

Report Date: 24-Mar-25

# THE ARAB POTASH

ASE: APOT

Earnings: 31/12/2024

## RATING:



Initiated Coverage 11/03/2024

We recommend **Buying** APOT as it is considered **undervalued** at its current stock price. This assessment is grounded in our analysis of four critical factors influencing common stock performance: (1) relative valuation, (2) earnings strength, (3) financial stability, and (4) price movement.

## Target Price

**JD 32.27**

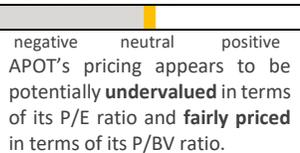
Previous Rating	52- Week Price Range	Market Capitalization	Dividend Yield	Last Dividend
1 2 3 4 5 <small>02/01/2025</small>	JD 22.50- JD 28.47	JD 2,515.4 M	4.31%	JD 1.3/share
<b>Founded:</b> 1956	<b>Shares Outstanding:</b> 83.3M	<b>Employees:</b> 1,704	<b>Volume(3m):</b> 1.94 K	<b>Ex-DIV Date:</b> Apr 30, 24
<b>P/BV:</b> 1.43x	<b>P/E:</b> 13.67x	<b>Volatility(annual):</b> 26.2%	<b>Public Float:</b> 3.3 M	<b>Sector:</b> Mining and Extraction Industries

The Arab Potash (“APOT” or the “Company”), established in 1956, with the Jordanian Government and private investors as its main shareholders, to produce potash, an essential source of potassium for agriculture. APOT operates through three key segments: potash and salt production, potassium nitrate and dicalcium phosphate manufacturing (via KEMAPCO), and mixed salts and mud production (managed by Numeira Mixed Salts and Mud Company). In 2024, the Company achieved a milestone with its largest shipment of red granular potash to Brazil, coinciding with the launch of experimental production at a new granular potash plant. This facility is set to increase annual production capacity from 500,000 to 1.2 million tons, reinforcing APOT’s position as the eighth-largest potash producer globally, with an annual output of 2.35 million tons. Over 90% of its production is exported to more than 30 countries across Africa, Asia, Europe, and the Middle East. APOT’s 2024 partnership with China’s State Development and Investment Corporation is expected to enhance production capacity and expand export opportunities. Given China’s strong demand for potash-based fertilizers, this collaboration could drive higher sales and profitability. The initiative reflects APOT’s strategic focus on expanding operations, improving efficiency, and strengthening its presence in key international markets.

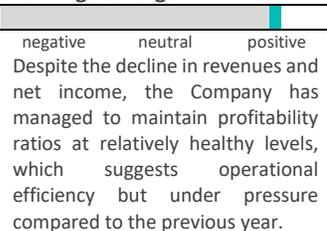
## Recommendation Summary

UFICO’s **BUY** recommendation on APOT is based on a systematic analysis of four key characteristics mentioned above. APOT’s stock demonstrates high net profit margins and displays a high ROE. Market participants are encouraged to diligently track upcoming quarterly results for further insights to facilitate well-informed decisions.

