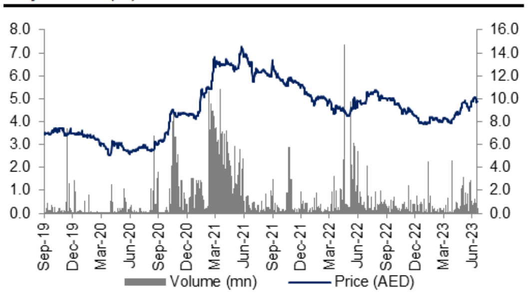
FMCG

BUY: 12M TP @ 5.85

Valuation Summary (TTM)			
Price (AED)			5.13
PER TTM (x)			16.0
P/Book (x)			1.4
P/Sales (x)			1.0
EV/Sales (x)			1.3
EV/EBITDA (x)			7.1
Dividend Yield (%)			3.2
Free Float (%)			29.3%
Shares O/S (mn)			792
YTD Return (%)			29%
Beta			0.6
(mn)		**AED**	**USD**
Market Cap		4,061	1,106
Total Assets		5,640	1,536
Price performance (%)	**1M**	**3M**	**12M**
Agthia Group PJSC	1%	6%	1%
FTSE ADX GENERAL INDEX	2%	1%	-1%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (AED ,000	1,970	3,000	2,409
Avg Daily Volume (,000)	322	615	519
52 week	**High**	**Low**	**CTL***
Price (AED)	5.31	3.87	32.6
* CTL is % change in CMP to 52wk low			
Major shareholders			
General Holding Corp			63%
Norges Bank			4.1%
Emirates Internation			3.8%
Others			29.3%
Other details			
Exchange			Abu Dhabi
Sector			Food
Index weight (%)			0.2%
Key ratios	**2020**	**2021**	**2022**
EPS (AED)	0.06	0.29	0.31
BVPS (AED)	3.16	3.49	3.55
DPS (AED)	0.17	0.08	0.17
Payout ratio (%)	289%	29%	53%

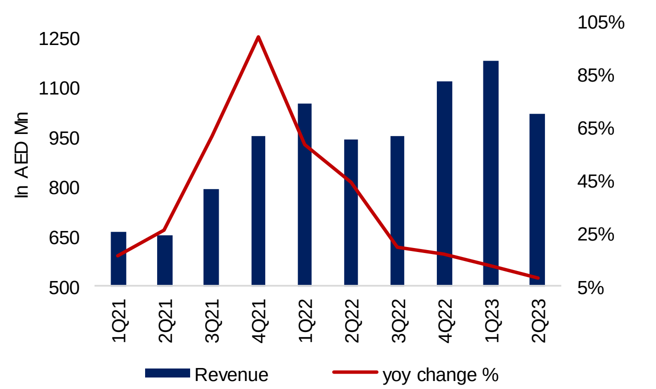


Agthia: Seasonal weakness

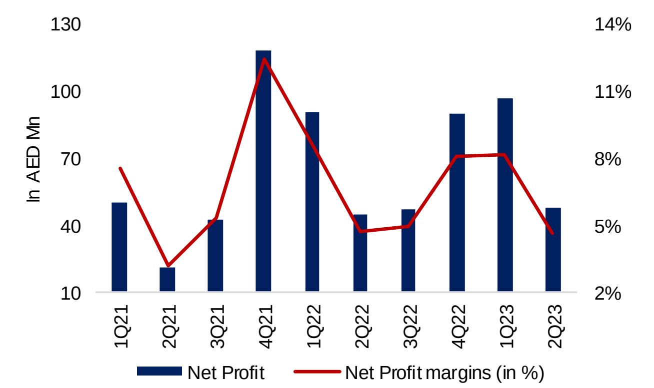
Agthia is the foremost FMCG player in the UAE with leadership position across product segments such as water, flour, protein food and animal feed. Recent restructuring at the parent level and consolidation of various assets by ADQ had led to several management changes and re-orientation of the business segments. Agthia went on an acquisition spree and added multiple companies to its portfolio over a span of two years. The newly acquired companies are being carefully inducted into the group through measures such as re-branding, merging production facilities, cross selling and improving the overall economies of scale. This is the first year since the entities have started full operations under the Agthia umbrella and we are already witnessing positive trends. We attended the recently conducted earnings call and are optimistic on the prospects of the company. The 2Q23 results saw all the segments reporting growth and overall revenue increased by +8% YoY and for the 1H23 it increased by +10.3% YoY. Net profit was reported at AED 47.4mn higher by 6.6% YoY during 2Q23. Though our estimates were higher for 1H23, we believe the 2H23 will turn out much better than the 1H23. The currency movement, commodity prices and interest rates are likely to act negatively on the margins going forward and accordingly we have revised our revenue and profit estimates downwards. We reduce our revenue estimate by 4.2% and profit for the year by 10.9%. Factoring in the revised estimates, we arrive at a revised target price of AED 5.85 which is a decease by 2.8% from our initial target of AED 5.99. This does not change our positive view on the stock and we continue to maintain our BUY recommendation.

