

Agthia Group PJSC

High input price pressurized profitability

4Q22 Net Profit higher than our estimate

Agthia Group (AGTHIA/the Company) net profit declined 21.2% YOY to AED 89 Mn in 4Q22, missing our estimate of AED 78 Mn. The decrease in net profit was primarily due to an increase in direct cost due to impact of inflation, rise in G&A expenses and higher finance cost partially offset by an increase in net revenues.

P&L highlights

Net revenue rose 17.2% YOY to AED 1,118 Mn in 4Q22. The increase in net revenue was driven by significant growth in the Consumer and Agri-business verticals. Consumer Business grew 19.4% YOY to AED 853.8 Mn in 4Q22 driven by strong growth in Snacking and Water & Food segment partially offset by a decline in Protein & Frozen category. Protein & Frozen segment declined 4.9% YOY owing to the adverse impact of the devaluation of Egyptian currency. Excluding the impact of the devaluation, the segment recorded top-line growth of 20% across the segment, while revenue Egyptian operations rose 31%. Revenue from the Snacking segment rose 68.1% YOY to AED 346.5 Mn in 4Q22 mainly due to high teens volume growth in Al Foah dates business, increasing of market share in UAE Retail supported by the successful consolidation and integration of BMB and Abu Auf. Water & Food Segment revenue increased 5.4% YOY to AED 238.3 Mn in 4Q22, owing to the resumption of volume growth in UAE water bottled. Furthermore, Agribusiness segment revenue grew 10.6% YOY to AED 264.5 Mn in 4Q22 owing to the strong pricing across the Flour and feed. Cost of sales rose increased from AED 621 Mn in 4Q21 to AED 804 Mn in 4Q22 owing primarily to commodity price inflation. Resultantly, gross profit declined 5.5% YOY to AED 314 Mn in 4Q22 with a decrease in gross margin from 34.9% in 4Q21 to 28.1% in 4Q22. Operating expenses rose 11.3% YOY to AED 221 Mn in 4Q22 mainly due to an increase in G&A expense. As a result, operating profit declined 12.2% YOY to AED 115 Mn in 4Q22. EBITDA also decreased 2.3% YOY to AED 178 Mn with a decline in EBITDA margin from 13.7% in 4Q21 to 10.3% in 4Q22. Finance income rose from AED 5 Mn in 4Q21 to AED 9 Mn in 4Q22. While, finance cost increased significantly from AED 7 Mn in 4Q21 to AED 27 Mn in 4Q22 due to an increase in debt to finance acquisition. Furthermore, profit before tax and zakat decreased 24.3% YOY to AED 97 Mn in 4Q22. Income tax expense decreased from AED 10 Mn in 4Q21 to AED 6 Mn in 4Q22 mainly due to decline in profitability.

Balance Sheet highlights

The Company's net debt increased from AED 0.9 Bn in 2021 to AED 1.3 Bn in 2022 with net debt to EBITDA increasing from 2.1x in 2021 to 2.3x in 2022. Net cash generated from operating activities declined from AED 498 Mn in 2021 to AED 316 Mn in 2022 due to investment in working capital. Thus, free cash flow declined from AED 364 Mn in 2021 to AED 179 Mn in 2022.

Rating : BUY

First Look Note – 4Q22

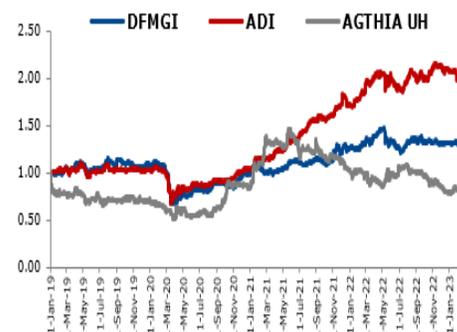
Sector: Consumer Goods

Recommendation

Current Price (09-Mar-23)	4.10
Target Price (AED)	6.00
Upside/Downside (%)	+46%

Stock Information

Market Cap (mm)	3,237.55
Paid Up Capital (mm)	791.58
52 Week High	5.48
52 Week Low	3.87
3M Avg. daily value (AED)	1,731,897



Financial Ratios

Dividend Yield (12m)	3.99
Dividend Pay-out (%)	30.23
Price-Earnings Ratio (x)	14.70
Price-to-Book Ratio (x)	1.18
Book Value (AED)	3.50
Return-on Equity (%)	10.00
Earning Per Share (AED)	0.28
Beta	0.59

Stock Performance

5 Days	-1.68%
1 Months	0.00%
3 Months	-1.21%
6 Months	-18.69%
1 Year	-9.71%
Month to Date (MTD)	-0.24%
Quarter to Date (QTD)	2.76%
Year to Date (YTD)	2.76%

