	6,876	7,083
Non-Cash Items (D&A)	2,065	1,928	1,800	1,684	1,577	
Gross Cash Flow	**6,530**	**4,573**	**8,028**	**7,746**	**8,453**	
Appropriations	(629)	(455)	(280)	(588)	(571)	
Change in Operating Working Capital	64	98	(674)	54	(170)	
Capital Expenditures	(90)	(82)	(133)	(129)	(142)	
Gross Investment	**(25)**	**15**	**(807)**	**(75)**	**(312)**	
Free Cash Flow to the Firm (FCFF)	**5,875**	**4,134**	**6,940**	**7,084**	**7,570**	**42,018**
Discount factor	0.80	0.62	0.50	0.42	0.36	
Present Value of FCFF	**4,684**	**2,567**	**3,492**	**2,944**	**2,692**	**14,942**
DCF Enterprise Value	**31,319**					
Net (Debt)/ Cash	9,806					
Deferred Taxes	(4,272)					
DCF Equity Value	**36,853**					
NOS	229					
FV (EGP/share)	**160.8**					
Market price	181.43					
12M PT (EGP/share)	**220.3**					
Upside/downside	21%					

Reinvestment rate	**18%**
ROIC	**17%**
TGR	**3%**

Sensitivity Analysis

Terminal growth rate	Terminal WACC 14.9%	15.9%	16.9%	17.9%	18.9%
5.0%	234	228	222	217	212
4.0%	233	227	221	216	212
3.0%	232	226	**220**	215	211
2.0%	231	225	219	214	210
1.0%	230	224	219	214	209

Change in urea price vs. 2023	Change in FX rate vs. 2023 -20%	-10%	0%	10%	20%
20%	234	256	278	300	322
10%	210	230	249	268	288
0%	187	204	**220**	237	253
-10%	164	178	191	205	219
-20%	139	150	160	171	181

Peers Analysis (as of 27-Apr-2023)

Ticker	Name	Country	Market cap (USDmn)	P/E	EV/EBTDA	EV/Sales	ROE	ROA
NTR CN	Nutrien	Canada	34,541	4.9x	3.8x	1.2x	31%	15%
SAFCO AB	SABIC AgriNutrients Co.	Saudi Arabia	16,955	6.2x	4.7x	2.7x	57%	45%
YAR NO	Yara International	Norway	10,705	4.2x	2.9x	0.6x	35%	16%
FERTIGLB UH	Fertiglobe plc	UAE	8,704	6.9x	4.0x	1.9x	64%	34%
OCI NA	OCI NV	Netherland	5,618	4.4x	2.5x	0.9x	57%	25%
ABUK EY	Abu Qir Fertilizers	Egypt	2,057	4.8x	3.7x	2.3x	62%	51%
MFPC EY	**MOPCO**	**Egypt**	**1,345**	**5.7x**	**2.9x**	**1.7x**	**21%**	**17%**

Source: Bloomberg, Prime Research.

