

## Agthia Group PJSC

Volume and pricing growth supported net profit

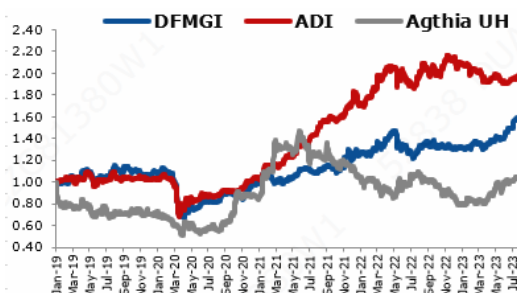
**Current Price**  
AED 5.11

**Target Price**  
AED 6.00

**Upside/Downside (%)**  
+17.4%

**Rating**  
BUY

- Agthia's revenue grew 10.3% YOY in 1H2023, driven by 3.6% YOY in pricing and a 6.7% increase in volume.
- Agthia's revenue grew 20.2% YOY, excluding EGP devaluation, while LFL revenue rose 3.1% YOY during 1H23.
- The Company maintained its full-year revenue and margin guidance
- Further strengthened its export-focused resources in Egypt with strong growth in export revenue of 18.2% YOY in AED currency.
- EBITDA margin expanded 98 bps YOY to 14.5% in 1H2023 due to strict cost discipline.
- Agthia launched 'Agthia Ventures', a Corporate Venture Capital Fund to enhance its innovative capabilities to drive profitable growth in new and existing markets.



### 2Q23 Net Profit lower than our estimate

Agthia Group's (AGTHIA/the Company) net profit grew 8.5% YOY to AED 38 Mn in 2Q23, lower than our estimate of AED 52 Mn. The increase in net profit is mainly driven by healthy growth in revenue driven by the Abu Auf acquisition in the snacking segment, Water & Food, and Agri Segment partially offset by currency devaluation and an increase in finance cost.

### P&L Highlights

Agthia's revenue grew 8.1% YOY to AED 1,019 Mn in 2Q23 due to healthy growth in volume and pricing. It recorded like-for-like (LFL) growth of 1.5% YOY in 2Q23. Revenue from the Protein and Frozen segment declined 11.6% YOY to AED 246 Mn in 2Q23 mainly due to currency devaluation. Protein segment revenue rose 19.2% YOY due to the currency devaluation impact. Healthy price and favorable mix along with solid frozen vegetable sales resulted in 39.5% YOY growth in revenue in Egypt during 2Q23 whereas a strong rise in retail exports in Jordan was partially offset by lower food service volumes in Saudi owing to high duty and competition. Snacking business revenue rose 36.5% YOY to AED 221 Mn in 2Q23 driven by strong volume and value growth in dates coupled with innovation in product and packaging. Likewise, BMB and Abu Auf collectively contributed AED 269 Mn during 1H23. Water and food business revenue rose 6.9% YOY to AED 253 Mn in 2Q23 attributable to healthy performance across international channels and declined in UAE due to EID holidays. Consumer business revenue expanded 6.7% YOY to AED 720 Mn in 2Q23. Agri-business revenue rose 11.8% YOY to AED 299 Mn in 2Q23 primarily attributable to strong volume growth and improvement in product quality of flour and robust price for feed. Furthermore, Agthia's gross profit rose 7.3% YOY to AED 287 Mn in 2Q23. The Company's selling and distribution expenses declined 2.7% YOY to AED 126 Mn in 2Q23 while

### Stock Information

Market Cap (AED, mm)	4,044.96
Paid Up Capital (mm)	791.58
52 Week High	5.31
52 Week Low	3.87
3M Avg. daily value (AED)	2,410,889

### 2Q23 Result Review (AED, mm)

Total Assets	6,163
Total Liabilities	3,034
Total Equity	2,849
EBITDA	131
Net Profit	38

### Financial Ratios

Dividend Yield (12m)	3.23
Dividend Pay-out (%)	52.92
Price-Earnings Ratio(x)	15.95
Price-to-Book Ratio (x)	1.42
Book Value (AED)	3.60
Return-on Equity (%)	8.99

### Stock Performance

5 Days	0.20%
1 Months	-0.78%
3 Months	11.09%
6 Months	27.75%
1 Year	1.59%
Month to Date (MTD%)	-3.58%
Quarter to Date (QTD%)	3.02%
Year to Date (YTD%)	28.39%

