

FMCG

BUY: 12M TP @ 5.99

Valuation Summary (TTM)

Price (AED)	4.90
PER TTM (x)	15.4
P/Book (x)	1.4
P/Sales (x)	0.9
EV/Sales (x)	1.1
Dividend Yield (%)	3.4
Free Float (%)	29%
Shares O/S (mn)	792
YTD Return (%)	23%
Beta	0.6

(mn)	AED	USD
Market Cap	3,879	1,056
Total Assets	5,428	1,478

Price performance (%)

	1M	3M	12M
Agthia Group PJSC	1%	18%	1%
FTSE ADX GENERAL INDE	-3%	-5%	-4%

Trading liquidity (,000)

	1M	3M	6M
Avg daily turnover (AED ,000)	4,518	3,094	2,508
Avg Daily Volume (,000)	1,002	681	579

52 week

	High	Low	CTL*
Price (AED)	5.48	3.87	26.6

* CTL is % change in CMP to 52wk low

Major shareholders

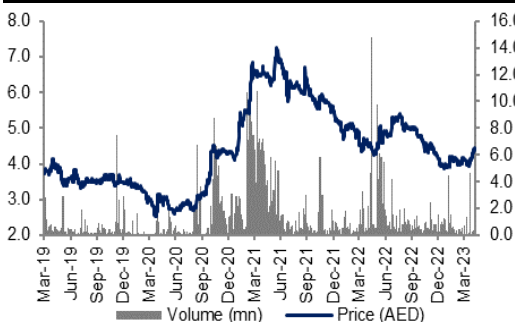
General Holding Corp	63%
Norges Bank	4.1%
Emirates Internation	3.8%
Others	29.3%

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 Group – Synergies at play

Agthia is a UAE based FMCG behemoth operating across 45 countries. It is the third largest FMCG player in the GCC+Egypt region with over 35 brands in the Agriculture and consumer segments. The company is undergoing rapid transformation from a semi government institution to a professionally run organization. ADQ, the sovereign wealth fund of Abu Dhabi is the major shareholder and provides solid support in terms of access to capital, network and management bandwidth. ADQ has merged some of its group companies with Agthia and initiated other takeovers to create a larger and more efficient organization. Post consolidation the revenue and profits for Agthia have doubled to record levels at AED 4.1bn and AED 273mn in 2022 from 2019. Agthia has actively undertaken the task of bringing synergies in operations amongst the group companies. Economies of scale are driving operating efficiencies, lower procurement costs and decreasing overheads, this will lead to improvement in margins going forward. We are positive on the developments taking place in the company and we believe the company is entering its next phase of growth with the recent acquisitions. We expect revenue growth of 14% and net profit is likely to grow by 24.3% CAGR over 2022-27e. We assign a target price of AED 5.992/share based on the DCF and peer valuation. Our target price provides an upside of 22.3% from the current market price and we recommend to BUY the stock.

ADQ's vision provides the adequate support for growth: ADQ, the ultimate parent company of Agthia was formed in 2018 to manage all the investments of the Government. This sovereign fund has been incorporated with an objective to bring significant efficiencies within the portfolio companies. We believe ADQ has been aggressively pursuing this path across the board, and impact of the same has been implied in the case of Agthia. Changes in board, management, consolidation of similar entities and well planned expansion strategies are all result of the changes happening at the parental level. This is an extremely positive push which will sustain the growth for Agthia going forward.

Inorganic expansion falling in line, synergies to be evident from 2023 onwards: The period between 2020-22 witnessed 6 acquisitions by Agthia. These were done with the objective to improve the consumer division of the company. The acquired companies were market leaders in their respective segments. Consolidation of these companies, optimizing resources, reducing costs, cross selling, standardized packaging etc. are some areas where synergies are being built. The company has witnessed cost savings to the tune of AED 137mn in the last couple of years. We believe the initial phase of the improvements are over and the next phase would be in 2023 which would further enhance the operational efficiencies of the group.

Changes in product mix to sustain margins: High raw material costs, low revenue growth and thin margins were the issues faced by Agthia prior to 2020. Post the addition of new brands from the snacking and protein segments the overall product portfolio mix has changed for the better. The low margin agriculture and water business which had contributed to 93% of the revenue and 95% of profits in 2020 stands reduced to 49% and 44% respectively in 2022. The legacy business giving way to the new ones will provide adequate cushion to the margins.

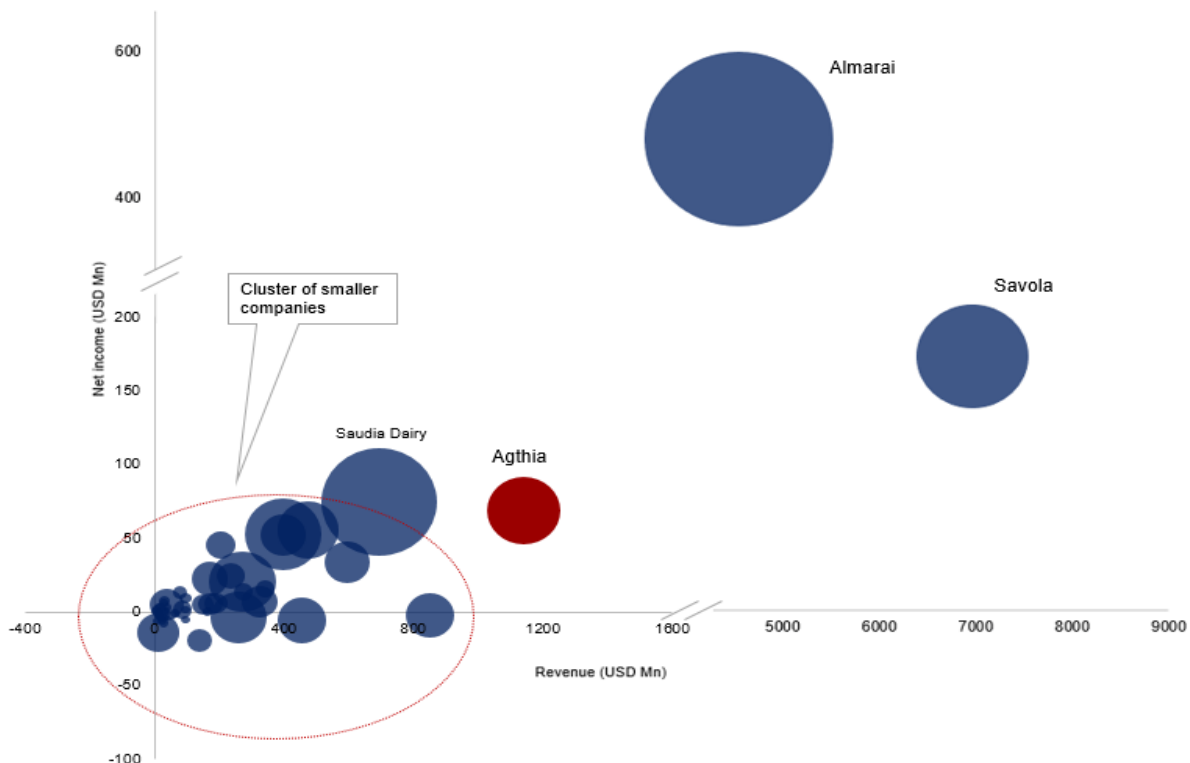
Valuation: Agthia is one of the largest and fastest growing FMCG player in the region. The solid parental support, new management team and the changes in the product mix will provide adequate impetus to growth and warrant a re-rating. We value the stock on the basis of DCF and analyze Agthia along with its global and regional peers to arrive at a blended target price of AED 5.99/share. This provides an upside potential of 22.3% from the current price and we provide a BUY rating on Agthia.