Target price and rating

We maintain our 'BUY' rating on Agthia Group with a target price of AED 6.00. Agthia plans further plans to solidifies its presence in food & beverage (F&B) sector by FY2025 by expanding footprint beyond MENA and adding value-added F&B brands. It already doubled its revenue since FY2020 by completing value accretive acquisition and expanded margin by 601 bps by diversifying from the commoditized portfolio, exit of loss-making business, and through productivity enhancement. The management expects its revenue to grow at CAGR of 13.7% to AED 6 Bn with an expansion in EBITDA and net margin by 150 bps and 300 bps, respectively by FY2025. The Company's revenue footprint expanded into 45 countries, diversifying risk across the business. The product portfolio has a balanced mix of 35-value added food and beverages brands across four focal segments in large and growing markets. We also like the Company's strategy of lowering reliance on volatile Agribusiness and increasing contribution from the Consumer Division. The revenue from the consumer division during 2022 stood at 75.0%. In addition, Agthia is proactively controlling costs and supply chain disruptions through broad-based pricing, optimizing its product and channel mix, and increasing synergy extraction through acquired entities. Recently, Agthia signed a MoU with AD Ports Group, the global leading facilitator of trade, logistics, and industry. This MoU will enable the Company to improve its supply chain connectivity, logistics and operational efficiencies, and ramp up the implementation of digital-first initiatives. In addition, the Company has finalized the plans for the construction of its new Saudi manufacturing facility in 4Q22 and is expected to commence by 1Q24, playing a significant role in meeting protein products local and export demand. The Company also maintained a strong financial position with cash and cash equivalent of AED 1.0 Bn with a total debt of AED 1.3 Bn in 2022. It improved its working capital management leading to healthy cash conversion and a decline in inflation will further reduce working capital requirement. The board of directors proposed to distribute AED 8.25 fils for the 2H22 (1H22: AED 8.25 fils) .Considering all aforesaid factors, we assign a 'BUY' rating on the stock.

Agthia - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE(X)	11.7	17.9	71.4	14.3	13.2	10.9
PB(X)	1.3	1.3	1.3	1.2	1.2	1.1
EV/EBITDA	7.6	9.0	13.4	9.7	8.4	7.9
Dividend yield	3.7%	3.7%	4.0%	4.0%	4.0%	4.0%

FABS Estimates & Co Data

Agthia - P&L

AED mm	4Q21	3Q22	4Q22A	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	954	954	1,118	1,048	6.7%	17.2%	17.3%	3,068	4,067	32.6%
Cost of sale	-621	-685	-804	-734	9.5%	29.4%	17.3%	-2,111	-2,910	37.8%
Gross profit	333	268	314	314	0.0%	-5.5%	17.3%	957	1,158	21.0%
S&D expense	-126	-127	-122	-126	-2.8%	-3.2%	-4.1%	-449	-508	13.1%
G&A expense	-69	-83	-96	-84	14.4%	38.9%	15.7%	-271	-346	27.6%
R&D costs	-3	-2	-2	-2	10.3%	-15.5%	7.6%	-10	-9	-3.1%
Share of loss from Invt	0	1	1	0	NM	169.5%	22.6%	-3	3	-205.9%
Other (exp) / income	-4	15	20	15	35.2%	NM	36.9%	28	52	85.3%
EBITDA	182	128	178	167	6.8%	-2.3%	39.2%	452	581	28.5%
Operating profit	131	71	115	117	-2.0%	-12.2%	61.8%	252	350	38.6%
Finance income	5	8	9	10	-10.2%	93.0%	18.1%	17	27	63.9%
Finance expense	-7	-23	-27	-26	3.5%	266.5%	14.3%	-21	-76	263.9%
Profit before tax and zakat	128	55	97	101	-4.2%	-24.3%	75.9%	248	301	21.4%
Income tax	-10	-8	-6	-13	-52.2%	-35.7%	-21.2%	-17	-29	69.1%
Profit of the year	118	47	91	88	3.0%	-23.3%	92.3%	231	273	17.9%
Non-controlling interest	-6	-7	-2	-10	-79.9%	-65.4%	-71.1%	-15	-26	NM
Profit attributable	113	40	89	78	13.2%	-21.2%	119.5%	216	247	14.2%

FABS Estimates & Co Data

Agthia - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross profit	34.9%	28.1%	28.1%	-676	0	31.2%	28.5%	-273
Operating profit	13.7%	7.4%	10.3%	-344	282	8.2%	8.6%	37
EBITDA	19.1%	13.4%	15.9%	-319	251	14.7%	14.3%	-46
Net Profit	11.8%	4.2%	7.9%	-388	370	7.0%	6.1%	-98

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"