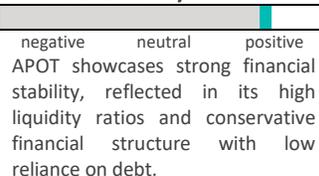
### Relative Valuation



### Earnings Strength



### Financial Stability



### Price Movement



## Major Risks & Rewards

- **Dividend Income:** APOT has a strong track record of consistently distributing dividends, making it an attractive stock for income-focused investors.
- **Portfolio Diversification:** Investing in mining companies such as APOT can provide diversification benefits to an investment portfolio. The mining industry often exhibits low correlation with other sectors, offering investors exposure to different market cycles and economic conditions.
- **Launch of New Strategy and Headquarters:** APOT unveiled its 2024-2028 strategic plan along with a new headquarters building. The strategy emphasizes expanding production capacity, venturing into high-value industries, and enhancing operational efficiency. This new focus, combined with the government’s support in attracting investments and facilitating expansion, is expected to strengthen APOT’s market position and boost its global competitiveness.
- **Long Term Growth:** as emerging economies experience urbanization, dietary shifts, and increased agricultural practices, APOT stands to capitalize on expanding market prospects which are driving the demand for potash and fertilizers.
- **Commodity Price Volatility:** the volatility of commodity prices, particularly potash being APOT’s primary product, directly affects the Company’s financial performance which is closely tied to fluctuations in potash prices.
- **Environmental and Regulatory Risks:** Mining activities face environmental and regulatory scrutiny concerning conservation, land use, waste management, water scarcity, and community relations. Regulatory changes may lead to penalties, legal disputes, and reputational damage if not complied with, posing risks to the Company. **Water Scarcity:** Securing the needed amounts of water for the production process given the rain shortage in Jordan poses a threat to the Company’s production. Although APOT found innovative

solutions to secure water to ensure the continuity of production process, it is not guaranteed in the near future that the Company will remain successful at finding alternatives.

- the Company's operations.
- **Electricity Prices:** APOT's mining operations require significant energy consumption, and high electricity prices can increase operating costs, thereby impacting profitability.
- **Liquidity Risks:** Due to the small free float and limited liquidity, investors may encounter challenges in buying or selling large volume of APOT shares without impacting the stock's price and may face higher transaction costs as a result.

**Peers Group Comparison**

Ticker	Peer Name	Country	Price	Mkt Cap*	EPS	P/E	P/BV	Yield	ROE%	NPM	Debt/Equity
APOT	Arab Potash Company	Jordan	JD 30.19	2,515	JD 2.21	13.67x	1.43x	4.31%	10.60%	28.24%	0.00%
JOPH	Jordan Phosphate Mines	Jordan	JD 15.70	3,886	JD 1.84	8.53x	2.33x	8.28%	27.21%	37.53%	1.86%
MOSC34	Mosaic Co BDR	Brazil	JD 3.28	6,255	JD 0.07	48.48x	0.77x	2.27%	1.50%	1.81%	31.00%
MOS	The Mosaic Company	USA	JD 19.73	6,253	JD 0.39	50.88x	0.77x	3.16%	1.50%	1.81%	31.00%
FERTIGLB	Fertiglobe	UAE	JD 0.40	3,281	JD 0.01	29.41x	3.79x	9.91%	12.54%	7.95%	114.04%
<b>Peer Weighted Average</b>						<b>38.17x</b>	<b>1.58x</b>	<b>5.91%</b>	<b>10.69%</b>	<b>44.48%</b>	
<b>Median</b>						<b>38.94x</b>	<b>1.55x</b>	<b>7.02%</b>		<b>31.00%</b>	
<b>Sector Averages (MSCI Emerging Markets Index)</b>						<b>15.43x</b>	<b>1.80x</b>				

\* In JD million

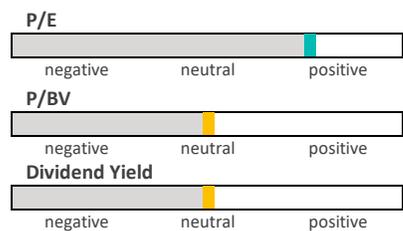
**Past Performance**

	2020	2021	2022	2023	2024
Net Profit Margin	27.8%	33.4%	47.4%	36.9%	28.24%
Dividend/Share (JD)	1.0	1.2	1.8	1.3	<b>Not Announced</b>
Earnings/Share (JD)	1.52	2.60	7.22	3.51	2.21
Return on Equity	13.9%	21.7%	45.5%	17.8%	10.6%

**Relative Valuation: NEUTRAL**

Last Price	Market Cap	EPS	P/E	BV/Share	P/B	DPS	Div. Yield
23/3/2025	23/3/2025	31/12/2024	(Current)	(MRQ)	(MRQ)	(2023)	(TTM)
JD 30.19	JD 2,515 M	JD 2.45	13.67x	JD 21.1	1.43x	JD 1.30	4.31%