Agthia is a regional leader in the FMCG segment ...

Agthia has grown exponentially to become an FMCG leader in the region

Agthia was incorporated in 1978 with the support of the Government of Abu Dhabi and had its humble beginnings as an animal feed and flour company. It has come a long way in the last four decades and is currently one of the largest FMCG players in the region. The company manages 35+ brands, exports to over 45 countries, has 21 manufacturing facilities, 21 distribution centers and employs over 11,800 people. The company has two major business segments- Agri Business Division (ABD) and the Consumer Business Division (CBD). While the ABD is involved in the manufacturing and distribution of flour and animal feed, the CBD includes multiple products related to food and water. Together the company reported a consolidated revenue of AED 4 bn and profit of AED 273 mn in 2022.

Agthia is 3rd largest in terms of revenue, 4th in profits and 5th in Marketcap across the MENA



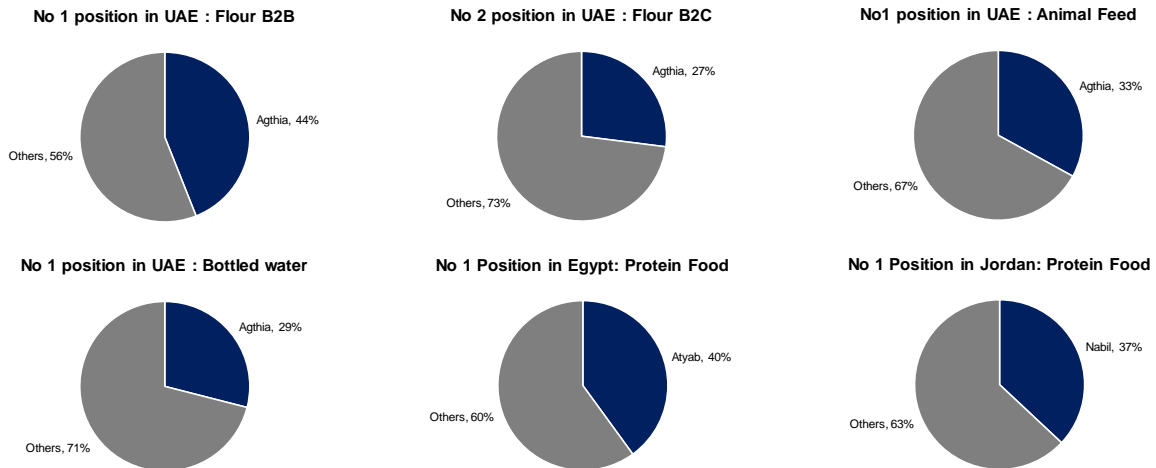
Source: Bloomberg ®, US Research, ^ Size of the bubble represents the market cap of the company

There are about 45 listed companies in the packaged food and meat industry across GCC and Egypt. The industry is highly fragmented with majority being smaller companies with one or two products and operating on thin margins. The larger companies in the industry are a handful which own multiple brands and serve many food categories. Only 3 companies have more than a billion dollar in revenue. Saudi leads the sector with Savola (2022 rev \$ 7.5Bn) and Almarai (2022 rev.\$ 5.1bn) followed by UAE based Agthia (2022 rev \$ 1.1bn) in the third position.

Agthia has achieved leadership in most brands that it operates ...

Agthia had already been the market leader in its legacy bottled water, flour and animal feed business in the UAE before it started out on acquiring companies in 2020. It added consumption brands related to protein and frozen snacks in Jordan and Egypt, both of which were market leaders with nearly 40% market share. The company also bought Al Foah which is one of the world's largest supplier of dates; the house-hold bakery brand Al Faysal which is a three-decade old entity based in Kuwait and the largest confectionary in the GCC Baklawa Made Better (BMB) and finally the snacking segment leader Abu Auf which has significant presence in Egypt.

Leadership position in several brands: Dominates UAE markets, new buys are top players in their respective categories



Source: Company presentation

Aggressive geographic diversification in the last two years ...

Further, the company has also accomplished geographic diversification over the last two years. It has increased its export orientation, and in 2022 derived 51% revenue from outside UAE, this was only 10% in 2020. Agthia is clearly aiming at a sustainable top line growth by capturing existing market share from competitors, diversifying the product pipeline along with expanding its footprint across the borders.

We believe FMCG is an industry which is highly sensitive to price and brand positioning. It requires several years to achieve leadership and size after cutting across severe competition. Agthia has taken a shortcut with its recent approach of inorganic growth and we are optimistic on the growth prospects considering the vibrant market that it caters to (MENAP) which has over 350Mn people as potential customers across the variety of categories.

Agthia's recent growth is a trickledown effect of parental push and consolidation of group holdings

Agthia was incorporated to address the food security problem of UAE...

Agthia is a government of Abu Dhabi promoted company incorporated with the objective of providing food security to the nation at a time when the country was in its nascent stages. It was one of the very few players operating in the food sector in the country during the early 1980s when infrastructure was limited and population was low. UAE is currently one of the fastest growing and most vibrant nations in the world. The social cause for setting up Agthia gradually faded with the transformation of the country and it has manifested itself into a commercial organization with a professional management.

ADQ pursues consolidation of all government investments

However, the transformation of Agthia into a professional organization is part of a larger plan by the Abu Dhabi government. The government established ADQ (erstwhile Abu Dhabi Development Holding Company) in 2018 as a sovereign wealth fund. The purpose was to bring all its investments under one roof, consolidate and manage them in the most efficient manner. 11 asset transfers from the government into ADQ took place in 2019, and 23 in 2020, amongst which General Holding Corporation (Seenat) was one of them. Seenat is the major shareholder in Agthia, currently having 63% ownership in the company.