Seasonality impact on revenues: Historically the second quarter has been seasonally the weakest for the company. In 2Q23 Agthia reported single digit revenue growth of 8% YoY at AED 1.02bn. Our estimates the revenue growth was at AED 1.2bn for the quarter on account of higher traction from the new acquisitions to offset the impact of seasonality. During the 1H23 the group reported revenue of AED 2.2bn from AED 1.99bn in 1H22 registering a growth of 10.3% YoY. The YoY increase was a combination of 3.6% increase in average price and 6.7% from the increase in volume. Excluding the impact of currency devaluation of EGP, the revenue increased by 20.2% YoY in 1H23, much in line with our estimates. The impact of loss due to currency devaluation on the revenue was AED 197mn in 1H23. The EGP has declined with respect to the USD from 17.3 to 30.5 over the last one year which is a significant decline of 76%. There appears no respite from the stress due to currency devaluation and the company continues to bear the impact. We expect the 2H23 to be better than the first and the full impact of the acquisitions and synergies to fall in play. However, considering the impending currency risk, we reduce our full year estimate by 4.2% to AED 4.6bn for 2023. The management had guided a growth of 10-12% for the year and our revised estimate is on the higher end of the band.

Seasonlity and currency impact reduces revenue growth



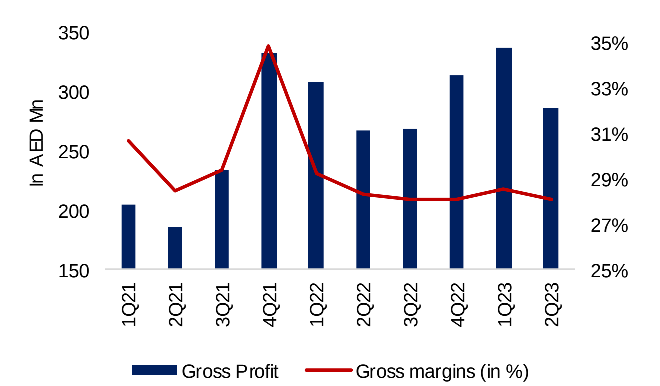
Net margins better on YoY basis



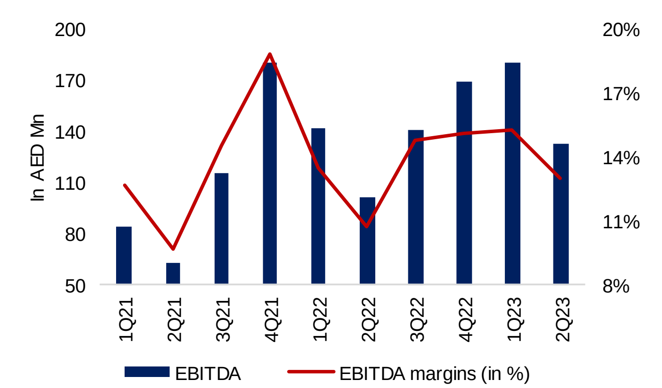
Source: Company reports, US Research

Margins in line with expectation: Gross margins declined by 40bps due to higher commodity prices which impacted the gross profit by AED 46mn. However, the variance in gross margins were only tad lower and resulted in the gross profit moving in line with the revenue for the quarter. The company reported gross profit growth of 7.3% YoY in 2Q23 and 