

Grass Is Green on Both Sides

NEW RESEARCH

EGYPT Fertilizers: Grass Is Green on Both Sides

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 2022/23e P/E and

EV/EBITDA of 9.6x and 4x, respectively.

For the **full report**, please [click here](#).

TODAY'S TOP NEWS & ANALYSIS

S&P downgrades outlook on three Egyptian banks to negative

Further deterioration in NFAs in March 2023

ADQ is to inject more investments in Egypt

Egypt's auto sales drop 74% in Q1 2023

SUGR Q1 2023 prelim.: Triple-digit growth in Q1 2023 net profits

GSSC 9M 2022/23 prelim.: 22% y/y in GSSC's net profits

MACRO

S&P downgrades outlook on three Egyptian banks to negative

Following downgrading the sovereign outlook of Egypt to negative, S&P global revised down its outlook on three Egyptian banks, namely **National Bank of Egypt**, **Banque Misr**, and Commercial International Bank [**COMI**], to negative from stable. ([S&P](#))

Further deterioration in NFAs in March 2023

Net Foreign Assets (NFAs) for the Egyptian banking system declined by USD1.47bn in March 2023, to reach negative USD24.46bn against negative USD23bn in February 2023. This makes the total decline in NFAs in Q1 2023 up to USD4.56bn. ([Economy Plus](#))

ADQ is to inject more investments in Egypt

According to the CEO's statement, ADQ is currently studying injecting more investments into Egypt in the upcoming period. ADQ previously acquired stakes in 5 main Egyptian companies, namely Abu Qir Fertilizers [**ABUK**], Misr Fertilizers Production Company (MOPCO) [**MFPC**], Commercial International Bank [**COMI**], Alexandria Container Handling Co. [**ALCN**], and Fawry for Banking Technology & Electronic Payments [**FWRY**] for USD1.8bn in April 2022. ([Asharq Business](#))

Egypt's auto sales drop 74% in Q1 2023

According to **Automotive Marketing Information Council (AMIC)**, Egypt's auto sales volumes declined to 18,085 vehicles in Q1 2023 (-74% y/y) as:

- Passenger car sales volume fell to 12,330 vehicles (-78% y/y).
- Truck sales volume fell to 3,542 vehicles (-66% y/y).
- Bus sales volume fell to 2,213 vehicles (-53% y/y). ([Al-Mal](#))

CORPORATE







SUGR Q1 2023 prelim.: Triple-digit growth in Q1 2023 net profits







Delta Sugar [**SUGR**] reported preliminary Q1 2023 net profits of EGP324mn vs. EGP77mn last year. Revenues came in at EGP773mn (+29% y/y, +22% q/q). In addition, the gross profit margin came in at 30% (+11pp y/y, +29pp q/q). ([Company disclosure](#))

GSSC 9M 2022/23 prelim.: 22% y/y in GSSC's net profits

General Co. for Silos & Storage [**GSSC**] reported net profits for 9M 2022/23 of EGP105mn (+22% y/y), on higher revenues of EGP737mn (+21% y/y). Gross profit margin came in at 27% (+2pp y/y). ([Company disclosure](#))

MARKETS PERFORMANCE

Current equity market cap (EGPbn)						1,139.5			
						daily chg.		ytd chg.	
	↘	EGX 30	17,667.74	(0.73%)	21.02%				
	↘	EGX 30 TR	7,352.14	(0.68%)	22.44%				
	↘	EGX 70 EWI	3,051.06	(0.78%)	8.89%				
	↘	EGX 100 EWI	4,631.84	(0.91%)	11.73%				
	↗	DFMGI	3,544.79	0.82%	6.26%				
	↗	ADSMI	9,789.17	0.39%	(4.13%)				
	↗	TASI	11,307.77	0.32%	7.91%				
	↗	QE Index	10,181.23	0.35%	(4.68%)				
	↗	S&P 500	4,169.48	0.83%	8.59%				
	↗	Dow 30	34,098.16	0.80%	2.87%				
	↗	NASDAQ	12,226.58	0.69%	16.82%				
	↘	VIX	15.78	(7.34%)	(27.18%)				
	↗	STOXX 50	4,359.31	0.03%	14.91%				
EM	↗	MSCI Emerging	977.05	0.50%	2.16%				
FM	↗	MSCI Frontier	484.01	0.49%	2.48%				