G&A expenses increased marginally 1.6% YOY to AED 87 Mn in 2Q23. As a result, total operating profit increased 29.1% YOY to AED 79 Mn in 2Q23. The Company's total EBITDA rose 11.8% YOY to AED 131 Mn in 2Q23 while EBITDA margin rose 42 bps YOY to 12.8% in 2Q23. Protein and frozen business EBITDA declined 12.8% YOY to AED 35 Mn in 2Q23 mainly due to significant input cost inflation and currency devaluation. Water and food business EBITDA remained unchanged at AED 40 Mn in 2Q23 as compared to 2Q22 driven by channel optimization and SKU rationalization. Agriculture business EBITDA rose 14.8% YOY to AED 51 Mn in 2Q23 despite commodity price inflation. Furthermore, the Company's finance income declined 32.7% YOY to AED 4 Mn in 2Q23 while finance expense increased significantly from AED 16 Mn in 2Q22 to AED 27 Mn in 2Q23. Additionally, income tax and zakat expense increased 21.1% YOY to AED 8 Mn in 2Q23, while the share of profit attributable to non-controlling interest holders grew 5.7% YOY to AED 9 Mn in 2Q23.

### Balance Sheet Highlights

Agthia's total debt declined for the second consecutive quarter to AED 1.8 Bn in 2Q23 as compared to AED 1.9 Bn in 1Q23. The Company's net debt to EBITDA ratio stood unchanged at 1.9x in 2Q23 as compared to 1Q23. Net cash generated from operating activities stood at AED 133 Mn in 2Q23 down from AED 211 Mn in 1Q23.

### Target Price and Rating

We maintain our BUY rating on Agthia Group with an unchanged target price of AED 6.00. Agthia recorded a strong growth in revenue during 1H23 driven by 6.7% growth in volume and 3.6% growth in pricing. Excluding currency devaluation, the Company's revenue grew 20.2% YOY while LFL growth stood at 3.1% YOY during 1H23. Innovation in product and improved packaging positively benefited the snacking business in 2Q23 resulting in increased sales volume. The Company's profitability rose in 2Q23 despite incurring high input cost inflation and currency devaluation. The strategic acquisition of Abu Auf contributed AED 138 Mn to inorganic growth during 1H23. EBITDA rose 12.0% YOY to AED 131 Mn in 2Q23 whereas the EBITDA margin improved 44 bps YOY to 12.9% due to strong pricing, favorable channel mix, channel optimization, and SKU rationalization. The Company is investing AED 84 Mn for Phase 1 of the Protein expansion plant in KSA which will have a capacity of 6,500 to 8,700 tonnes per annum along with 50 SKUs. The project is expected to start its operations by 1Q24 strengthening Agthia's footprint in KSA. Additionally, Agthia is strengthening its position in new markets like Jordan, Kuwait, and Bahrain with the help of new food services volume whereas Auf started selling dates through its domestic channels in Egypt. Agthia launched its first locally-produced 100% rPET water bottle whereas its new innovative packing supported snacking volume growth in 1H23. The Company also launched Agthia Ventures, a Corporate Venture Capital Fund to enhance its innovative capabilities and offer additional avenues for profitable growth. Agthia's continuous efforts to diversify its revenue source will benefit in the long run ensuring strong cash flows. The Company recommended distributing a dividend of AED 0.0825 per share subject to shareholders' approval for the period 1H23. Thus, based on our analysis, we maintain our BUY rating on the stock.

### Agthia - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	14.6	22.4	88.9	17.9	16.4	15.1
PB	1.6	1.6	1.6	1.5	1.4	1.4
EV/EBITDA	9.5	11.3	17.0	11.4	9.7	8.3
Dividend yield	2.9%	2.9%	3.2%	3.2%	3.2%	3.2%