8.5% YoY for the 1H23. EBITDA margins expanded by 98bps in the 1H23 leading to a growth in EBITDA from AED 269mn to AED 319mn, 18% YoY. The impact of EGP on the EBITDA was AED 33mn in 1H23. There were no material changes in the operating expenses both on the selling and the admin costs. The management has re-iterated its commitment to use technology and bring in operational efficiencies into the system. The consolidation of entities will be result in efficiencies of scale, while common manufacturing units and improvement in supply chain management will also reduce costs. Co-branding, co selling are some of the other opportunities being explored. We expect benefits of these to reflect in the 2024 results.

Gross margins remain range bound



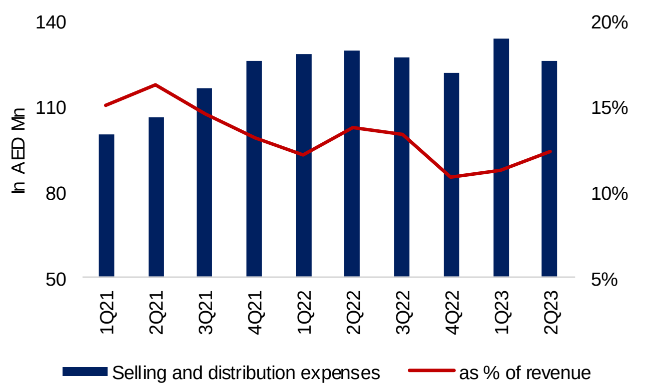
EBITDA margins slighly lower on EGP impact



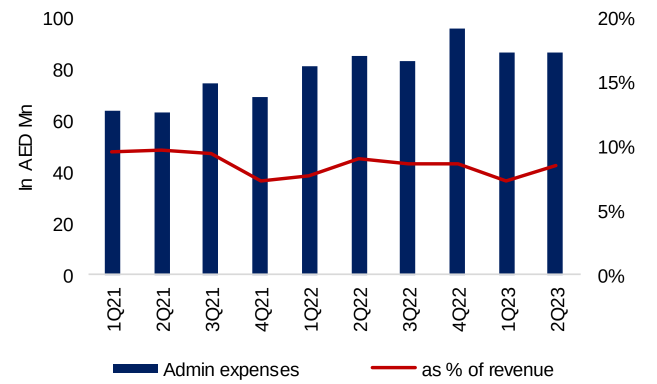
Source: Company reports, US Research

Other key parameters well under control: Agthia has had an impeccable record of maintaining a stable working capital, and cash cycle. Cash cycle stands reduced to 58days in 2Q23 from 62 at the end of 2022. Long term borrowings have declined from AED 1.7bn to AED 1.3bn, while overall borrowings including the short term working capital loans reduced by AED 578mn for the year. However annualized interest cost is likely to come in higher due to the rise in interest rates. The prepayment of debt reduced the cash levels which were parked in FDs and finance income reduced to AED 3mn for 2Q23 compared to AED 10mn in 1Q23. The share of profit from associates is consistent at AED 1.5mn for the quarter. Effective tax rates were higher during the quarter at 15% compared to the full year average of 2022 which was at 9.5%. Overall increase in interest costs, lower finance income, higher taxes have led to a decline in net margin on a QoQ basis from 8.2% to 4.7%. However, on a YoY basis net margins are similar to 2Q22 levels.

