

Agthia Group PJSC

Margin accretive acquisition boosted profitability

2Q22 Net Profit lower than our estimate

Agthia Group (AGTHIA/the Company) net profit almost doubled to AED 35 Mn in 2Q22 from AED 18 Mn in 2Q21, missing our estimate of AED 42 Mn. The increase in net profit is primarily attributable to the consolidation and integration of multiple acquisitions completed in the previous fiscal year in addition also, driven by cost-optimization projects linked to the company integration and productivity improvements.

P&L highlights

Net revenue increased 44.4% YOY to AED 942 Mn, mainly as a result of the consolidation of five acquisitions, which was further aided by improved performance across all categories. Consumer Business grew 59% YOY to AED 675 Mn in 2Q22 representing 72% of the groups total revenue. Protein and Frozen Segment revenue stood at AED 276 Mn in 2Q22 mainly contributed by AED 240 Mn from the acquisition of Nabil Foods in Jordan and Atyab in Egypt. Snacking Business revenue stood at AED 162 Mn in 2Q22 with a contribution of AED 73 Mn from the acquisition of BMB. Water & beverages and other food items revenue remained almost in line with last year and stood at AED 197 Mn in 2Q22 driven by a strong performance in UAE, Kuwait, Oman and Turkey largely offset by a decline in revenue from KSA. Agri business Segment revenue grew 17% YOY to AED 267 Mn in 2Q22 as the Company municipality channel was adversely affected due to higher wheat prices since start of 2022, however started recovering from 2Q22. Cost of sales rose in line with topline and grew 44.6% YOY to AED 597 Mn in 2Q22. As a result, gross profit increased 43.7% YOY to AED 267 Mn in 2Q22 with a gross margin of 28.3% in 2Q22 compared to a margin of 28.5% in 2Q21. Operating expenses rose 27.2% YOY to AED 215 Mn in 2Q22. Consequently, EBITDA rose 61.6% YOY to AED 117 Mn with a EBITDA margin of 14.0% in 2Q22 compared to 11.1% in 2Q21. Operating profit more than doubled to AED 61 Mn in 2Q22 from AED 23 Mn in 2Q21. Total net finance cost increased to AED 10 Mn in 2Q22 as compared to AED 1 Mn in 2Q21 due to increase in debt to finance acquisition. Furthermore, profit before tax and zakat increased significantly to AED 51 Mn in 2Q22 from AED 22 Mn in 2Q21. Income tax expense rose significantly from AED 1 Mn in 2Q21 to AED 7 Mn in 2Q22 mainly due to rise in profit.

Balance Sheet highlights

The company's net debt decreased 1.0% QOQ to AED 2.1 Bn in 2Q22 as compared to SAR 2.2 Bn in 1Q22. Cash and cash equivalents stood at AED 1.1 Bn in 2Q22. While net debt to EBITDA reduced from 5.4x in 1Q22 to 3.5x in 1H22 mainly driven by higher EBITDA. Net cash generated from operating activities declined from AED 243.5 Mn in 1H21 to AED 134.0 Mn in 1H22 due to investment in working capital. Thus, free cash flow declined from AED 195.5 Mn in 1H21 to AED 63.1 Mn in 1H22.

Rating : BUY

First Look Note – 2Q22

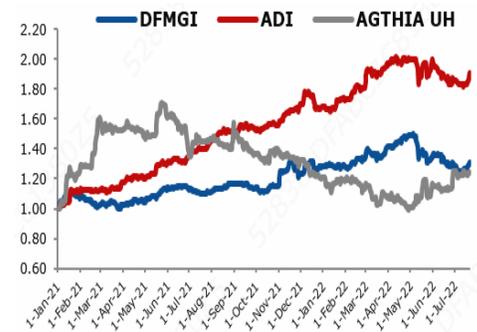
Sector: Consumer Goods

Recommendation

Current Price (05-Aug-22)	5.30
Target Price (AED)	7.40
Upside/Downside (%)	+45%

Stock Information

Market Cap (mm)	4,037.04
Paid Up Capital (mm)	791.58
52 Week High	7.07
52 Week Low	4.20
3M Avg. daily value (AED)	7,808,976