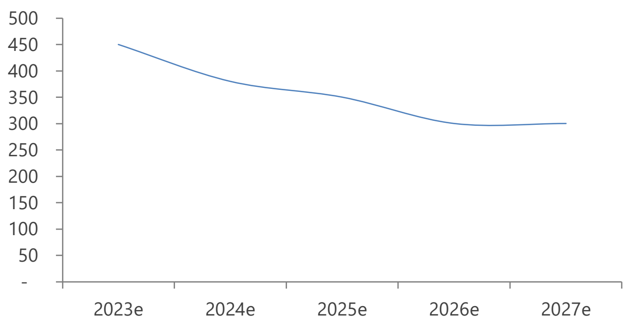
FINANCIAL MODEL

FY ends on 31 Dec. (EGPmn)	2021a	2022a	2023e	2024e	2025e	2026e
Financial summary						
Revenues	**10,258**	**18,862**	**17,924**	**16,480**	**26,600**	**25,788**
Gross profit	5,693	9,998	6,396	3,998	8,979	8,736
EBITDA	**6,405**	**10,722**	**7,826**	**5,342**	**9,836**	**9,506**
Net income before tax	5,183	9,488	6,771	4,171	8,748	8,498
Net income after tax	**4,790**	**7,256**	**5,248**	**3,232**	**6,780**	**6,586**
Total assets	26,741	43,806	45,286	44,306	49,295	50,130
Total liability	**6,832**	**9,099**	**9,431**	**9,610**	**10,524**	**10,445**
Total equity	19,909	34,707	35,855	34,696	38,771	39,685
Total cash & equivalents	**4,236**	**9,940**	**13,128**	**13,913**	**18,981**	**21,504**
Total debt	2,595	134	134	134	134	134
Net (Cash) Debt	**(1,641)**	**(9,806)**	**(12,994)**	**(13,778)**	**(18,846)**	**(21,370)**
Invested capital (IC)	18,268	24,901	22,861	20,918	19,925	18,315
Capex	**91**	**120**	**90**	**82**	**133**	**129**
FCFF	4,865	7,418	5,875	4,134	6,940	7,084
Per-Share Data & Valuation Multiples						
Stock price (EGP)	**97.5**	**142.4**	**181.4**	**181.4**	**181.4**	**181.4**
# Shares (WA,in mn)	229	229	229	229	229	229
EPS (EGP)	**20.91**	**31.67**	**22.90**	**14.11**	**29.59**	**28.75**
DPS (EGP)	10.0	15.0	17.0	11.0	22.0	22.0
BVPS (EGP)	**86.89**	**151.48**	**156.49**	**151.43**	**169.22**	**173.21**
P/E	4.7x	4.5x	7.9x	12.9x	6.1x	6.3x
DY	**10%**	**11%**	**9%**	**6%**	**12%**	**12%**
P/BV	1.1x	0.9x	1.2x	1.2x	1.1x	1.0x
EV/Sales (x)	**2.0x**	**1.2x**	**1.6x**	**1.7x**	**0.9x**	**0.8x**
EV/EBITDA (x)	3.2x	2.1x	3.7x	5.2x	2.3x	2.1x
EV/IC (x)	**1.1x**	**0.9x**	**1.2x**	**1.3x**	**1.1x**	**1.1x**
Net debt (cash) to EBITDA	-0.3x	-0.9x	-1.7x	-2.6x	-1.9x	-2.2x
Margins & Profitability						
Gross margin	**56%**	**53%**	**36%**	**24%**	**34%**	**34%**
EBITDA margin	62%	57%	44%	32%	37%	37%
NPM	**47%**	**38%**	**29%**	**20%**	**25%**	**26%**
ROE	24%	21%	15%	9%	17%	17%
ROIC	**21%**	**40%**	**18%**	**12%**	**30%**	**30%**
Growth ratios						
Revenue Growth	40%	84%	-5%	-8%	61%	-3%
EBITDA Growth	**49%**	**67%**	**-27%**	**-32%**	**84%**	**-3%**
EPS Growth	93%	51%	-28%	-38%	110%	-3%
Consensus Estimates						
Consensus revenues (EGPmn)			**17,562**	**16,778**	**15,167**	**15,214**
Prime Research vs. Consensus			2.1%	-1.8%	75.4%	69.5%
Consensus net income (EGPmn)			**6,204**	**6,026**	**4,794**	**5,437**
Prime Research vs. Consensus			-15.4%	-46.4%	41.4%	21.1%
Fwd P/E (x), 12M - Price Target			**9.6x**	**15.6x**	**7.4x**	**7.7x**
Fwd EV/EBITDA (x), 12M - Price Target			4.8x	6.9x	3.2x	3.1x

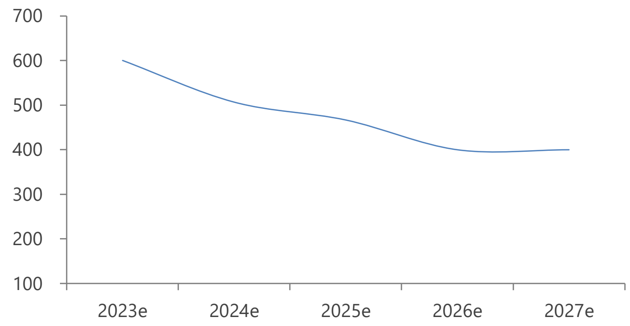
Source: Company reports, Prime Research.