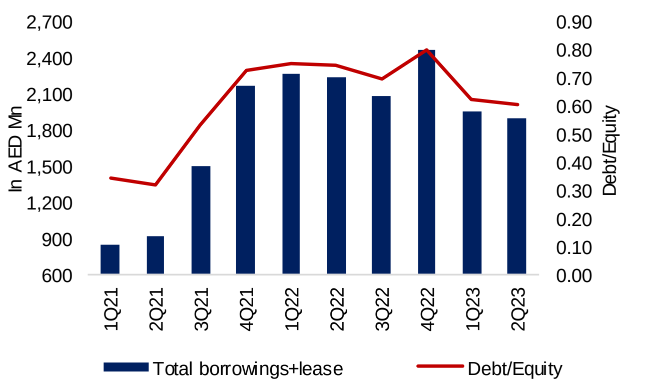
No major change in selling and distribution expenses



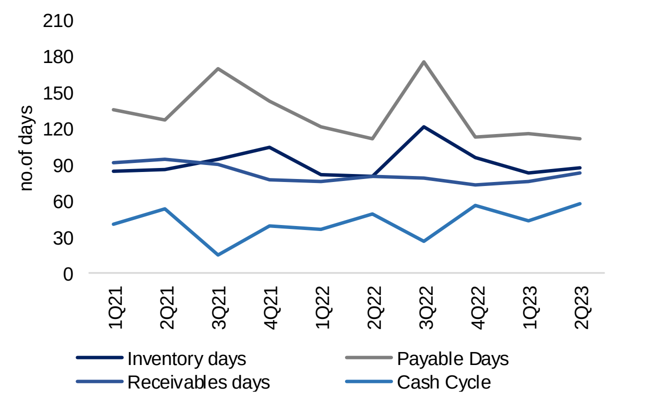
Admin expenses in line with past trends



Leverage levels are declining gradually



Working capital efficiency continues



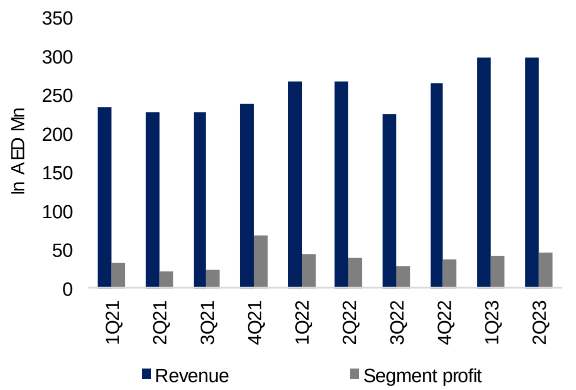
Source: Company reports, US Research

Segmental Analysis

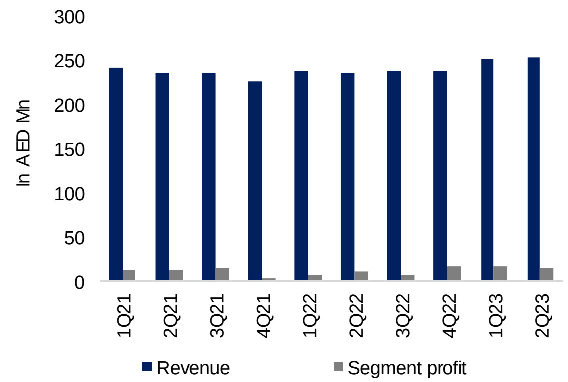
Agri business: Agri business contributed 29.6% to the revenue, growing at the similar rate as in 1Q23 at 13.6%. During 1H23 the Agri business grew 11.8% YoY due to strong volume growth, good distribution, improved product quality in flour and strong pricing for feed in the open market. In 1H23 the segment EBITDA margins were impacted by elevated raw material cost (grain cost increased by AED 23mn YoY) and declined by 93bps for the 1H23 to 16.4% from 17.2% during the same period previous year. However, EBITDA grew at a slower pace compared to revenue at 5.8% to AED 97.9mn in the 1H23 compared to 1H22.