FABS Estimates & Co Data

**Agthia – P&L**

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	942	1,182	1,019	1,024	-0.5%	8.1%	-13.8%	4,067	4,516	11.0%
Cost of sale	-676	-845	-732	-727	0.7%	8.4%	-13.3%	-2,910	-3,203	10.1%
<b>Gross profit</b>	<b>267</b>	<b>337</b>	<b>287</b>	<b>297</b>	<b>-3.5%</b>	<b>7.3%</b>	<b>-15.1%</b>	<b>1,158</b>	<b>1,312</b>	<b>13.4%</b>
S&D expense	-130	-134	-126	-127	-0.6%	-2.7%	-5.7%	-508	-555	9.3%
G&A expense	-85	-86	-87	-86	1.0%	1.6%	0.5%	-346	-375	8.4%
Research & development costs	-2	-2	-2	-2	1.7%	NM	NM	-9	-11	18.3%
Share of loss from invt	0	2	1	2	-6.9%	NM	-6.9%	3	1	-67.4%
Other (expenses) / income	12	12	6	10	-40.4%	-47.7%	-49.9%	52	59	12.4%
<b>EBITDA</b>	<b>117</b>	<b>188</b>	<b>131</b>	<b>164</b>	<b>-20.2%</b>	<b>11.8%</b>	<b>-30.4%</b>	<b>581</b>	<b>670</b>	<b>15.3%</b>
<b>Operating profit</b>	<b>61</b>	<b>129</b>	<b>79</b>	<b>94</b>	<b>-15.8%</b>	<b>29.1%</b>	<b>-38.7%</b>	<b>350</b>	<b>431</b>	<b>23.1%</b>
Finance income	6	10	4	6	-37.3%	-32.7%	-62.4%	27	26	-5.2%
Finance expense	-16	-31	-27	-31	-12.7%	69.2%	-14.3%	-76	-124	62.9%
<b>Profit before tax and zakat</b>	<b>51</b>	<b>107</b>	<b>56</b>	<b>69</b>	<b>-19.1%</b>	<b>9.7%</b>	<b>-48.1%</b>	<b>301</b>	<b>333</b>	<b>10.5%</b>
Income tax and zakat	-7	-11	-8	-6	37.1%	21.1%	-22.2%	-29	-32	10.1%
<b>Profit of the year</b>	<b>44</b>	<b>97</b>	<b>47</b>	<b>63</b>	<b>-24.5%</b>	<b>8.0%</b>	<b>-51.0%</b>	<b>273</b>	<b>301</b>	<b>10.6%</b>
Non-controlling interest	-9	-10	-9	-10	-12.7%	5.7%	-8.2%	-26	-33	28.5%
<b>Net Profit</b>	<b>35</b>	<b>87</b>	<b>38</b>	<b>52</b>	<b>-26.8%</b>	<b>8.5%</b>	<b>-55.8%</b>	<b>247</b>	<b>268</b>	<b>8.7%</b>

*FABS estimate & Co Data*
**Agthia - Margins**

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	28.3%	28.5%	28.1%	-20	-43	28.5%	29.1%	60
EBITDA margin	6.5%	10.9%	7.7%	126	-315	8.6%	9.5%	94
Operating margin	12.4%	15.9%	12.8%	42	-306	14.3%	14.8%	55
Net profit margin	3.8%	7.3%	3.8%	1	-358	6.1%	5.9%	-13

*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 Method	6.22	70.0%	4.35
Relative Valuation (RV)	5.49	30.0%	1.65
<b>Weighted Average Valuation (AED)</b>			<b>6.00</b>
Current market price (AED)			5.11
Upside/Downside (%)			+17.4%

### 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 8.2%. It is arrived after using cost of equity of 9.2% and after tax cost of debt of 6.0% with debt to equity ratio of 45.2%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.05 and equity risk premium of 4.5%. 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 6.6% after adjusting a tax rate of 9.5%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,649
Terminal value (AED, Mn)	4,952
<b>FV to Common shareholders (AED, Mn)</b>	<b>4,922</b>
No. of share (Mn)	792
Current Market Price (AED)	5.11
<b>Fair Value per share (AED)</b>	<b>6.22</b>

### DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	390	444	563	651	791
D&A	239	235	233	239	254
Change in working capital	-127	-128	-181	-167	-245
(-) Capex	-135	-152	-176	-265	-349
<b>Free Cash Flow to Firm (FCFF)</b>	<b>366</b>	<b>399</b>	<b>439</b>	<b>457</b>	<b>450</b>
Discounting Factor	0.92	0.85	0.78	0.72	0.68
<b>Discounted FCFF</b>	<b>336</b>	<b>338</b>	<b>334</b>	<b>331</b>	<b>301</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used Regional and international peers to value Agthia, which is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 9.0x in-line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Juhayna Food Industries SAE	433	6.69	5.38	11.90	9.63
Suntory Beverage & Food Ltd	9,196	6.36	5.40	17.50	15.90
Hormel Foods Corporation	21,982	15.60	14.50	23.20	21.50
Saudia Dairy & Foodstuff Co	2,887	17.80	15.20	24.10	21.90
Almarai	17,688	14.80	14.10	29.90	27.20
Bunge Ltd	16,812	6.45	6.99	8.32	9.22
Tate & Lyle PLC	3,624	8.89	8.21	13.60	12.70
Kewpie Corporation	2,292	9.09	6.82	34.90	20.70
Anjoy Foods Group	5,765	16.00	12.90	28.10	22.50
<b>Average</b>		<b>11.3x</b>	<b>9.9x</b>	<b>21.3x</b>	<b>17.9x</b>
<b>Median</b>		<b>9.0x</b>	<b>8.2x</b>	<b>23.2x</b>	<b>20.7x</b>
<b>Max</b>		<b>15.6x</b>	<b>14.1x</b>	<b>28.1x</b>	<b>21.9x</b>
<b>Min</b>		<b>6.7x</b>	<b>6.8x</b>	<b>13.6x</b>	<b>12.7x</b>

Source: FAB Securities

## 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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