

Agthia Group PJSC

Healthy volume & pricing growth boosted profitability

1Q23 Net Profit higher than our estimate

Agthia Group's (AGTHIA/the Company) net profit rose 5.6% YOY to AED 87 Mn in 1Q23, higher than our estimate of AED 76 Mn. The increase in net profit was mainly driven by the acquisition of Abu Auf in Snacking segment, Water & Food Segment partially offset by a decline in contribution from Protein & Frozen and Agribusiness and higher finance costs.

P&L highlights

Agthia's revenue rose 12.3% YOY to AED 1,182 Mn in 1Q23 attributable to a 6% YOY growth in pricing and 6% YOY growth in volumes. The Company's like-for-like (LFL) growth including Abu Auf stood at 4.5% YOY in 1Q23 impacted due to currency devaluation in Egypt. LFL growth excluding the Egyptian Pound (EGP) devaluation stood at 20.3% YOY in 1Q23. Revenue from the Protein and Frozen segment declined 14.5% YOY to AED 253 Mn in 1Q23 due to the devaluation of EGP. Excluding the currency impact from Egypt, the revenue grew 24% YOY in 1Q23 driven by a strong sales growth in frozen vegetables/tomato paste sales value in Egypt and robust volume growth in Jordan. Snacking business revenue rose significantly 49.9% YOY to AED 380 Mn in 1Q23 owing to the robust performance of the dates business and the new premium Crown date launch supported by attractive packaging and innovation. The Company's snacking business witnessed 16% YOY pricing growth and 34% YOY volume growth in 1Q23. Water and food business revenue grew 5.9% YOY to AED 252 Mn in 1Q23 driven by strong growth across KSA and Kuwait partially offset by a decline in volume across in UAE due to Ramadan. Thus, total Consumer Business revenue grew 12.4% YOY to AED 885 Mn in 1Q23. Similarly, the agriculture business revenue grew 11.8% YOY to AED 298 Mn in 1Q23 due to strong volume and value growth in Flour and strong pricing in Feed. Agthia's cost of sales rose 13.4% YOY to AED 845 Mn in 1Q23 due to higher commodity price inflation. Thus, gross profit increased 9.5% YOY to AED 337 Mn in 1Q23 with a gross margin of 28.5% in 1Q23 as compared to 29.3% in 1Q22. Selling and distribution expenses rose 4.1% YOY to AED 134 Mn in 1Q23. Similarly, G&A expenses increased 6.2% YOY to AED 86 Mn in 1Q23. On the other hand, other income almost doubled from AED 6 Mn in 1Q22 to AED 12 Mn in 1Q23. As a result, operating profit rose 25.2% YOY to AED 129 Mn in 1Q23. EBITDA rose 18.9% YOY to AED 188 Mn in 1Q23 while EBITDA margin grew 89 bps YOY to 15.9% in 1Q23. EBITDA margin expanded in the Consumer Business due to expansion in margin across Protein, Snacking, and Water & Food Segment partially offset by a decline across agri segment. Furthermore, finance income grew 90.5% YOY to AED 10 Mn in 1Q23 while finance expenses more than doubled to AED 31 Mn in 1Q23. In addition, income tax and zakat expenses grew 40.7% YOY to AED 11 Mn in 1Q22 whereas the share of profit attributable to NCI stood at AED 10 Mn in 1Q23.

Balance Sheet highlights

Agthia's total debt declined from AED 2.4 Bn in 4Q22 to AED 1.9 Bn in 1Q23. The company repaid AED 257 Mn of debt in 1Q23. The Company's net debt to EBITDA ratio stood at 1.9x in 1Q22 as compared to 2.3x in 4Q22. Net cash generated from operating activities stood at AED 211 Mn in 1Q23 up from AED 120 Mn in 1Q22.