Water & Food: In 2Q23 the Water & Food segment reported a revenue of AED 253mn registering a growth same as in 1Q23 at 7% YoY. In 1H23 the revenue grew 6.4% YoY on the back of growth across international channels (Turkey +55%, KSA +26% and Kuwait +26%). The revenue from bottled water was marginally low in UAE due to the Eid holidays. The segment reported EBITDA growth of 13.8% at AED 83.2mn in 1H23 resulting from volume growth, cost efficiencies in UAE & Saudi and channel & SKU optimization. During 1H23 the EBITDA margins improved by +107bps to 16.5%.

Agri business revenue grows by 13.6% in 2Q23 vs 2Q22



Water & Food revenue increases by 7% YoY in 2Q23

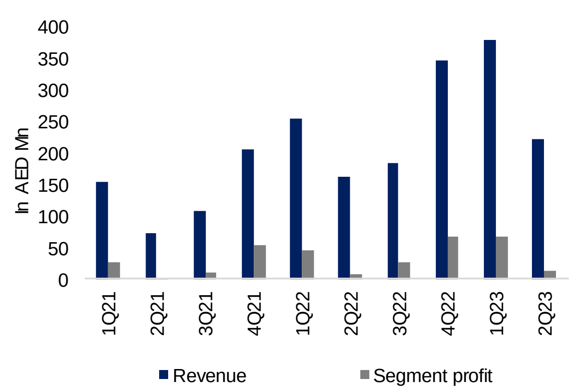


Source: Company reports, US Research

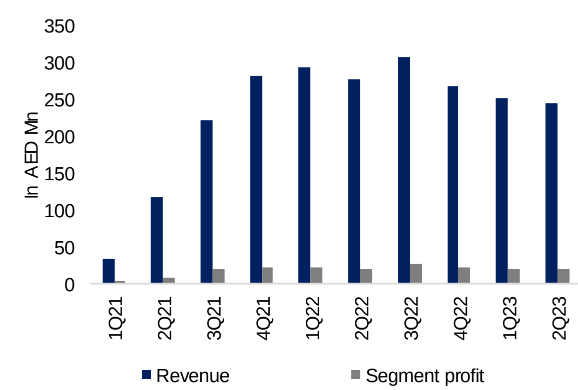
Snacking: The Snacking segment revenue rose 36.4% in 2Q23 contributing 21% to the total revenue. In 1H23 the segment's revenue grew 45.2% to AED 601mn from AED 414mn in 1H22 led by strong volume and price growth in dates coupled with innovative product and packaging. The key international date markets (India, Malaysia, Brazil) witnessed a shift in demand from bulk to retail and has gained robust demand for value added products. The 2H23 is expected to witness continued growth in the UAE and other international markets with the capacity expansion in chocolate dates. Under the snacking segment BMB and Abu Auf together contributed AED 269mn, with BMB benefitting from channel optimization in Saudi and Abu Auf led by robust volume and value gain in premium brand coffee supported by a 68.9% increase in local currency revenue. The 1H23 EBITDA grew 83.3% YoY ahead of revenue on favorable channel mix, strong pricing, production and distribution optimization.

Protein & Frozen: The Protein segment revenue contributed to 23.6% of the overall revenue and declined by 11.6% in 2Q23 on a YoY basis. 1H23 revenue also declined 13% YoY predominantly due to the devaluation of the Egypt currency. Excluding the forex impact, the segment grew 21.3% YoY in 1H23. Egypt generated local currency revenue growth of 42.5% YoY in 1H23 attributed by favorable mix, strong pricing, good brand equity and strong performance from frozen vegetables. In Jordan, strong growth in retail exports was alleviated by reduced food service volume into Saudi. The construction of the new Protein facility in Saudi is on track and is expected to be onstream during 1Q24. The segment's 1H23 EBITDA declined 12.4% at AED 74mn. Excluding the currency devaluation Protein segment's EBITDA grew 26.9% YoY despite the input cost inflation in Egypt. The 1H23 EBITDA margins increased marginally by 11bps YoY. The company is focused to strengthen the export resource in Egypt and anticipates growth in export volumes over the coming quarters.

