

Agthia Group PJSC

High input price pressurizes profitability

3Q22 Net Profit almost in line with our estimate

Agthia Group (AGTHIA/the Company) net profit rose 14.4% YOY to AED 40.5 Mn in 3Q22, missing our estimate of AED 42 Mn. The increase in net profit was mainly driven by robust growth in the protein and snacking segment with strong cost discipline in opex and productivity gains partially offset by raw material price inflation.

P&L highlights

Net revenue increased 19.9% YOY to AED 954 Mn due to 12% YOY growth in pricing and 8% YOY increase in volume. This is also supported by the successful consolidation and integration of the company's recent acquisition. Consumer Business grew 28.6% YOY to AED 728 Mn in 3Q22 driven by a strong growth in Protein & Frozen and Snacking category. Protein & Frozen segment recorded 38.6% YOY growth in revenue driven by good portfolio, channel management supported 11% growth in pricing, and an additional month's contribution from Atyab in Egypt. After adjusting the recent devaluation of the Egyptian pound, the 3Q22 sales grew 56% YOY, with a volume growth of 28%. Snacking segment revenue rose 68.6% YOY to AED 182.5 Mn in 3Q22 mainly due to high teens volume growth in dates business, expansion of retail footprint and consolidation of BMB. Water & Food Segment recorded flat growth due to low aggregate demand across UAE and subdued performance in Community support division. Agri business Segment revenue fell 1.5% YOY to AED 225 Mn in 3Q22 reflecting lower demand during the summer months. Cost of sales rose 22.1% YOY to AED 685 Mn in 3Q22 recording higher growth in revenue mainly due to peak raw material pricing. As a result, gross profit increased 14.6% YOY to AED 268 Mn in 3Q22 with a gross margin of 28.1% in 3Q22 compared to a margin of 29.4% in 3Q21. Operating expenses rose 10.0% YOY to AED 210 Mn in 3Q22 lower than growth in revenue due to group-wide initiative on product and channel mix sourcing and production. Resultantly, EBITDA rose 23.3% YOY to AED 128 Mn with an EBITDA margin of 13.4% in 3Q22 compared to 13.0% in 3Q21. The margins expanded despite significant increase in raw material costs during the period, demonstrating strong cost discipline and the company's ability to leverage synergies across new verticals. Operating profit grew significantly 44.0% YOY to AED 71 Mn in 3Q22. Total net finance cost increased to AED 16 Mn in 3Q22 as compared to AED 2 Mn in 3Q21 due to an increase in debt to finance acquisition. Furthermore, profit before tax and zakat increased to AED 54 Mn in 3Q22 from AED 47 Mn in 3Q21. Income tax expense rose from AED 5 Mn in 3Q21 to AED 8 Mn in 3Q22 mainly due to a rise in profit.

Balance Sheet highlights

The company's total debt declined from AED 2.1 Bn in 2Q22 compared to AED 2.0 Bn in 3Q22. Net debt to EBITDA reduced from 1.7x in 2Q22 to 1.3x in 3Q22 mainly driven by higher EBITDA and lower debt. Net cash generated from operating activities declined from AED 481.9 Mn in 9M21 to AED 360.4 Mn in 9M22 due to investment in working capital. Thus, free cash flow declined from AED 408 Mn during 9M21 to AED 306 Mn in 9M22.

Rating : BUY

First Look Note – 3Q22

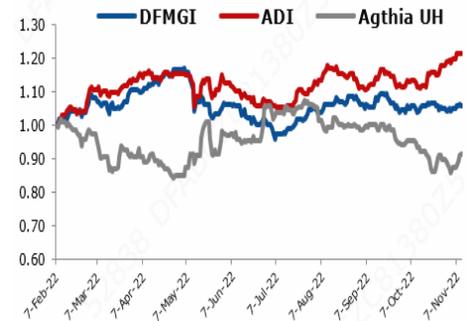
Sector: Consumer Goods

Recommendation

Current Price (05-Dec-22)	4.20
Target Price (AED)	7.40
Upside/Downside (%)	+76%

Stock Information

Market Cap (mm)	3,324.62
Paid Up Capital (mm)	791.58
52 Week High	5.62
52 Week Low	4.18
3M Avg. daily value (AED)	2,120,563



Financial Ratios

Dividend Yield (12m)	3.93
Dividend Pay-out (%)	30.23
Price-Earnings Ratio (x)	12.27
Price-to-Book Ratio (x)	1.20
Book Value (AED)	3.50
Return-on Equity (%)	10.00
Earning Per Share (AED)	0.34
Beta	0.55