Equity turnover (EGPmn): Last, ytd avg.				2,902.3		2,039.3	
				daily chg.		ytd chg.	
	↗	Gold	1,990.00	0.11%	8.80%		
		↗	Silver	25.05	0.51%	4.73%	
	↘	Brent Oil	80.33	(0.77%)	(5.33%)		
	↘	WTI	76.78	(0.86%)	(5.09%)		
	↘	Natural Gas	2.41	(1.87%)	(47.15%)		
EGP	↗	USD/EGP	30.90	0.01%	(20.12%)		
€	↘	EUR/USD	1.10	(0.07%)	2.86%		
£	↘	GBP/USD	1.26	(0.03%)	3.97%		
¥	↘	USD/JPY	136.30	(1.71%)	(4.19%)		
	↗	6M TB yield	23.52	22	435		
	↗	1Y TB yield	23.52	5	462		
	↔	10Y TB yield	14.68	0	0		
	↗	2Y TB yield	4.01	6	(42)		
	↘	10Y TB yield	3.42	(3)	(45)		
	↘	30Y TB yield	3.67	(3)	(29)		

* As of market close, except for commodities and currencies at 8.15am CLT. Change in Treasuries is in basis points.

Source: Bloomberg, CBE.

KEY DATES

DATE	TICKER	TYPE	EVENT
1-May-23	CIRA	Conference Call	Discussing 2Q 2022/2023 financial results.
2-May-23	SPMD	Right Issue	First day of trading the rights issue.
2-May-23	UNIT	EGM	Discussing capital reduction & amending Articles No. 6 & 7 of the company's bylaws.
2-May-23	MNHD	EGM	Amending Articles No. 6 & 7 of the company's bylaws.
3-May-23	DAPH	OGM	Approving financial statements ending 31 Dec. 2022.
3-May-23	DAPH	EGM	Approving increasing the issued capital & amending Articles No. 6 & 7 of the company's bylaws.
3-May-23	JUFO	OGM	Approving financial statements ending 31 Dec. 2022 and the proposed dividends.
3-May-23		Egypt PMI	Announcing date of PMI.
6-May-23	MTIE	OGM	Approving financial statements ending 31 Dec. 2022 and the proposed dividends.
6-May-23	MTIE	EGM	Approving increasing the issued capital & amending Articles No. 3, 6, 7 & 21 of the company's bylaws.
8-May-23	OIH	OGM	Approving financial statements ending 31 Dec. 2022 and the proposed dividends.
9-May-23	DOMT	Cash dividend	Deadline for eligibility for a dividend of EGP0.50/Share.
9-May-23	MFPC	Cash dividend	Deadline for eligibility for a dividend of EGP15.00/Share.
10-May-23	MFPC	Cash dividend	Ex-dividend date for EGP15.00/Share.
10-May-23	DOMT	Cash dividend	Ex-dividend date for EGP0.50/Share.
10-May-23	ACAMD	OGM	A board reshuffle.
11-May-23	MOIL	EGM	Approving the acquisition offer from Al Gihaz Holding.
11-May-23	ASPI	OGM	Approving financial statements ending 31 Dec. 2022 and the proposed dividends.
11-May-23		MSCI	MSCI's May 2023 Semi-Annual Index Review Announcement.
13-May-23	HRHO	OGM	Approving financial statements ending 31 Dec. 2022 and the proposed dividends.
13-May-23	HRHO	EGM	Approving increasing the issued capital & amending Articles No. 6 & 7 of the company's bylaws.
13-May-23	AIH	OGM	Approving financial statements ending 31 Dec. 2022 and the proposed dividends.
14-May-23	SKPC	Cash dividend	Deadline for eligibility for a dividend of EGP0.90/Share.
14-May-23	MFPC	Cash dividend	Payment date for a dividend of EGP15.00/share.
14-May-23	DOMT	Cash dividend	Payment date for a dividend of EGP0.50/share.
14-May-23	ORWE	Cash dividend	Deadline for eligibility for a dividend of EGP0.60/Share.
15-May-23	ORWE	Cash dividend	Ex-dividend date for EGP0.60/Share.
17-May-23	ORWE	Cash dividend	Payment date for a dividend of EGP0.60/share.
17-May-23	SKPC	Cash dividend	Payment date for a dividend of EGP0.50/share (1st installment).
20-May-23	ESRS	OGM	Approving financial statements ending 31 Dec. 2022.
20-May-23	IRAX	OGM	Approving financial statements ending 31 Dec. 2022.
28-May-23	ASCM	OGM	Approving financial statements ending 31 Dec. 2022.