ADQ has strived to make measureable changes across its investment portfolios...

ADQ in the last 3 years has been aggressively consolidating its investment portfolio which includes Energy, Food & Agri, Healthcare, Logistics, Financial Services, Tourism & Real estate. It has merged, right sized, provided capital and improved the performance of most entities by creating fewer and larger corporations, on the lines of a PE fund. ADQ has also installed a new team of professional management in its investment companies whenever required. It has funded expansion projects, assisted group companies in building their network and most importantly brought accountability across the board.

The recent changes in Agthia, is part of a long term vision ...

In the case of Agthia, ADQ has changed the board and the top management. It has facilitated group companies such as Nutrivation and Ideal Holding to sell its stake in Al Nabil to Agthia and Seenat to transfer its ownership in Al Foah to Agthia. This has consolidated all the food divisions of ADQ and brought them under one roof for easier control, monitoring and management. Currently there are six investments in the ADQ portfolio related to Food and Agriculture, which include Louis Dreyfus Company (LDC), Agthia, Al Dahra, Unifruitti, Silal and Lulu International Holdings. These companies together operate as leaders across the food ecosystem and offer humongous opportunities to complement each other.

We are extremely positive on the aggressive stance taken by ADQ and the impact it has created in its investment portfolio. The pursuit to maximize profitability is being pushed by the parent from the top and we believe the trickle-down effect from the larger plan will offer a sustainable growth opportunity for Agthia.

Moving from government to professional run company, commodity to value added brands ...

Synergies from recent acquisitions to be evident from 2023 onwards

Prior to 2020 Agthia was a semi government organization primarily focused in UAE. It undertook a transformation strategy to re-invent itself into a F&B leader. The changes envisioned the company to move from a commoditized business and to own value added brands, increase the geographic footprint across the borders, introduce latest technologies and modernize operations.

A new set of board members stepped in April 2020 and a new CEO took over in July 2020. The replacements were made specifically with the objective to achieve the new goals as soon as possible. Over the next couple of years 6 acquisitions were made at a cost of AED 2.7bn. As a result, the consolidated revenue doubled from AED 2 bn in 2020 to AED 4.1bn in 2022.

The current product portfolio of Agthia is diverse and ranges from staple to discretionary



Source: Company presentation

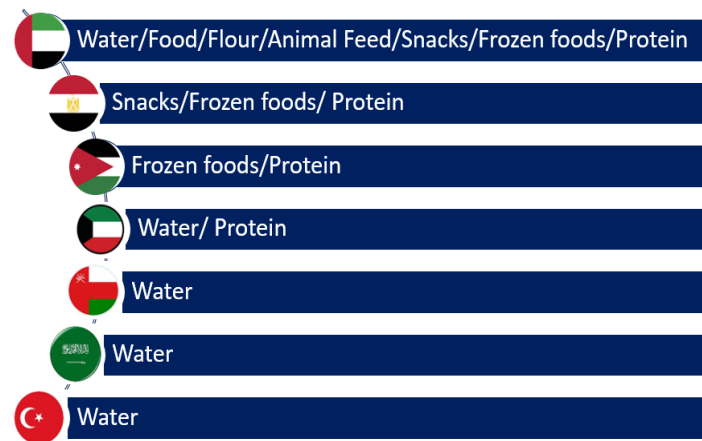
Multiple areas identified where synergies could help lower cost and cross sell products ...

Agthia intends to bring in synergies with these acquired companies some of which are over three decades old with an established customer base, set process and distinct product profile, while others are still evolving. Increasing the synergies and integrating these new divisions is critical to the success of the group and its operations. The company has identified numerous products, channels, sourcing, manufacturing and packaging synergies between its various business divisions.

As a first step, it has begun the process of consolidating the manufacturing operations of these new businesses across the 21 manufacturing plants that it owns in 7 countries. BMB, one of the recent acquisitions moved its operations from Jebal Ali to Abu Samra in Al Ain. Similarly, operations in Saudi, Kuwait and Egypt are expected to achieve consolidation by 2023-

24. The consolidation process has also benefitted in reducing procurement costs, standardization of raw materials, improved supply chain efficiency and packaging quality for the entire group. The company estimated cumulative cost savings of AED 137mn through the synergies from 2020 to 1Q23.

Production centers are scattered across the region



Source: Company reports, US Research

Additionally, these acquisitions have brought scale in operations, cross selling opportunities, financial support, management bandwidth and a wide spread distribution network to sell the products. Some of these factors were lacking across these home grown companies that were acquired. Agthia’s data driven approach to transform these local business into power brands is also proving to be effective. We are positive on Agthia’s strategy of integrating the new business divisions while retaining their erstwhile local flavor. We believe the positive impact of the consolidation will become visible with the improvement in revenue, operational efficiencies and profits from 2023 onwards as these plans get executed.

Details of acquired companies and synergy plan

Company	Snacking				Protein and frozen foods	
	Al Foah	BMB	Abu Auf	Al Faysal	Al Nabil	Atyab
Estd year	2005	2007	2010	1991	1945	2008
Items	Dates	Confectionery/ chocolates	Coffee/healthy snacks	Bakery/Snacks	Protein, frozen foods	Frozen Beef/Chicken snacks
Location	UAE	UAE	Egypt	Kuwait	Jordan	Egypt
Time of acquisition	1-Jan-21	1-Dec-21	1-Jul-22	13-Jul-05	1-May-21	1-May-21
Employees	497	950	2500	485	907	2431
USP	World no 1 date farmer	Largest confectionery/ chocolate manufacturer from GCC	Pioneer in health bars and coffee	High quality pre- packaged goods	Biggest supplier of meat in Jordan	Premium meat products
Steps undertaken to improve synergies	1. Assistance in right sizing of operations	1. Shifting Jebal Ali operations to Agthias Abu Samra facility	1. Utilising Agthia's production facilities to optimise resources	1. Upgrade Al Fayasal's operations in line with Agthia Kuwait's water business	1. Uplift operational efficiency, cut overhead costs	1. Utilise Agthia's financial strength, network and technology background to optimise cost and enhance sales
	2. Building power brands, utilising Agthia's sourcing bandwidth, expand to Europe	2. Build economies of scale, reduce cost over heads	2. Support in logitics and demand generation	2. Integrate the Agthia and Al Fayasal as single unit	2. Integrate all protein units and work as single business segment	
	3. Integrate factories, distribution centers, combine other snacking business to cross pollinate revenue	3. Integrate with other snacking units	3. Integrate operations, supply chain with other snacking divisions	3. Expand foot print outside Kuwait using common channels		

