

Agthia Group

Consolidation of 4 acquisitions boosted the profitability

3Q21 Net profit higher than our estimate

Agthia Group reported a strong increase in the Net profit to AED35 Mn in 3Q21, up from a Net loss of AED32 Mn in 3Q20, beating our estimate of AED29 Mn by 20.5%. This was mainly due to a significant increase in Revenue mainly due top progressed in the smooth integration of 4 consolidated entities, in addition to higher Agri revenues on tactical price increase implementation in response to spike in grain costs.

P&L highlights

Revenue significantly increased by 61.6% YOY to AED795 Mn in 3Q21, up from AED492 Mn in 3Q20. Similarly, the Cost of Revenue increased by 64.2% YOY to AED561 Mn in 3Q21, as compared to AED342 Mn in 3Q20. Therefore, the Gross profit increased by 55.6% YOY to AED234 Mn in 3Q21, up from AED150 Mn in 3Q20, with a GPM equal to 29.4% from 30.6% in 3Q20. Selling and distribution expenses have increased by 38.1% YOY to AED116 Mn in 3Q21, up from AED84 Mn in 3Q20. While the General and administrative expenses declined by 9.9% YOY to AED75 Mn in 3Q21. Moreover, the Other income have shown a strong growth reaching AED10 Mn in 3Q21, up from a negative of AED13 in 3Q20. Thus, the Operating Profit strongly increased to AED49 Mn in 3Q21, up from a loss of AED32 Mn in 3Q20, with an OPM equal to 6.2% in 3Q21. The Finance Income declined by 15.5% YOY to AED4 Mn in 3Q21, down from AED5 Mn in 3Q20. The Finance Expense increased by 41.1% YOY to AED6 Mn in 3Q21, up from AED4 Mn in 3Q20. Furthermore, the Income tax and zakat significantly increased to AED5 Mn in 3Q21, up from AED1 Mn in 3Q20. The NCI increased robustly to AED7 Mn in 3Q21, up from nil in 3Q20.

Balance sheet highlights

The Total Assets increased by 72.7% YOY to AED5.535 Bn in 3Q21, up from AED3.205 Bn in 3Q20. The Total Liabilities significantly increased to AED2.718 Bn in 3Q21, up from AED1.308 Bn in 3Q20. The Total Equity increased by 48.5% YOY to AED2.817 Bn in 3Q21, up from AED1.897 Bn in 3Q20.

Target price and rating

We assign a BUY Rating on Agthia with a revised target price of AED7.20. Agthia kept on delivering a robust performance in 3Q21 align with its growth strategy. In 3Q21 Agthia consolidated the financials of Ismailia Investments (Atyab) into their financials after the acquisition of Nabil Foods. And in September 2021 the group has announced 100% acquisition of BMB group, one of the pioneers of healthy snacks and food company in hope to create value to the group and improve productivity and efficiency.

Rating : BUY

First Look Note – 3Q21

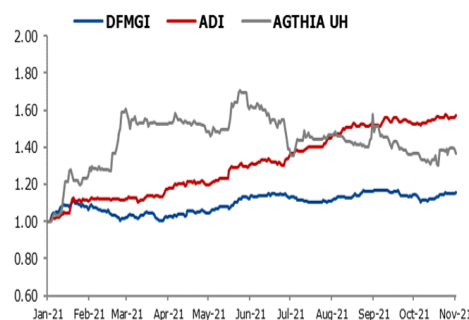
Sector: Consumer Goods

Recommendation

Current Price (28-Nov)	5.29
Target Price (AED)	7.20
Upside/(Downside) (%)	+36%

Stock Information

Market Cap (mm)	4,187.44
Paid Up Capital (mm)	791.58
52 Week High	7.32
52 Week Low	4.03
3M Avg. daily value (AED)	3,109,574



Financial Ratios

Dividend Yield (12m)	4.67
Dividend Pay-out (%)	287.20
Price-Earnings Ratio (x)	29.39
Price-to-Book Ratio (x)	1.58
Book Value (AED)	3.36
Return-on Equity (%)	5.65
Earning Per Share (AED)	0.18
Beta	0.62

Stock Performance

5 Days	-7.19%
1 Months	-10.94%
3 Months	-11.09%
6 Months	-26.43%
1 Year	21.89%
Month to Date (MTD)	-10.34%
Quarter to Date (QTD)	-9.11%
Year to Date (YTD)	24.47%

Agthia reported a 62% YOY growth in Revenues to AED795 Mn in 3Q21 including the financials of 4 acquisitions being Al Foah, Al Faysal Bakery, Nabil Foods and Atyab, outweighing the increase in Cost of Sales by 64.24% YOY to AED561 Mn in 3Q21 up from AED341 Mn in 3Q20. As a result, the Gross Profit also increased by almost 56% YOY to AED233 Mn in 3Q21 up from AED150 Mn in 3Q20.

The Water & Beverage segment consists of 30% of Total Revenues slightly higher than the Agri Business sector and the Protein Business consisting for 29% and 28% of Total Revenues, respectively, followed by the snacking business for 13%. The Consumer Business Division (CBD) comprising 71% of Total Sales, almost doubled as compared to last year reaching AED566 Mn, in line with the group's growth plan to diversify the Revenue flows. The Group operates via **Agri Business Division (ABD)** and **Consumer Business Division (CBD)**. The ABD Revenues were up by 8% YOY to AED229 Mn mainly driven by the increase in prices despite the global inflation in grain prices affecting the Group's profitability.