Snacks revenue continues its growth momentum



Protein & Frozen declines adjusted for EGP devaluation



Source: Company reports, US Research

Net profit expectation reduced marginally: Agthia has been consistently reporting growth from its new segments. The strong growth from the Snacking has been the driver for growth. Water and Agri segments in which the company has leadership positions is also growing at high single digits. During the 1H23 the company reported a net profit of AED 144mn higher by 6.5% YoY. We are optimistic with regards to the company growth outlook and we believe commodity price and currency issues will keep margins compressed for the year and we reduce our net profit estimate for the full year from AED 392mn to AED 349mn. We arrive closer to the management guidance on net margins which is expected to increase by 30-50bps at 7.6% for the full year 2023.

Agthia ventures: The group in association with its parent ADQ has started a company - Agthia ventures, which will be a conduit to identify pockets of opportunity and acquire the same. The venture will begin with a total investment of AED 200mn over a span of 5 years out of which Agthia will contribute 25%. We await further clarification and since this is a new venture we have not factored in any financial impact on the group in our estimates.

Valuation and view: We had initiated coverage on the stock in June ’23 with a target of AED 5.99. The stock has moved 4.6% since then. Based on our revised estimate we assign a target price of AED 5.85 per share and the stock still trades attractively at 2023e EPS of 12.8x. This provides an upside of 14% from current market price and dividend yield of 5%. We retain BUY rating on the stock.

Income statement (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	2,039	2,061	3,068	4,067	4,609	5,317	5,995	6,722	7,554
Direct Costs	1,382	1,421	2,111	2,910	3,290	3,734	4,187	4,665	5,263
Gross Profit	**657**	**641**	**957**	**1,158**	**1,319**	**1,583**	**1,808**	**2,057**	**2,291**
Selling and distribution expenses	358	357	449	508	530	638	704	773	869
Administrative and general expenses	168	234	271	346	346	425	450	471	529
Research and development costs	7	7	10	9	7	27	30	34	38
Other operating Income / (expense)	10	-9	28	52	28	11	12	13	15
EBIT	133	33	255	347	464	504	636	793	871
EBITDA	**260**	**167**	**443**	**553**	**677**	**725**	**842**	**1,015**	**1,110**
Finance income	21	22	17	27	40	64	47	48	59
Finance costs	22	17	21	76	126	123	108	84	69
Share of profit/(loss) of JV/associate	-	-	-3	3	6	5	5	5	5
PBT	132	37	248	301	384	450	580	761	866
Income tax and Zakat expenses / credit	-4	1	17	29	35	40	52	69	78
Net Profit	**136**	**36**	**231**	**273**	**349**	**409**	**528**	**693**	**788**

