

Agthia Group PJSC

Healthy performance in inflationary environment

1Q22 Net Profit lower than our estimate

Agthia Group reported a significant increase in net profit to AED 82 Mn in 1Q22 from AED 50 Mn in 1Q21, missing our estimate of AED 91 Mn. This was mainly due to consolidation of all five acquisition for the first time during the quarter partially offset by pressure on input cost from commodities, packaging materials and transportation costs. It reported a proforma net profit of AED 83 Mn in 1Q21 compared to AED 82 Mn in 1Q22. Proforma number of 1Q21 includes acquisition from Snacking (BMB group) and Protein business (Nabil Foods and Atyab).

P&L highlights

Net Revenue rose 58.2% YOY to AED 1,053 Mn in 1Q22 mainly due to consolidation of acquisition made in Snacking and Protein segment further supported by better performance from all segments except, Water & Food. While, proforma net revenue rose 11.4% YOY. On the other hand, cost of sales 61.5% YOY to AED 745 Mn in 1Q22. Resultantly, Gross Profit increased 50.9% YOY to AED 308 Mn in 1Q22 with a gross margin of 29.3% in 1Q22 compared to a margin of 30.7% in 1Q21. The margin was impacted due to higher raw material cost. Operating expenses rose 27.9% YOY to AED 210 Mn in 1Q22 lesser than increase than increase in sales due to cost optimization. It accounted for 24.7% of total sales in 1Q21 compared to 19.9% in 1Q22. Consequently, EBITDA rose 71.7% YOY to AED 158 Mn with a EBITDA margin of 15.0% in 1Q22 compared to 13.8% in 1Q21. Operating profit more than doubled to AED 103 Mn in 1Q22. The company earned a net finance income of AED 1 Mn during 1Q21 while, incurred a net finance cost of AED 5 Mn in 1Q22 due to increase in debt to finance acquisition. Furthermore, profit before tax and zakat almost doubled to AED 98 Mn in 1Q22. While, increase in tax and non-controlling dragged the profit in 1Q22.

Balance Sheet & Cash Flow highlights

Liquidity position remain robust with cash & cash equivalent of AED 1.3 Bn and total debt stood at AED 2.2 Bn in 1Q22. The debt was mainly raised to fund acquisition of Al Faysal, Nabil and Atyab, and BMB. While net debt to EBITDA reduced from 2.1x in 4Q21 to 1.6x in 1Q22 mainly driven by higher EBITDA. Net working capital as percentage of sales reduced from 30% in 1Q21 to 23% 1Q22 due to better cash conversion cycle. Resultantly, free cash flow improved from a negative AED 51 Mn in 1Q21 to a positive free cash flow of AED 163 Mn in 1Q22 .

Target price and rating

We maintain our BUY rating on Agthia Group, with a target price of AED 7.40. We like the company strategy of reducing dependence on volatile Agri-business and boosting revenue from Consumer-focused Division. The revenue from Consumer division made up 75% of total revenue in 1Q22 compared to 65% in 1Q21. Further,

Rating : BUY

First Look Note – 1Q22

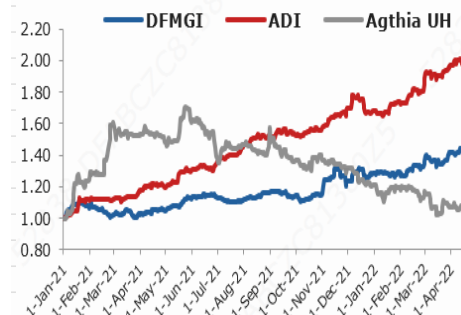
Sector: Consumer Goods

Recommendation

Current Price (25-May-22)	5.02
Target Price	7.40
Upside/Downside (%)	+63%

Stock Information

Market Cap (mm)	3,585.84
Paid Up Capital (mm)	791.58
52 Week High	7.26
52 Week Low	4.20
3M Avg. daily value (AED)	8,255,499