28-May-23 ASCM EGM Discussing the continuation of the company.

LATEST RESEARCH

DATE	PUBLISHED REPORT
30-Apr-23	<u>EGYPTFertilizers – Grass Is Green on Both Sides</u>
11-Apr-23	<u>Obour Land Food Industries [OLFI] – Resilience is Key</u>
9-Apr-23	<u>Orascom Construction [ORAS] – On Solid Foundations</u>
21-Mar-23	<u>STANDPoint Portfolio Update – Adding ALCN, ECAP, HRHO, and RACC</u>
16-Mar-23	<u>Al Ezz Ceramics & Porcelain (GEMMA) [ECAP] – A Hidden “GEMMA”</u>
8-Feb-23	<u>Alexandria Containers Handling [ALCN] – Breaking Higher Waves</u>
29-Jan-23	<u>STANDPoint – The Year of Adjustment; Our fundamental outlook for 2023</u>
18-Dec-22	<u>Elsewedy Electric [SWDY] – Turning Copper Into Gold</u>
5-Dec-22	<u>Commercial International Bank [COMI] – Still Spearheading</u>
28-Nov-22	<u>Abu Dhabi Islamic Bank - Egypt [ADIB] – Unmitigated Temerity</u>
20-Nov-22	<u>Alexandria Containers & Cargo Handling Co. [ALCN] – Gateway of the North</u>
14-Nov-22	<u>Obour Land for Food Industries [OLFI] – Wise and Clever</u>
13-Nov-22	<u>STANDPoint – Time to Catch Up; Updating our fundamental outlook</u>
3-Nov-22	<u>TAKEStock – Telecom Egypt [ETEL] – Life Above 40</u>
19-Oct-22	<u>Lecico Egypt [LCSW] – A Fragile Tile?</u>
27-Sep-22	<u>Commercial International Bank [COMI]: Commander-in-Chief</u>
24-Sep-22	<u>TAKEStock: The Egyptian Banking Industry - The RRR Effect</u>
21-Sep-22	<u>EGYPTBanks – The Causal Sequence</u>
24-Aug-22	<u>Arabian Food Industries (Domty) – Core Coverage Report</u>
22-Aug-22	<u>Credit Agricole Egypt [CIEB] – Core Coverage Update</u>
31-Jul-22	<u>Ghazl El-Mahalla Football Co. [GMFC] - IPO Update</u>
14-Jun-22	<u>Ghazl El-Mahalla Football Co. [GMFC] - In a League of Its Own</u>
8-Jun-22	<u>TAKEStock – Delta Sugar [SUGR] - Sweet and Sour</u>
7-Jun-22	<u>TAKEStock – Orascom Financial Holding [OFH] - Triple-Digit Upside</u>
25-May-22	<u>TAKEStock – The Egyptian Cement Industry - Gauging the Impact</u>
23-May-22	<u>Cairo for Investment & Real Estate Development [CIRA] – Head of the Class</u>
19-May-22	<u>MACROView – A New Game Plan</u>
17-May-22	<u>MACROView – All Uphill from Here</u>
15-May-22	<u>EGYPTBanks – Harness the Hike</u>
15-May-22	<u>TAKEStock – Hidden “valu”</u>

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