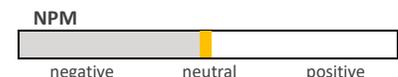
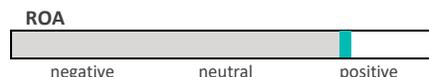
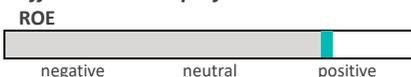
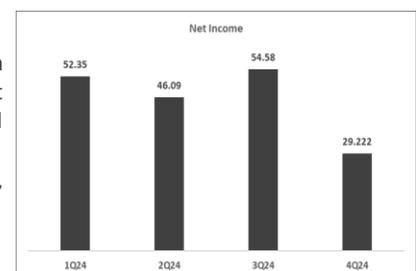
- **P/E vs Industry:** suggests that APOT is potentially undervalued compared to the weighted average P/E of its peers and the emerging markets sector averages.
- **P/BV vs. Industry:** suggests that APOT is fairly priced compared to its industry peers but undervalued when compared to the emerging markets sector average.
- **Dividend Yield:** The Company's dividend yield is below the market average but APOT consistently distributes dividends. Dividends for 2024 have not been announced yet.


**Earning Strength: POSITIVE**

FY24 Results	Revenues (YoY)	Net Income (YoY)	NPM	ROE	ROA
(TTM)	JD 651.4 M (-17.8%)	JD 182.2 M (-36.9%)	28.3%	10.6%	9.2%

- **Return on Equity** indicates favorable profitability for shareholders. Despite the decline in revenues and net income, the Company has managed to maintain profitability ratios at relatively healthy levels, which suggests operational efficiency but under pressure compared to the previous year.
- **Return on Assets:** is also viewed as strong and indicative of a healthy performance, demonstrating the Company's efficiency in generating profits relative to its total assets.
- **Net Profit Margin:** is the lowest achieved in the past three years.

*It is worth noting that the potash industry faced notable challenges in 2024, including price declines, supply adjustments, operational disruptions, and geopolitical instability, which directly affected APOT's performance.*


**Operations Indicators: POSITIVE**

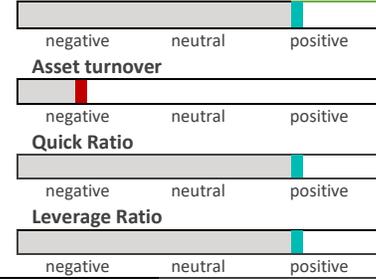
3Q24 Results	Current Ratio	Asset Turnover	Quick Ratio	Leverage Ratio
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Current Ratio

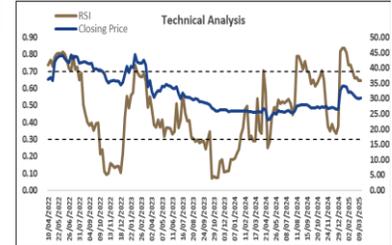
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(MRQ)	4.92x	0.10x	4.80x	113%
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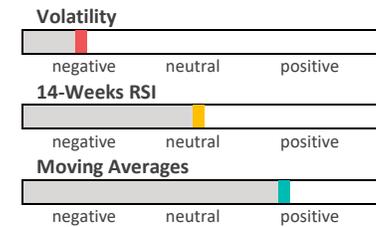
- **Current Ratio** indicates that the Company has a strong ability to cover its short-term liabilities with its current assets, indicating strong liquidity.
- **Asset turnover:** is very low and could imply over-investment in assets.
- **Quick Ratio:** of 4.80 further supports the Company's strong liquidity.
- **Leverage Ratio:** 1.13x suggests that the Company has a conservative financial structure with minimal reliance on debt.


**Price Movement: NEUTRAL**
**Stock Price up 17.92% over the past year**
**Annual Volatility: +/- 26.2%**      **14-Weeks RSI: 52.44**      **200-Day MA: 27.99**

- **Volatility** of 26.2% suggests that APOT's stock price has exhibited high fluctuations, indicating a higher level of risk.
- **14-Weeks RSI:** is 52.44, observed over a 14-week period, an RSI exceeding 70 signifies overbought conditions, while a value below 30 suggests oversold conditions.
- **200-Day Moving Averages:** The stock is trading above the 200-Day MA indicating a **Buy** signal, as crossing above the 200-Day MA is often seen as a technical indicator of a potential uptrend in the stock price.