The Consumer Business Division (CBD) consists of three sub-segments: Protein, Snacking, and Water & Other Food items. The protein Revenue in 3Q21 recorded AED223 Mn with Atayeb's inclusion for only 2 months since August 2021. The snacking Revenues witnessed an increase by 72% in Al Foah to AED86 Mn driven by higher retail sales, while Al Faysal Bakery contributed by AED22 Mn, an increase by 2% YOY. The Water & Beverages Revenue increased by 2% YOY to AED200 Mn mainly driven by the rebound in UAE bottled water business. In the retail segment, Agthia's bottled water leads the market with 26% sales volume.

The Group keeps on focusing on cost cutting. The Other Food items witnessed a decrease by 16% YOY to AED36 Mn despite the positive net income in Dairy & Trading items up from a loss of AED4.4 Mn last year. The Group Net Profit increased significantly in 3Q21 to AED35 Mn up from a loss of AED32 Mn during the same period last year.

The Balance Sheet maintained a robust performance given the consolidation of the 4 new companies acquired, with Total Assets increasing significantly by 76% to AED5.5 Bn in 3Q21. Total Equity increased as well to AED2.7 Bn in 3Q21 up from AED1.9 bn in 3Q20.

Finally, the Board of Directors has recommended a cash dividend of 8.25 fils per share amounting to AED65.31 Mn, as per the interim dividend policy for 1H21, and it is subject to shareholder approval. Based on our analysis, we assign a BUY rating.

Agthia—Relative Valuation

AED mm	2017	2018	2019	2020	2021E
PE (x)	16.6	16.1	24.6	94.2	31.4
P/B (x)	1.9	1.8	1.7	1.8	1.6
Dividend yield	2.8%	2.8%	2.8%	3.1%	3.1%

FABS forecast & Co Data

Agthia - P&L






AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Revenue	492	653	795	774	2.7%	61.6%	21.8%	2,061	2,923	41.8%
Cost of sale	-342	-467	-561	-550	2.1%	64.2%	20.2%	-1,421	-2,064	45.3%
Gross profit	150	186	234	225	4.1%	55.6%	25.9%	641	859	34.0%
Selling and distribution expenses	-84	-106	-116	-115	1.6%	38.1%	9.7%	-357	-443	24.0%
General and administrative expenses	-83	-63	-75	-75	-0.2%	-9.9%	18.6%	-234	-277	18.5%
Research and development costs	-1.80	-2.42	-2.34	-2.47	-5.4%	29.8%	-3.5%	-7	-9	21.9%
Share of loss from investment in a joint venture	0	-2	-1	-1	-52.8%	NA	-76.4%	0	-4	NA
Other (expenses) / income	-13	11	10	10	-8.4%	NM	-12.9%	-9	42	NM
Operating profit	-32	23	49	42	18.2%	NM	NM	33	168	NM
finance income	5	4	4	4	-2.8%	-15.5%	-4.7%	22	16	-24.4%
finance expense	-4	-5	-6	-6	-5.9%	41.1%	22.3%	-17	-20	12.9%
Profit before tax and zakat	-31	22	47	40	19.8%	NM	NM	37	164	NM
Income tax and zakat (expense) / credit	-1	-1	-5	-4	23.7%	NM	NM	-1	-10	NM
Profit of the year	-32	21	42	35	19.3%	NM	NM	36	154	NM
Non-controlling interest	0	-2	-7	-6	13.5%	NM	NM	-1	-12	NM
Net Profit	-32	18	35	29	20.5%	NM	92.9%	34	142	NM

FABS estimate & Co Data
Agthia - Margins

AED mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	Change
GPM	30.6%	28.5%	29.4%	-114	95	31.1%	29.4%	-170
OPM	-6.5%	3.5%	6.2%	1269	272	1.6%	-0.1%	-173
Net margin	-6.6%	2.8%	4.4%	1103	164	1.7%	4.9%	319

FABS estimate & Co Data

Summary of Acquisitions:

Announcement	OCT 2020 100%	DEC 2020 100%	JAN 2021 80%	APR 2021 75%	AUG 2021 100%
					
Consolidation	Jan 1, 2021	Jan 27, 2021	April 1, 2021	Aug 1, 2021	Expected Q1 2022
Segment	Snacking	Snacking	Protein	Protein	Snacking
Footprint	Int'l (GCC & Asia)	Kuwait	Jordan, GCC, Iraq	Egypt	KSA, UAE, USA
Consideration	AED 450 MN	AED 161 MN	AED 520 MN	AED 564 MN	AED 646 MN
Funding	100% Equity	95% Debt + 5% Cash	75% Equity + 25% Cash	100% Debt	100% Debt
Rationale	Scale, Category (Superfood), Brands	Brand, Market Scale	New Category, Brand, Scale	Scale, Brands	Category Upscale, Brands, Footprint
Revenues ¹	AED 429 MN	AED 88 MN	AED 381 MN	AED 463 MN	AED 284 MN
Profitability ¹	20%	20%	18%	17%	18%
RoCE ¹	14%	31%	19%	48%	40%

¹ As of LTM September 2021; **Profitability** = EBITDA margin; **RoCE** = Return on Capital Employed

Agthia's Categories of Focus:

Category	Water & Food	Agribusiness	Protein & Frozen Veg.	Snacking
Assets	     	 	  	  
Key markets	  	 	   	   

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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