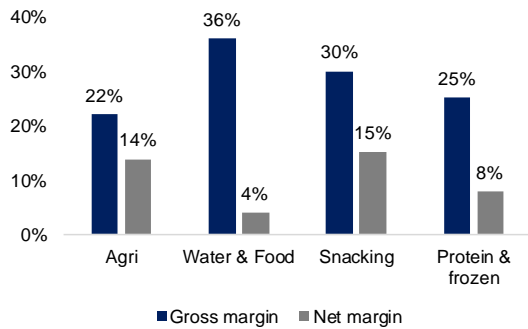
Source: Company reports, US Research

**Higher revenue from
value added products to
offset low margin legacy
brands and keep blended
margins stable...**

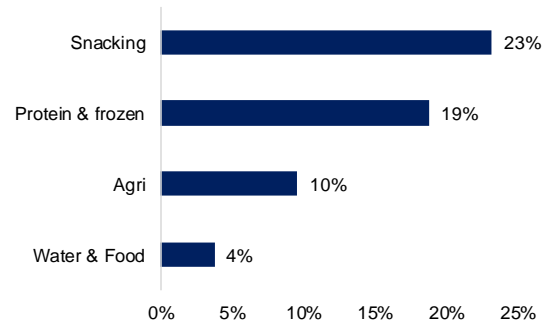
Changes in product mix to keep margins stable

The changes in the product mix and the shift towards higher margin products have improved the overall realization. In 2020, the low margin water, flour and animal feed contributed to 93% of the revenue while the rest was from the higher margin protein and snacks segment. Currently the legacy business contributes to 49% while the new divisions have added 51% of the revenue. The company hopes to reduce the revenue contribution from the legacy business to about 25% going forward. Net profit contribution has also changed significantly over the last two years with legacy business contribution declining from 95% in 2020 to 44% in 2022.

Net margin highest for branded snacks in 2022



Snacking segment to see high CAGR (2022-27e)

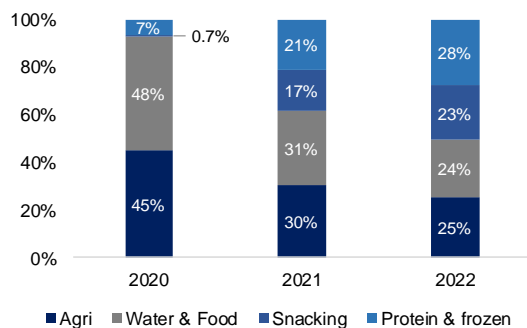


Source: Company reports, US Research

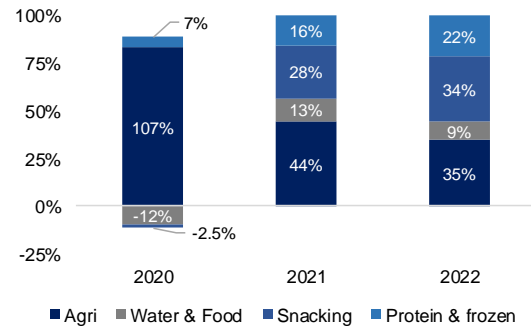
Snacking and protein segments to drive the next phase of growth in top and bottom line...

While gross margins are high for the Agri segment at 22%, the net margins have declined recently due to the rise in raw materials. In the case of water, the gross margins are at 36% while net margins are at a low of 4%. The growth in the water segment has also lagged over the years (de-growth by 4% in 2021 and growing by a meager 1.4% in 2022). Snacking is the most promising segment with gross margin of 30% and net margin of 15%, it is expected to grow fastest amongst the basket of products at a CAGR 23% (2022-27e). Protein and Frozen foods will witness improvement in margins on account of consolidation and is expected to grow at 19% CAGR (2022-27e).

Revenue from Snacking+Protein at 51% in 2022



Profit from Snacking and Protein at 56% in 2022



Source: Company reports, US Research

Financial parameters witness changes on account of consolidation

Agthia witnessed a change in the structure of its balance sheet in 2021 post the acquisitions. Funds were raised via debt and equity to purchase six companies for a total deal value of AED 2.7bn.

in AED Mn	Snacking				Protein and frozen foods		Total
Company	AI Foah	BMB	Abu Auf	AI Faysal	AI Nabil	Atyab	
Ownership	100%	100%	60%	100%	80%	75%	
Fair value	347	204	151	64	319	196	1282
Good will	102	481	334	97	200	425	1640
Non controlling interest	0	-41	-61	0	-64	-49	-214
Total Deal value	450	644	425	161	520	573	2773
Borrowings in balance sheet at the time of purchase	0	3	22	4	49	8	86

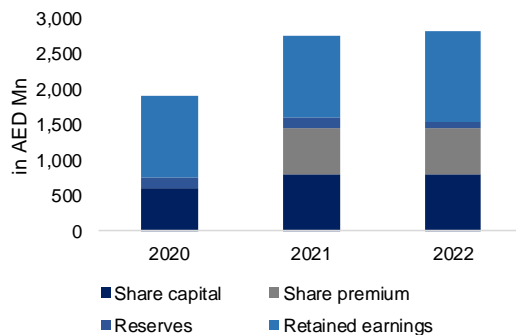
Source: Company reports, US Research

Additional shares issued for acquiring group companies...

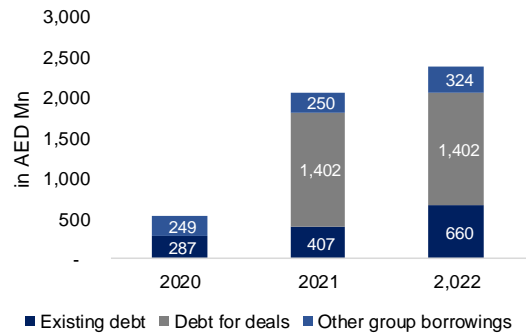
Two of the deals entered into by the company were by issuing additional shares of Agthia to the promoter and other group entities through a share purchase agreement (SPA). AI Foah was bought for a value of AED 450 mn in Jan 2021, by issuing 120mn new shares at AED 3.75/share. The entire operations and ownership of AI Foah was transferred from the erstwhile owner Seenat. Seenat was also the largest shareholder in Agthia with a holding of 51%. The new allotment of shares increased the shareholding of Seenat in Agthia to 59.17%.