Rating : BUY

First Look Note – 1Q23

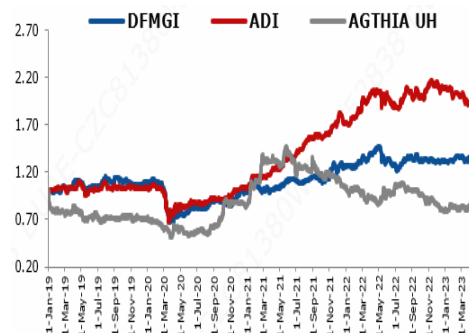
Sector: Consumer Goods

Recommendation

Current Price (12-May-23)	4.81
Target Price (AED)	6.00
Upside/Downside (%)	+25%

Stock Information

Market Cap (mm)	3,807.49
Paid Up Capital (mm)	791.58
52 Week High	5.48
52 Week Low	3.87
3M Avg. daily value (AED)	2,303,323



Financial Ratios

Dividend Yield (12m)	3.43
Dividend Pay-out (%)	52.92
Price-Earnings Ratio (x)	15.15
Price-to-Book Ratio (x)	1.33
Book Value (AED)	3.63
Return-on Equity (%)	8.83
Earning Per Share (AED)	0.32
Beta	0.58

Stock Performance

5 Days	-0.21%
1 Months	8.58%
3 Months	20.85%
6 Months	7.37%
1 Year	5.02%
Month to Date (MTD)	4.11%
Quarter to Date (QTD)	16.75%
Year to Date (YTD)	20.85%

Target price and rating

We maintain our BUY rating on Agthia Group with an unchanged target price of AED 6.00. The Company recorded healthy growth in net profit driven by growth in volume as well as pricing. The strategic acquisition of Abu Auf positively impacted the Company's financials in 1Q23. Agthia witnessed an LFL revenue growth of 4.5% YOY in 1Q23 including revenue from Abu Auf whereas, the LFL growth excluding currency devaluation stood at 23% in 2023. The Company achieved a strong EBITDA growth of 18.9% YOY in 1Q23 owing to strong pricing, favorable channel mix, and continuous cost discipline partially offset by higher raw material cost. EBITDA margin expanded 89 bps YOY to 15.9% in 1Q23 driven by a growth in profit across Snacking and Water profitability segment coupled with economies of scale in the distribution and production in addition to cost discipline. The margins will be further supported by Abu Auf group recently launched Date Crown ad BMB ranges in Egypt and further aims to increase exports of its premium branded coffee and nut products. The management expects the Company's revenue to grow 10% to 12% YOY in 2023 along with 40 to 60 bps growth in EBITDA margin in 2023. The Company is investing in a Protein expansion plant in KSA incurring AED 64 Mn in capex which will have a capacity of 6,500 to 8,700 tons per annum to strengthen its presence in KSA. The Company plans to take advantage of the low-cost manufacturing capacity in Egypt to increase international and regional exports. The company plans to emerge as a leading F&B company in the MENAP region by 2025 undertaking strong innovative products and packaging. The Company also maintained a strong financial position with cash and cash equivalent of AED 674 Mn in 1Q23, repaid a debt of AED 257 Mn in 1Q23 and distributed a total dividend of AED 0.165 per share for the year 2022. Thus, considering the abovementioned factors, we maintain our BUY rating on the stock.

Agthia - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE(X)	13.7	21.0	83.7	16.8	15.4	14.2
PB(X)	1.5	1.5	1.5	1.4	1.4	1.3
EV/EBITDA	9.0	10.6	15.9	10.9	9.3	8.0
Dividend yield	3.1%	3.1%	3.4%	3.4%	3.4%	3.4%