APOT's stock rallied by approximately 38% at the beginning of the year, reaching a high of JD 36, driven by positive news flow and upbeat sentiment around future projects. This rally was followed by a price correction, with the stock entering a gradual downward trend aimed at closing the technical gap created during the initial surge. The stock is currently trading near a psychological support level of JD 30. Should this level fail to hold, the next key support is seen at JD 28.5. From a technical standpoint, the stock appears to have entered a consolidation phase, and current levels may present an attractive entry point for long-term investors.



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1	2	3	4	5	Strong Buy	Significantly Satisfactory
1	2	3	4	5	Buy	Satisfactory
1	2	3	4	5	Hold	Average
1	2	3	4	5	Sell	Unsatisfactory
1	2	3	4	5	Strong Sell	Significantly Unsatisfactory

**Relative Valuation:** Relative valuation is a weighted combination of factors that measure a company's current stock price valuation vs industry. These include the company's price-to-earnings vs. industry, and its price-to-book vs. industry. UFICO also measures the rank of a company's dividend yield among dividend payers on the Amman Stock Exchange. A stock may stay undervalued or overvalued for a long period of time. For this reason, it is important to combine dividend yield rank factor with shorter-term predictive factors such as earnings momentum or price momentum to identify more imminent valuation adjustments. In addition, UFICO also measure a company's dividend payments growth over the past 10 years and the degree its dividend payments are covered by earnings.

**Earnings Strength:** Over 20 years of research have shown that the change in the growth of earnings per share is an important factor that drives stock price performance. UFICO measures earnings momentum to get an early indication of changing earnings patterns. Earnings strength is a weighted combination of factors that measure a company's earnings growth performance. These include the company's 5-year average earnings growth rate, its 1-year earnings growth rate vs its 5-year average earnings growth rate, its 1-year earnings growth rate vs. industry, its relative strength of ROE, and its y-o-y profit margin growth rate.

**Financial Stability:** Financial stability is a weighted combination of factors that measure a company's ability to pay its debts in the short and long terms. UFICO looks for a company's capital structure where its total liabilities do not exceed 40% of its equity. For a company's solvency strength, we look for an interest coverage of at least 3x, indicating a company's ability to cover its interest payments through its operating income, and a debt coverage of at least 200%, indicating a company's ability to cover its loans and interest payments through its operating income. For liquidity strength, we look for a company's current ratio of at least 1.25x, indicating current liabilities are sufficiently covered by current assets. Companies in the banking sector are analyzed using assets/equity ratio, loans/deposits ratio, loans/assets ratio, and level of bad loans. For assets/equity ratio, we look for a ratio below 10x, indicating adequate reliance on debt to fund the bank's operations. For loans/deposits ratio, we look for a ratio below 125%, indicating high liquidity and low exposure risk to cover unexpected funding requirements. For loans/asset ratio, we look for a ratio below 110%, indicating high liquidity and low exposure risk to defaults. For the level of bad loans, we look for a ratio below 5.00%, indicating lower provisions are required and, hence, increases bank profitability.

**Recent Price Movement:** Historical price action of a company's stock is an especially helpful measure used to identify intermediate and short term performance potential. Long term historical performance is a good predictor of future price performance, but much more importantly, large price movements over the intermediate and short term tend to reverse themselves. UFICO's price momentum measure integrates historical long, intermediate and short term price changes, creating ratings that are highest for stocks with strong twelve-month price performance that have had a price consolidation in the past quarter and month. Price movement is an evaluation based on a company's relative share price strength in the past 1-quarter, 14-day and 1-year period. In UFICO's analysis, positive price strength in the past 200-day period is a favorable indication of near-term price gain. Conversely, positive price changes in the past quarter or 14-day period can indicate a short-term overbought condition resulting in negative near-term price change.

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