Financial Ratios

Dividend Yield (12m)	3.64
Dividend Pay-out (%)	30.23
Price-Earnings Ratio (x)	14.32
Price-to-Book Ratio (x)	1.27
Book Value (AED)	3.57
Return-on Equity (%)	9.51
Earning Per Share (AED)	0.32
Beta	0.49

Stock Performance

5 Days	-9.04%
1 Months	4.62%
3 Months	-5.82%
6 Months	-19.82%
1 Year	-37.17%
Month to Date (MTD)	6.09%
Quarter to Date (QTD)	-0.66%
Year to Date (YTD)	-12.04%

it is also increasing its revenue reliance from international market from 33% in 1Q21 to 51% in 1Q22. Agthia is further undertaking initiatives to build capability such as establishment of central innovation team to support business units, unlock revenue synergies by establishing route-to-market taskforce and build centralized procurement strategy which will help in navigating through supply chain volatility and secure supply of raw material. The company is working to make the current business more efficient through cost synergies and business simplification. It has realized a cumulative cost synergy of AED 81 Mn until 1Q22 which 41% of the 5-year target and further plans to take additional initiatives to meet the target. Considering all these factors, we assign a BUY rating on the stock.

Agthia - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	14.3	22.0	87.4	17.6	12.9
P/B (x)	1.6	1.5	1.6	1.4	1.3
EV/EBITDA (x)	12.4	14.7	22.1	10.9	8.7
Dividend Yield (%)	3.0%	3.0%	3.3%	3.3%	3.3%

FABS Estimates & Co Data

Agthia - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	YOY
Revenue	666	954	1,053	1,050	0.3%	58.2%	10.4%	3,068	3,886	26.7%
Cost of sale	-461	-621	-745	-735	1.4%	61.5%	19.9%	-2,111	-2,666	26.3%
Gross profit	204	333	308	315	-2.1%	50.9%	-7.3%	957	1,220	27.5%
S&D expense	-100	-126	-129	-133	-3.0%	28.3%	1.8%	-449	-516	15.0%
G&A expense	-64	-69	-81	-74	10.2%	27.2%	17.9%	-271	-286	5.5%
R&D costs	-2	-3	-3	-3	-13.2%	19.7%	-8.0%	-10	-10	8.0%
Share of loss from invst. In JV	0	0	1	0	NM	NA	NA	-3	2	NA
Other (expenses) / income	12	-4	6	4	44.4%	-48.0%	NA	28	22	-21.9%
EBITDA	92	186	158	167	44.4%	71.7%	-15.1%	452	559	23.5%
Operating profit	50	131	103	110	-6.2%	107.8%	-21.3%	252	431	71.0%
Finance income	4	5	5	5	10.7%	39.9%	12.9%	17	20	19.5%
Finance expense	-3	-7	-10	-8	30.6%	245.3%	34.5%	-21	-38	82.2%
Profit before tax and zakat	50	128	98	107	-8.0%	95.0%	-23.3%	248	413	66.6%
Income tax (expense) / credit	0	-10	-8	-10	-26.2%	NA	-22.6%	-17	-35	105.9%
Profit of the year	50	118	91	97	-6.1%	81.4%	-23.3%	231	378	63.7%
Non-controlling interest	0	-6	-9	-6	54.0%	NA	52.4%	-15	-35	130.8%
Net Profit	50	113	82	91	-9.8%	65.8%	-27.1%	216	343	59.0%

FABS Estimates & Co Data

Agthia - Margins

	1Q21	4Q21	1Q22A	YOY Ch	QOQ Ch	2021	2022	Change(%)
GPM	30.7%	34.9%	29.3%	-142	-560	31.2%	31.4%	21
EBITDA	13.8%	19.5%	15.0%	118	-449	14.7%	14.4%	-36
OPM	7.4%	13.7%	9.8%	233	-394	8.2%	11.1%	288
Net margin	7.5%	11.8%	7.8%	35	-401	7.0%	8.8%	180

FABS estimate & Co Data

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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