Further increase in share capital took place during the same year when the company purchased AI Nabil in May 2021, from another sister concern and portfolio company of ADQ, Nutrivation. The total consideration of the deal was AED 520mn which was partly paid by issuing a mandatory convertible instrument of value AED 393.7mn that converted to 71.58mn new shares at AED 5.5/share. These shares were given to Nutrivation as the consideration for 60% ownership in AI Nabil. The bonds were immediately converted to shares and this was internally transferred to Seenat, taking its shareholding in Agthia to 62.8%. The remaining amount of AED 126mn was paid in cash to Ideal Holding another group company of ADQ for 20% ownership. Through this Agthia took 80% ownership in AI Nabil. Post these two deals the share capital of Agthia increased from AED 600mn in 2020 to AED 791.6mn and added a share premium of AED 652mn in 2021.

191.58 mn shares issued for acquisitions in 2021



Cumulative debt taken for the deals was AED 1.4bn



Source: Company reports, US Research

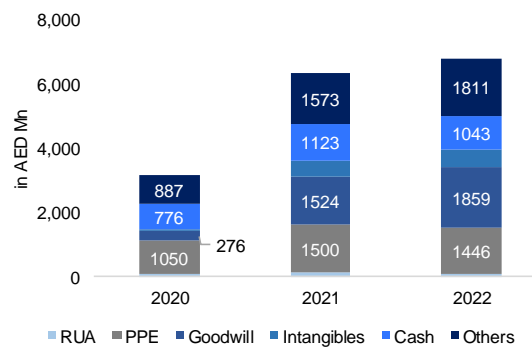
Borrowings increased significantly to fund the remaining four transactions...

In 2020, Agthia bought 100% ownership in BMB and Al Faysal by paying AED 646mn and AED 161mn respectively. The company also took majority stake in Atyab (75%) in May 2021 and Abu Auf (60%) in July 2022 for a value of AED 573mn and AED 350mn. All these four transactions were settled in cash and funds were raised via debt. The group availed four long term loans in 2021 amounting to AED 1.4bn for a tenure of 5 years with bullet repayment in 2026. It also consolidated existing loans in Al Faysal in 2020, Al Nabil and BMB in 2021 and Abu Auf in 2022. These additional borrowings along with the ones taken for other group entities increased the total carrying value of all the loans from AED 536mn in 2020 to AED 2.1bn in 2021 and further to AED 2.4bn in 2022. Finance costs increased from AED 17.3mn in 2020 to AED 75.9mn in 2022. The debt of Agthia is backed by government related entities hence the credit rating is high. This is reflected in the low cost of borrowings, which is in the range of LIBOR+ 0.4% to 1.2%. We do not expect significant addition in long term debt going forward. Further, we believe since all acquisitions are earnings and cash accretive the additional income will suffice to service the debt.

Consolidation of balance sheet resulted in rise in tangible and intangibles...

Consolidation of the fixed assets in 2021 also led to increase in its value by AED 450mn taking the total tangible assets from AED 1bn in 2020 to AED 1.45bn in 2022. These back to back deals also led to accumulation of goodwill (AED 1.9bn) and intangibles (AED 563mn) in 2021-22. Goodwill being the excess cost of acquisition paid over the fair value of the acquired assets and intangibles related to assets such as brand equity and customer relationships. Both these intangible items contributed to 35.6% of the total assets in the balance sheet in 2022.

Marked increase in assets on account of consolidation

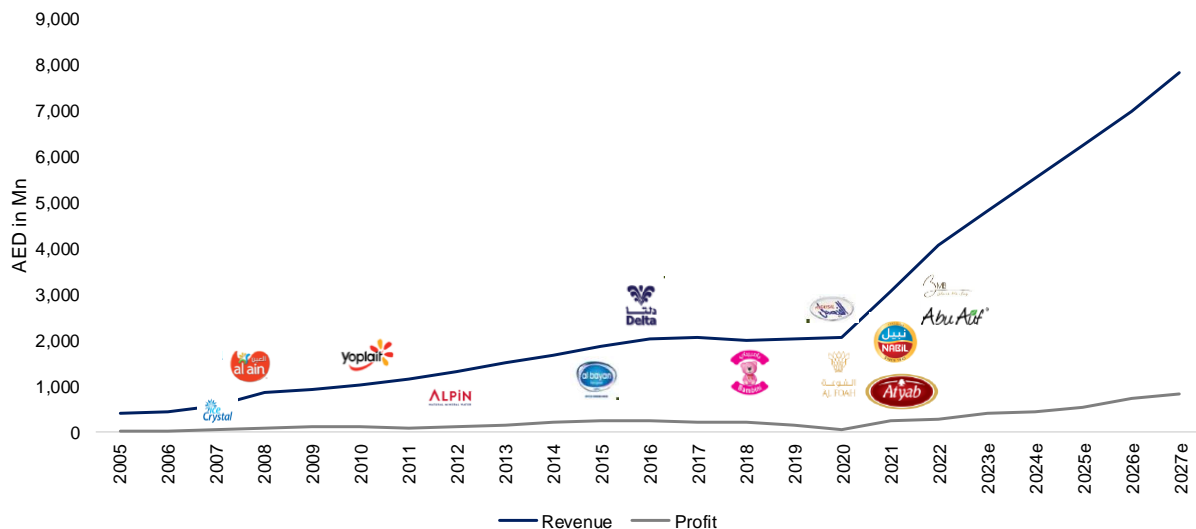


Source: Company reports, US Research

Revenue trajectory to change sharply upwards from 2023 onwards...

As a result of consolidation, in 2022, the company recorded its highest ever revenue and profit of AED 4.1 bn and AED 272 mn respectively. The revenue doubled from 2020 levels and increased by 32.6% from 2021. We believe Agthia is moving into the next stage of growth leaving behind its erstwhile local legacy business. Revenue growth from 2005 over the next 15 years till 2020 was CAGR 11.5% and we expect this rate of growth to increase to CAGR 14.5% going forward and through our forecast period 2022-27e. Profits grew by a CAGR growth of 11.7% in the past and we expect the trajectory to shift upwards to 24.3% CAGR (2022-27e) primarily triggered by the fast growth in the high margin consumer division. We expect the consumer division to grow at a CAGR of 15.7% (2022-27e), with gross margins in the range of +30% and contribute 79% (c74.5%) of the total revenue by 2027e. We estimate the Agri business to grow at 9.8% CAGR (2022-27e), with a gross margin of 22% and have a lesser share in the consolidated revenue of about 21% (c26%).

Agthia entering its super phase of growth, regular addition of brands over the years...