Balance Sheet (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Right-of-use assets	76	73	109	87	75	84	84	82	80
Property, plant and equipment	1,102	1,050	1,500	1,446	1,347	1,293	1,286	1,272	1,250
Goodwill	276	276	1,524	1,859	1,859	1,859	1,859	1,859	1,859
Intangiable assets	83	80	494	563	563	563	563	563	563
Other non-current asset	3	-	24	17	17	17	17	17	17
Total non-current assets	**1,539**	**1,479**	**3,652**	**3,972**	**3,861**	**3,815**	**3,809**	**3,793**	**3,768**
Current inventories	336	346	708	847	987	1,120	1,465	1,400	1,842
Trade and other current receivables	580	528	816	891	1,014	1,170	1,319	1,680	1,586
Cash and bank balances	637	776	1,123	1,043	486	835	1,054	1,048	1,426
Other current assets	29	13	25	56	49	-	-	-	-
Total current assets	**1,582**	**1,662**	**2,673**	**2,836**	**2,537**	**3,126**	**3,838**	**4,129**	**4,855**
TOTAL ASSETS	**3,121**	**3,141**	**6,325**	**6,809**	**6,398**	**6,941**	**7,647**	**7,921**	**8,623**
Share capital	600	600	792	792	792	792	792	792	792
Share premium	-	-	652	652	652	652	652	652	652
Legal reserve	202	206	227	252	252	252	252	252	252
Translation reserve	-57	-64	-78	-151	-151	-151	-151	-151	-151
Retained earnings	1,216	1,157	1,167	1,268	1,487	1,896	2,424	3,117	3,905
Total Equity attributable to shareholders	**1,961**	**1,899**	**2,760**	**2,813**	**3,032**	**3,442**	**3,969**	**4,662**	**5,450**
Non controlling interests	29	30	210	273	300	340	393	461	539
Total equity	**1,990**	**1,928**	**2,969**	**3,086**	**3,332**	**3,782**	**4,362**	**5,123**	**5,989**
Prov for employees end of service benefits	80	81	124	116	121	149	157	165	185
Bank borrowings	8	237	1,637	1,711	1,678	1,678	1,678	775	500
Lease liabilities	57	53	74	56	61	59	55	56	52
Deferred government grant	-	-	29	24	20	-	-	-	-
Total non-current liabilities	**146**	**372**	**1,864**	**1,906**	**1,879**	**1,885**	**1,890**	**996**	**737**
Bank borrowings	513	299	422	676	29	17	4	500	500
Lease liabilities	17	19	33	30	26	25	24	24	22
Trade and other current payables	446	518	976	990	987	1,120	1,256	1,166	1,263
Other current liabilities	9	5	60	121	144	111	111	111	111
Total current liabilities	**986**	**841**	**1,491**	**1,817**	**1,187**	**1,274**	**1,395**	**1,802**	**1,897**
Total liabilities	**1,132**	**1,213**	**3,355**	**3,723**	**3,066**	**3,159**	**3,286**	**2,798**	**2,634**
Total equity and liabilities	**3,121**	**3,141**	**6,325**	**6,809**	**6,398**	**6,941**	**7,647**	**7,921**	**8,623**

Cash Flow (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	287	304	498	316	391	632	524	641	884
Investing cash flow	-184	-79	-1,642	-315	177	175	150	150	150
Financing cash flow	-142	-97	1,222	9	-679	-323	-592	-770	-719
Change in cash	66	138	348	-81	-556	349	218	-5	378
Beginning cash	571	637	776	1,123	1,043	486	835	1,054	1,048
Ending cash	**637**	**776**	**1,123**	**1,043**	**486**	**835**	**1,054**	**1,048**	**1,426**