Financial Ratios

Dividend Yield (12m)	3.24
Dividend Pay-out (%)	30.23
Price-Earnings Ratio (x)	15.16
Price-to-Book Ratio (x)	1.44
Book Value (AED)	3.53
Return-on Equity (%)	9.70
Earning Per Share (AED)	0.34
Beta	0.57

Stock Performance

5 Days	-4.49%
1 Months	-2.11%
3 Months	15.91%
6 Months	2.00%
1 Year	-17.74%
Month to Date (MTD)	-4.49%
Quarter to Date (QTD)	-3.59%
Year to Date (YTD)	-0.97%

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. In 2Q22 revenue from the Consumer division made up 72% of total revenue. Further, Agthia is proactively controlling cost and supply chain disruptions through its broad-based pricing, optimising its product and channel mix, and boosting synergy extraction through its acquired entities. In July, the board of directors approved the acquisition of 60% of Auf Group, an Egyptian manufacturer and retailer of specialized healthy snacks and coffee. This acquisition will help Agthia to further penetrate one of the region's fastest-growing marketplaces while also improving the snacking vertical and enhancing the consumer business. Furthermore, in respond to the strong demand from local customers the board of directors also approved an AED 90 Mn investment in the construction of a production plant for one of Agthia's protein brands in Jeddah, KSA. The expansion will boost Agthia's presence in the Kingdom, enable additional protein vertical growth, and contribute to Agthia's position as one of the major consumer packaged goods businesses in the MENA region. In the first half of 2022, the Board of Directors recommends a cash dividend of 8.25 fils per share, in accordance with Agthia's semi-annual dividend distribution policy. Considering all aforesaid factors, we assign a 'BUY' rating on the stock.

Agthia - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	14.5	22.3	88.8	18.7	14.4
PB(X)	1.6	1.5	1.6	1.4	1.4
EV/EBITDA	9.6	11.3	16.9	11.4	9.2
Dividend yield	2.9%	2.9%	3.3%	3.3%	3.3%

FABS Estimates & Co Data

Agthia - P&L

AED mm	2Q21	1Q22	2Q22	2Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	653	1,053	942	836	12.8%	44.4%	-10.5%	3,068	4,041	31.7%
Cost of sale	-467	-745	-676	-597	13.1%	44.6%	-9.3%	-2,111	-2,892	37.0%
Gross profit	186	308	267	238	12.1%	43.7%	-13.4%	957	1,149	20.1%
S&D expense	-106	-129	-130	-120	8.1%	22.2%	0.8%	-449	-517	15.1%
G&A expense	-63	-81	-85	-77	11.5%	35.5%	4.9%	-271	-318	17.5%
R&D costs	-2	-3	-2	-2	-5.9%	-4.3%	-8.0%	-10	-10	6.6%
Share of loss from Invt.	-2	1	0	0	NM	NM	NM	-3	1	-135.7%
Other (expenses) / income	11	6	12	11	5.6%	6.7%	88.2%	28	23	-19.9%
EBITDA	72	159	117	117	-0.1%	61.6%	-26.6%	452	566	25.0%
Operating profit	23	103	61	50	21.8%	169.2%	-40.6%	252	327	29.7%
Finance income	4	5	6	4	29.8%	31.1%	6.5%	17	18	10.0%
Finance expense	-5	-10	-16	-9	78.9%	230.9%	62.5%	-21	-33	58.1%
Profit before tax and zakat	22	98	51	46	11.3%	129.2%	-48.4%	248	313	26.0%
Income tax	-1	-8	-7	-4	88.1%	375.1%	-9.6%	-17	-25	45.6%
Profit of the year	21	91	44	42	4.7%	112.1%	-51.6%	231	288	24.6%
Non-controlling interest	-2	-9	-9	0	NM	261.4%	0.0%	-15	0	NM
Profit attributable	18	82	35	42	-15.7%	92.8%	-57.0%	216	288	33.3%

FABS Estimates & Co Data

Agthia - Margins

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross profit margin	28.5%	29.3%	28.3%	-14	-95	31.2%	28.4%	-275
Operating profit margin	3.5%	9.8%	6.5%	301	-329	8.2%	8.1%	-13
EBITDA margin	11.1%	15.1%	12.4%	132	-271	14.7%	14.0%	-75
Net Margin	2.8%	7.8%	3.8%	94	-405	7.0%	7.1%	8

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"