FABS Estimates & Co Data

Agthia - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	1,053	1,118	1,182	1,169	1.1%	12.3%	5.7%	4,067	4,516	11.0%
Cost of sale	-745	-804	-845	-841	0.4%	13.4%	5.1%	-2,910	-3,203	10.1%
Gross profit	308	314	337	328	2.8%	9.5%	7.4%	1,158	1,312	13.4%
S&D expense	-129	-122	-134	-126	6.0%	4.1%	9.5%	-508	-555	9.3%
G&A expense	-81	-96	-86	-95	-9.3%	6.2%	-9.9%	-346	-375	8.4%
R&D costs	-3	-2	-2	-2	-11.9%	-18.2%	-10.9%	-9	-11	16.6%
Share of loss from Invt	1	1	2	0	NM	53.9%	42.2%	3	1	-67.4%
Other (exp) / income	6	20	12	15	-17.1%	96.2%	-38.7%	52	59	12.4%
EBITDA	158	178	188	179	5.3%	18.9%	5.6%	581	670	15.3%
Operating profit	103	115	129	119	8.4%	25.2%	12.2%	350	431	23.2%
Finance income	5	9	10	7	53.9%	90.5%	11.5%	27	26	-5.2%
Finance expense	-10	-27	-31	-31	1.9%	220.8%	17.8%	-76	-124	62.9%
Profit before tax and zakat	98	97	107	94	13.6%	9.2%	10.7%	301	333	10.6%
Income tax	-8	-6	-11	-10	10.0%	40.7%	69.5%	-29	-32	10.1%
Profit of the year	91	91	97	85	14.0%	6.5%	6.6%	273	302	10.6%
Non-controlling interest	-9	-2	-10	-9	9.5%	15.1%	NM	-26	-33	28.6%
Profit attributable	82	89	87	76	14.6%	5.6%	-2.2%	247	268	8.7%

FABS Estimates & Co Data

Agthia - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	29.3%	28.1%	28.5%	-73	43	28.5%	29.1%	60
Operating profit	9.8%	10.3%	10.9%	113	63	8.6%	9.5%	94
EBITDA	15.0%	15.9%	15.9%	89	-3	14.3%	14.8%	55
Net Profit	7.8%	7.9%	7.3%	-46	-60	6.1%	5.9%	-12

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Agthia. We have assigned 70% weight to DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF	6.49	70.0%	4.54
Relative	4.88	30.0%	1.46

Weighted Average Valuation (AED)	6.00
Current market price (AED)	4.81
Upside/Downside (%)	24.7%

1) DCF Method:

Agthia is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.1%. It is arrived after using cost of equity of 9.2% and after tax cost of debt of 5.9% with debt to equity ratio of 49.1%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.05 and equity risk premium of 4.7%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 5.9% after adjusting a tax rate of 9.5%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,666
Terminal value (AED, Mn)	5,131

FV to Common shareholders (AED, Mn)	5,136
No. of share (Mn)	792
Current Market Price (AED)	4.81
Fair Value per share (AED)	6.49

DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBIT	390	444	563	642	761
D&A	239	235	233	238	253
Change in working capital	-127	-128	-181	-151	-215
(-) CAPEX	-135	-152	-176	-262	-339
Free Cash Flow to Firm	366	399	439	467	460
Discounting Factor	0.92	0.85	0.78	0.73	0.67
Discounted FCFF	336	338	344	339	308

2) Relative Valuation:

We have used local as well as international peers to value Agthia and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 8.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Juhayna Food Industries SAE	266	4.06	3.71	10.30	8.56
Suntory Beverage & Food Ltd	10,522	6.15	5.55	17.80	16.60
Hormel Foods Corporation	26,846	17.30	16.90	24.60	23.70
Saudi Dairy & Foodstuff Co	1,848	11.50	10.10	18.80	16.40
Almarai	14,850	14.30	13.10	27.30	23.70
Bunge Ltd	15,157	6.61	7.53	8.06	0.00
Tate & Lyle PLC	3,586	9.35	8.69	14.60	13.50
Kewpie Corporation	2,535	7.13	6.65	20.10	18.20
Average		10.7	9.8	19.4	16.3
Median		8.2	8.7	18.8	16.6
Max		14.3	13.1	24.6	23.7
Min		6.6	6.7	14.6	13.5

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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