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (AED)	0.228	0.057	0.273	0.312	0.402	0.471	0.606	0.796	0.906
BVPS (AED)	3.269	3.164	3.487	3.554	3.831	4.348	5.014	5.889	6.885
DPS (AED)	0.150	0.165	0.165	0.165	0.241	0.282	0.364	0.478	0.544
FCF per share (AED)	0.172	0.375	-1.446	0.001	0.718	1.019	0.852	1.000	1.306
Valuation									
Market cap (AED Mn)	2,160	2,550	4,077	3,150	4,061	4,061	4,061	4,061	4,061
EV (AED Mn)	2,118	2,383	5,120	4,580	5,368	5,004	4,768	4,368	3,709
EBIDTA (AED Mn)	260	167	443	553	677	725	842	1,015	1,110
P/E (x)	15.8	74.0	18.9	12.8	12.8	10.9	8.5	6.4	5.7
EV/EBITDA (x)	8.2	14.3	11.6	8.3	7.9	6.9	5.7	4.3	3.3
Price/Book (x)	1.1	1.3	1.5	1.1	1.3	1.2	1.0	0.9	0.7
Dividend Yield (%)	4.2%	3.9%	3.2%	4.1%	4.7%	5.5%	7.1%	9.3%	10.6%
Price to sales (x)	1.1	1.2	1.3	0.8	0.9	0.8	0.7	0.6	0.5
EV to sales (x)	1.0	1.2	1.7	1.1	1.2	0.9	0.8	0.6	0.5
Liqiudity									
Cash Ratio (x)	0.6	0.9	0.8	0.6	0.4	0.7	0.8	0.6	0.8
Current Ratio (x)	1.6	2.0	1.8	1.6	2.1	2.5	2.8	2.3	2.6
Quick Ratio (x)	1.3	1.6	1.3	1.1	1.3	1.6	1.7	1.5	1.6
Returns Ratio									
ROA (%)	4.4%	1.1%	3.7%	4.0%	5.5%	5.9%	6.9%	8.7%	9.1%
ROE (%)	6.8%	1.8%	7.8%	8.8%	10.5%	10.8%	12.1%	13.5%	13.2%
ROCE (%)	6.4%	1.5%	4.8%	5.5%	6.7%	7.2%	8.4%	11.3%	11.7%
Cash Cycle									
Inventory turnover (x)	4.1	4.1	3.0	3.4	3.3	3.3	2.9	3.3	2.9
Accounts Payable turnover (x)	3.1	2.7	2.2	2.9	3.3	3.3	3.3	4.0	4.2
Receivables turnover (x)	3.5	3.9	3.8	4.6	4.5	4.5	4.5	4.0	4.8
Inventory days	89	89	122	106	110	110	128	110	128
Payable Days	118	133	169	124	110	110	110	91	88
Receivables days	104	93	97	80	80	80	80	91	77
Cash Cycle	75	49	51	62	80	80	99	110	117
Profitability Ratio									
Net Margins (%)	6.7%	1.7%	7.5%	6.7%	7.6%	7.7%	8.8%	10.3%	10.4%
EBITDA Margins (%)	12.7%	8.1%	14.4%	13.6%	14.7%	13.6%	14.0%	15.1%	14.7%
PBT Margins (%)	6.5%	1.8%	8.1%	7.4%	8.3%	8.5%	9.7%	11.3%	11.5%
EBIT Margins (%)	6.5%	1.6%	8.3%	8.5%	10.1%	9.5%	10.6%	11.8%	11.5%
Effective Tax Rate (%)	-3.0%	4.0%	6.8%	9.5%	9.0%	9.0%	9.0%	9.0%	9.0%
Leverage									
Total Debt (AED Bn)	596	608	2,166	2,472	1,794	1,778	1,761	1,356	1,075
Net Debt (AED Bn)	-42	-167	1,043	1,430	1,308	943	707	307	-352
Debt/Capital (x)	1.0	1.0	2.7	3.1	2.3	2.2	2.2	1.7	1.4
Debt/Total Assets (x)	0.2	0.2	0.3	0.4	0.3	0.3	0.2	0.2	0.1
Debt/Equity (x)	0.3	0.3	0.7	0.8	0.5	0.5	0.4	0.3	0.2
Net Debt/Capital (x)	-0.1	-0.3	1.3	1.8	1.7	1.2	0.9	0.4	-0.4
Net Debt/Total Assets (x)	-0.0	-0.1	0.2	0.2	0.2	0.1	0.1	0.0	-0.0
Net Debt/Equity (x)	-0.0	-0.1	0.4	0.5	0.4	0.2	0.2	0.1	-0.1

Key contacts

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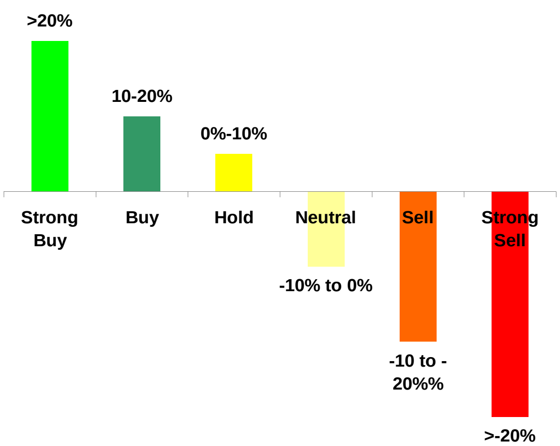
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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