Story in Charts

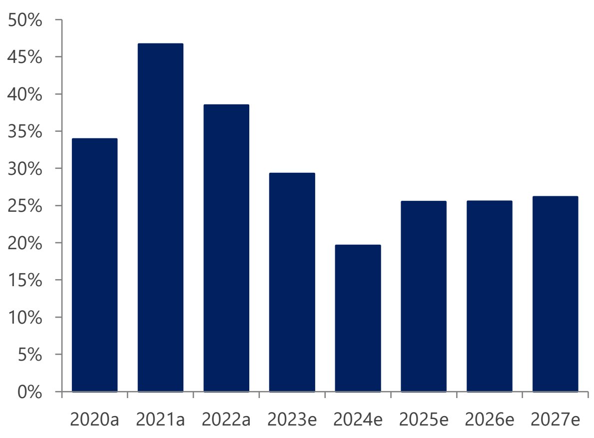
Urea export price (USD/ton)



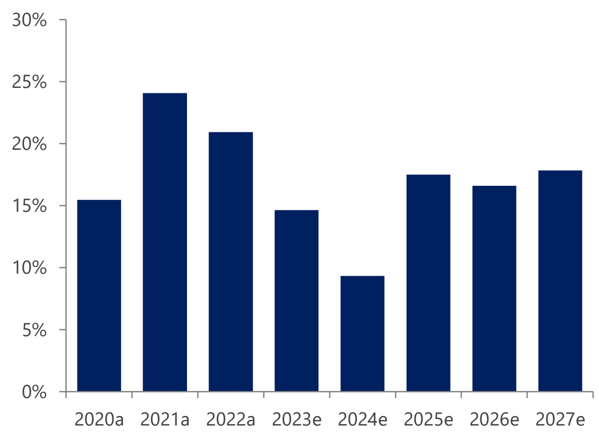
Ammonia price (USD/ton)



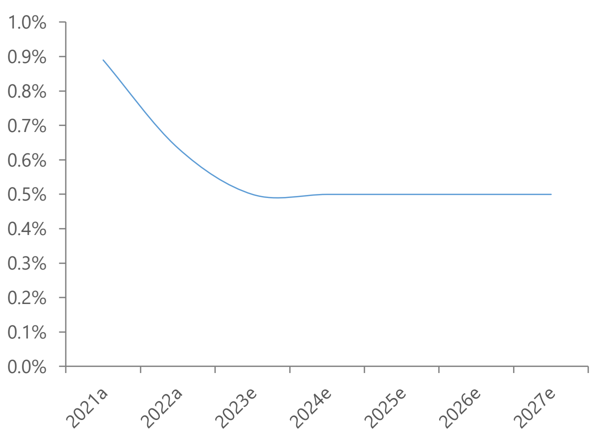
Net profit margin



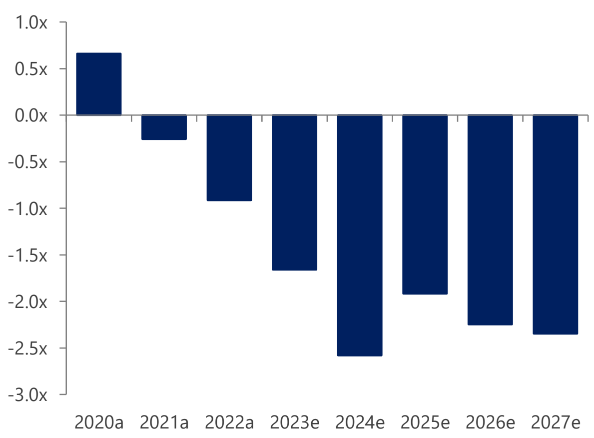
Return on equity



Capex as % of sales



Net debt (cash)/ EBITDA



Source: Company reports, Prime Research.

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