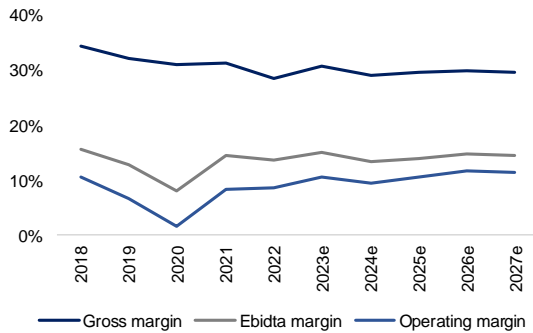
Source: Company reports, US Research

Additional triggers for revenue growth could arrive from the company’s ambition to leverage data as a strategic asset and to increase digital revenue streams. This will lead to new routes in marketing and build a wider customer base. Agthia’s expects to become a significant player in the e-commerce space through digital marketing.

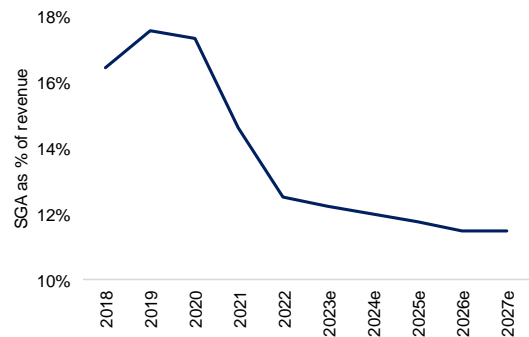
Lower raw material costs and improvement in procurement will hold gross margins ...

As in the case of most flour and feed manufacturers across the globe, the high wheat, soy and corn prices affected the raw material cost for Agthia in 2022. Raw material formed 75% of the total cost of goods sold in 2021 and it increased to 79% in 2022. The government partially compensated for the price increase by providing a subsidy, the amount of which was AED 150mn in 2021 and AED 121mn in 2022. The rise in raw material cost led to a decline in gross margins by 270bps from 31.2% in 2021 to 28.5% in 2022. While the prices have declined from peak levels it continues to remain higher than historic averages. Agthia hopes to improve its sourcing methods using technology and diversifying the countries from which it purchases. The requirement for larger amount of raw materials going forward on account of the additional requirements from the new entities will also improve the purchasing power for the group. We expect gross margins to hold in the range of 29-30% going forward.

Margins to remain stable and within guidance



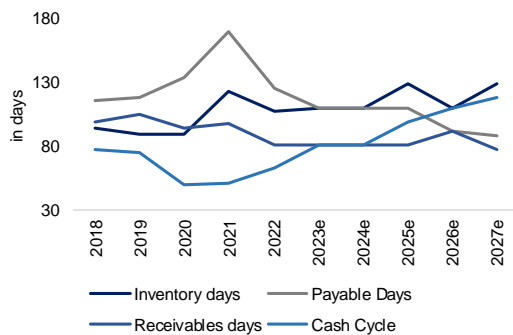
Gradual decrease in SG&A expenses



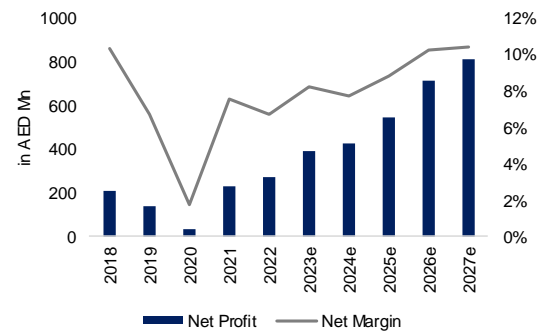
Source: Company reports, US Research

Economies of scale, use of technology, right sizing various departments have led to better operating parameters. Operating margins have witnessed minor improvements in 2022 on account of lower salary, admin and selling expenditures. We expect operating margins to increase significantly by 200 bps to reach 10.6% in 2023e and remain stable within that range till 2027e. EBIDTA margins will also witness increase from current levels backed by improvement in operational efficiency. EBIDTA margin expected to increase by 150 bps to 15.1% in 2023e from the current level 13.6%.

Inventory management to remain stable



Net profit to grow rapidly, margins to improve



Source: Company reports, US Research

Management guidance conservative and achievable...

The company has guided a revenue growth of 10-12% in 2023 and the EBITDA and group net profit margins to increase by 40 to 60bps and 30 to 50bps respectively. In 2025 Agthia expects its revenue to reach AED 6bn, and has guided 15.5-16.5% EBITDA margin and 8.5-10% net profit margin. While our revenue estimates match the 2025e value of AED 6bn, we believe the company is being conservative on the margin guidance given the current issues related to raw material costs. We hope cost savings out of synergies will help aid EBITDA and net margins. Our base case forecast for profit growth over 2022-27e CAGR is 24%.

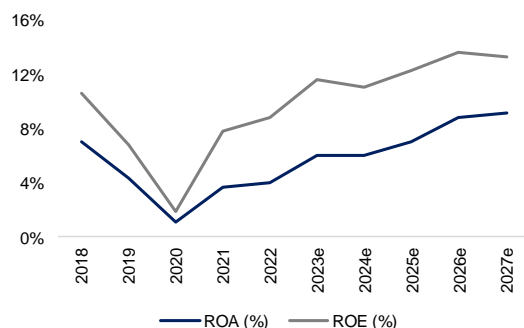
Adequate cash, moderate capex, stable inventory management...

Despite the outflow from the purchases, debt servicing and dividend payments the company maintains adequate cash. Agthia reported 2022 cash balance of AED 1bn, however repayment of some bank borrowings reduced the cash balance to AED 674mn in 1Q23. We do not expect significant cash outflow on account of capex. The board had approved construction of a manufacturing plant in Jeddah for Al Nabil at a cost of AED 84mn which is the only one in the pipeline. Inventory management has been stable with receivable days less than 3 months and cash conversion around 3.5 months. We do not estimate significant changes in the working capital cycle for the company as it follows a stable process of operations with scope only to improve from the current levels.

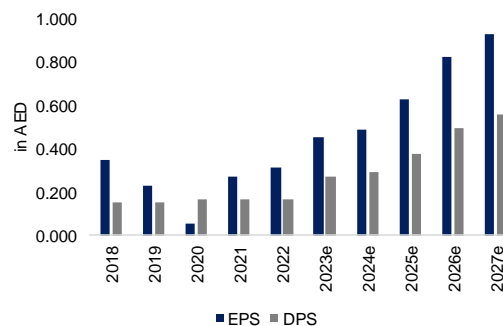
DPS to increase on stable payout and higher profits...

The company has maintained a semi-annual dividend policy of AED 0.0825 (full year AED 0.165) since 2020 with a payout ratio of about 55-60%. We expect the payout ratio to remain at 60% and higher dividends to be paid as profits increase. At current price the stock trades at a 2023e dividend yield of 5%.