Stock Performance

5 Days	-2.10%
1 Months	-4.55%
3 Months	-16.33%
6 Months	-14.11%
1 Year	-24.60%
Month to Date (MTD)	-1.18%
Quarter to Date (QTD)	-11.39%
Year to Date (YTD)	-18.45%

Target price and rating

We maintain our 'BUY' rating on Agthia Group with a target price of AED 7.40. We like the Company's strategy of lowering reliance on volatile Agri-business and increasing contribution from the Consumer Division. The revenue from the consumer division during 9M22 stood at 74.3% of the total revenue as compared to 67.3% during 9M21. Agthia's international date sourcing and contract farming program will accelerate the growth trajectory of Al Foah dates business. It also exited the two loss making businesses and plans to focus on productivity improvement with YTD savings of AED 39 Mn. In addition, Agthia is proactively controlling costs and supply chain disruptions through broad-based pricing, optimising its product and channel mix, and increasing synergy extraction through acquired entities. Recently, AGTHIA announced the acquisition of a majority stake in the healthy snacks and coffee company, Auf Group. This acquisition will enable the company to enhance its footprint in the Egyptian snacking market and broaden its consumer product portfolio. The Company also maintained a strong financial position with cash and cash equivalent of AED 1.2 Bn with a total debt of AED 2.0 Bn in 3Q22. In the 1H22, the Board of Directors declared a cash dividend of 8.25 fils per share, in accordance with Agthia's semi-annual dividend distribution policy. The stock is trading at a dividend yield of 3.7% based on 2022 financials. Considering all aforesaid factors, we assign a 'BUY' rating on the stock.

Agthia - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	12.0	18.4	73.1	15.4	15.0
PB(X)	1.3	1.3	1.3	1.1	1.2
EV/EBITDA	7.9	9.3	13.7	9.9	7.9
Dividend yield	3.6%	3.6%	3.9%	3.9%	3.9%

FABS Estimates & Co Data

Agthia - P&L

AED mm	3Q21	2Q22	3Q22A	3Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	795	942	954	933	2.2%	19.9%	1.2%	3,068	3,929	28.1%
Cost of sale	-561	-676	-685	-665	3.0%	22.1%	1.5%	-2,111	-2,802	32.8%
Gross profit	234	267	268	268	0.1%	14.6%	0.4%	957	1,126	17.7%
S&D expense	-116	-130	-127	-124	2.4%	9.5%	-1.7%	-449	-511	13.9%
G&A expense	-75	-85	-83	-80	3.2%	10.8%	-3.0%	-271	-331	22.2%
R&D costs	-2	-2	-2	-2	-10.0%	-8.0%	-7.3%	-10	-9	-2.3%
Share of loss from Invt.	-1	0	1	0	NM	NA	NM	-3	2	-167.2%
Other (exp) / income	10	12	15	14	3.5%	52.2%	24.2%	28	46	62.5%
EBITDA	103	117	128	119	7.5%	24.2%	9.9%	452	547	20.9%
Operating profit	49	61	71	75	-4.9%	44.0%	16.1%	252	322	27.7%
Finance income	4	6	8	6	25.8%	87.0%	35.9%	17	24	44.3%
Finance expense	-6	-16	-23	-22	8.6%	296.7%	46.7%	-21	-65	214.1%
Profit before tax and zakat	47	51	55	59	-6.6%	16.2%	8.7%	248	281	13.2%
Income tax	-5	-7	-8	-8	0.2%	49.1%	16.5%	-17	-29	68.1%
Profit of the year	42	44	47	51	-7.7%	12.1%	7.4%	231	252	9.1%
Non-controlling interest	-7	-9	-7	-9	-26.9%	0.0%	-21.5%	-15	-31	NM
Profit attributable	35	35	40	42	-3.5%	14.4%	14.4%	216	221	2.5%

FABS Estimates & Co Data

Agthia - Margins

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Gross profit	29.4%	28.3%	28.1%	-130	-21	31.2%	28.7%	-252
Operating profit	6.2%	6.5%	7.4%	124	96	8.2%	8.2%	-2
EBITDA	13.0%	12.4%	13.5%	46	107	14.7%	13.9%	-82
Net Profit	4.4%	3.8%	4.2%	-21	49	7.0%	5.6%	-141

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”