Return ratios to improve as profitability rise



Dividends to increase going forward



Source: Company reports, US Research

Valuation

We have used the Discounted Cash Flow (DCF) and peer valuation method to value Agthia. In our DCF method we have forecasted through 2023-2027e. We considered the cost of equity of 11.3% derived from risk free rate of 5.0%, Equity Risk Premium of 8%, and beta of 0.791. We arrive at a WACC of 10.2% for the company. We assume a terminal growth rate of 1% post the forecast period. Our DCF valuation of Agthia provides an intrinsic value of AED 5.946 per share which is 21.3% higher from the current price.

DCF target price of AED 5.946/share

DCF Method (in AED Mn)	2023e	2024e	2025e	2026e	2027e
Post-tax operating profit (NOPAT)	472	478	601	745	815
Add: Depreciation & amortization	172	179	157	164	172
Less: Change in working capital	-308	-161	-371	-398	-259
Less: Capex	-123	-125	-150	-150	-150
Free Cash Flow to Firm	213	371	237	361	578
PV of Free Cash Flows	201	318	184	255	408
PV of Terminal Value					4,885
Enterprise Value					6,252
Less: Net debt					1,430
Less: Minorities & Pension liabilities					116
Equity value					4,707
No of shares					792
Fair value per share (AED)					5.946

Valuation parameters	
Risk free rate (Rf)	5.0%
Beta	0.791
Equity Risk premium (Rm)	8.0%
Cost of equity (Ke)	11.3%
Terminal growth rate (g)	1.0%
Pretax Cost of Debt	6.7%
Effective tax rate	15.0%
After tax cost of debt	5.7%
Target Debt/Equity	20.0%
WACC	10.2%

Peer valuation	
EV/EBIDTA (TTM)	8.3
Target EV/EBIDTA	11.0
Fair value (AED)	5.877
PE (TTM)	12.8
Target PE	18.0
Fair value (AED)	6.198

Blended Target price	Wtg	Target pr	Wtd value
DCF	50%	5.946	2.973
EV/EBIDTA	25%	5.877	1.469
PE	25%	6.198	1.550
Target price			5.992
CMP			4.900
Potential upside			22.3%

Blended price target of AED 5.992/share

On a peer valuation, we find the global sector average TTM PE is at 24x and regional average is at 25x. Also on an EV/EBIDTA (TTM) basis the global average is at 16x and regional average at 13x. Agthia trades at a discount when compared to regional and global players. We provide a target PE multiple of 18x and target EV/EBIDTA multiple of 11x. We arrive at a blended target price (50% DCF, 25% each for PE and EV/EBIDTA) of AED 5.992/share which provides a potential upside of 22.3%. Based on our target price we recommend to BUY the stock at the current level.

Name	Country	Marketcap (\$ Mn)	Revenue (\$ Mn)	Profit (\$ Mn)	P/E	P/B	EV/EBIDTA
Global peers							
NESTLE SA-REG	Switzerland	317,807	99,286	9,728	31.6	6.9	21.2
MONDELEZ INTERNATIONAL INC-A	United States	98,557	32,898	3,943	24.5	3.5	23.5
HERSHEY CO/THE	United States	52,402	10,741	1,699	29.3	15.3	20.5
GENERAL MILLS INC	United States	48,909	19,955	2,802	19.4	4.8	14.4
KRAFT HEINZ CO/THE	United States	46,451	26,929	2,423	13.4	1.0	14.0
DANONE	France	40,369	29,103	1,031	37.2	2.0	15.9
CHOCOLADEFABRIKEN LINDT-REG	Switzerland	28,334	5,197	594	45.5	6.0	25.9
MCCORMICK & CO-NON VTG SHRS	United States	22,943	6,394	666	34.1	4.7	26.4
KELLOGG CO	United States	22,763	15,696	836	17.4	5.7	14.9
HORMEL FOODS CORP	United States	20,949	12,385	978	22.1	2.7	15.2
AJINOMOTO CO INC	Japan	20,652	10,039	695	30.8	3.7	14.2
TYSON FOODS INC-CL A	United States	18,627	53,625	1,507	11.6	0.9	7.9
ASSOCIATED BRITISH FOODS PLC	United Kingdom	17,599	22,526	899	19.1	1.3	8.7
KERRY GROUP PLC-A	Ireland	17,308	9,216	633	26.7	2.6	17.3
CONAGRA BRANDS INC	United States	16,353	12,214	805	12.4	1.9	16.2
LAMB WESTON HOLDINGS INC	United States	15,923	4,809	542	28.1	22.4	17.9
JM SMUCKER CO/THE	United States	15,495	8,328	712	21.6	1.9	12.5
CHINA MENGNIU DAIRY CO	Hong Kong	15,354	13,801	801	20.6	2.7	15.8
CAMPBELL SOUP CO	United States	15,085	9,177	813	17.1	4.2	11.8
UNI-PRESIDENT ENTERPRISES CO	Taiwan	13,718	17,518	593	23.6	3.3	9.4
Global Average					24.3	4.9	16.2
Name	Country	Marketcap (\$ Mn)	Revenue (\$ Mn)	Profit (\$ Mn)	P/E	P/B	EV/EBIDTA
Regional peers							
SAVOLA	Saudi Arabia	5,110	7,472	198	25.8	2.3	13.0
ALMARAI CO	Saudi Arabia	14,878	5,135	526	27.2	3.2	13.2
SAUDIA DAIRY & FOODSTUFF CO	Saudi Arabia	2,652	694	74	35.1	6.0	19.9
AGTHIA GROUP PJSC	United Arab Emirate	1,056	1,143	68	15.4	1.3	9.0
BALADNA	Qatar	809	273	20	38.7	1.3	15.4
TANMIAH FOOD CO	Saudi Arabia	702	473	56	27.1	4.0	12.4
BALADY POULTRY CO	Saudi Arabia	245	171	23	10.8	6.7	10.6
UNITED FOODS CO	United Arab Emirate	103	173	6	18.6	1.2	10.0
OMAN FLOUR MILLS	Oman	82	308	5	28.6	1.1	15.5
Regional average					25.2	3.1	13.2

Source: Bloomberg ©, US Research

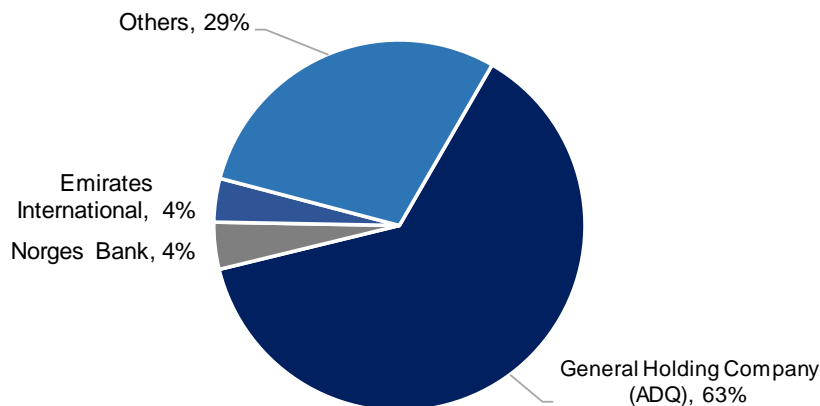
Key risks:

1. Sharp slowdown in the economy
2. Significantly high cost of raw materials
3. Currency devaluation in Egypt and Turkey
4. Increase in competition
5. Changes in regulation
6. Escalation of Russia Ukraine war
7. Delay in optimizing the synergy benefits

Company Profile

Agthia was started with the support of the Abu Dhabi government as Grand mills in 1978 with an objective to produce animal feed. It later extended its portfolio to drinking water which started its operations in 1990 under the brand “Al Ain”. Later in 2004, and as part of the privatization program the company was transformed into its current form and renamed Emirates Foodstuff and Mineral Water Company. In 2005, the company was listed in the Abu Dhabi Stock Exchange as Agthia offering 49% stake to the public. Currently Agthia is part of ADQ (Abu Dhabi Development Holding Company), one of UAE’s largest holding companies with several investments in the food value chain. Agthia has 35+ brands across 4 major segments - Water & Food, Snacking, Protein & Frozen and Agri-products. The company is the market leader in the water, flour, and animal feed segments in the UAE, and in the frozen protein segment in Egypt and Jordan. Agthia exports to 45+ countries covering North America, Europe, Asia, Africa and Middle East. However, bulk of the products are sold in UAE, Egypt, Jordan and GCC. The company operates 21 manufacturing facilities and 27 distribution centers in UAE, Turkey, Saudi Arabia, Egypt, Oman, Jordan and the GCC. It employs over 11,800 employees across the globe catering to the manufacturing, distribution and marketing of various products.

Shareholding pattern of Agthia Group



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Khalifa Sultan AlSuwaidi	Chairman	Independent
2	Salmeen Obaid Alameri	Vice Chairman	Independent
3	Khamis Mohamed Al Shamsi	Board Member	Independent
4	Gianluca Fabbri	Board Member	Independent
5	Gil Adotevi	Board Member	Independent
6	Khalaf Abdulla Rahma Al Hammadi	Board Member	Independent
7	Sharmila Jennifer Murat	Board Member	Independent

Source: Bloomberg @, US Research

Income statement (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	2,039	2,061	3,068	4,067	4,802	5,534	6,229	6,975	7,828
Direct Costs	1,382	1,421	2,111	2,910	3,292	3,890	4,356	4,849	5,462
Gross Profit	657	641	957	1,158	1,510	1,644	1,873	2,127	2,367
Selling and distribution expenses	358	357	449	508	588	664	732	802	900
Administrative and general expenses	168	234	271	346	396	443	467	488	548
Research and development costs	7	7	10	9	24	28	31	35	39
Other operating Income / (expense)	10	-9	28	52	10	11	12	14	16
EBIT	133	33	255	347	511	520	655	815	895
EBITDA	260	167	443	553	724	741	861	1,037	1,134
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	431	466	599	784	890
Income tax and Zakat expenses / credit	-4	1	17	29	39	42	54	71	80
Net Profit	136	36	231	273	392	424	545	713	810

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
Intangible 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	988	1,167	1,525	1,455	1,912
Trade and other current receivables	580	528	816	891	1,056	1,217	1,370	1,744	1,644
Cash and bank balances	637	776	1,123	1,043	509	858	1,083	1,088	1,483
Other current assets	29	13	25	56	49	-	-	-	-
Total current assets	1,582	1,662	2,673	2,836	2,602	3,242	3,978	4,286	5,039
TOTAL ASSETS	3,121	3,141	6,325	6,809	6,463	7,057	7,787	8,078	8,807
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	1,530	1,954	2,499	3,212	4,023
Total Equity attributable to shareholders	1,961	1,899	2,760	2,813	3,075	3,499	4,045	4,758	5,568
Non controlling interests	29	30	210	273	304	346	400	471	551
Total equity	1,990	1,928	2,969	3,086	3,379	3,846	4,445	5,228	6,119
Prov for employees end of service benefits	80	81	124	116	139	155	164	171	192
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	1,897	1,891	1,896	1,002	744
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	988	1,167	1,307	1,212	1,311
Other current liabilities	9	5	60	121	144	111	111	111	111
Total current liabilities	986	841	1,491	1,817	1,187	1,320	1,446	1,848	1,945
Total liabilities	1,132	1,213	3,355	3,723	3,084	3,212	3,342	2,850	2,689
Total equity and liabilities	3,121	3,141	6,325	6,809	6,463	7,057	7,787	8,078	8,807

Cash Flow (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	287	304	498	316	395	632	504	651	901
Investing cash flow	-184	-79	-1,642	-315	177	175	150	150	150
Financing cash flow	-142	-97	1,222	9	-679	-346	-600	-779	-730
Change in cash	66	138	348	-81	-534	349	225	5	396
Beginning cash	571	637	776	1,123	1,043	509	858	1,083	1,088
Ending cash	637	776	1,123	1,043	509	858	1,083	1,088	1,483

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (AED)	0.228	0.057	0.273	0.312	0.451	0.488	0.627	0.820	0.931
BVPS (AED)	3.269	3.164	3.487	3.554	3.885	4.421	5.109	6.011	7.034
DPS (AED)	0.150	0.165	0.165	0.165	0.271	0.293	0.376	0.492	0.559
FCF per share (AED)	0.172	0.375	-1.446	0.001	0.723	1.019	0.826	1.012	1.328
Valuation									
Market cap (AED Mn)	2,160	2,550	4,077	3,150	3,879	3,879	3,879	3,879	3,879
EV (AED Mn)	2,118	2,383	5,120	4,580	5,164	4,800	4,557	4,147	3,470
EBIDTA (AED Mn)	260	167	443	553	724	741	861	1,037	1,134
P/E (x)	15.8	74.0	18.9	12.8	10.9	10.0	7.8	6.0	5.3
EV/EBITDA (x)	8.2	14.3	11.6	8.3	7.1	6.5	5.3	4.0	3.1
Price/Book (x)	1.1	1.3	1.5	1.1	1.3	1.1	1.0	0.8	0.7
Dividend Yield (%)	4.2%	3.9%	3.2%	4.1%	5.5%	6.0%	7.7%	10.0%	11.4%
Price to sales (x)	1.1	1.2	1.3	0.8	0.8	0.7	0.6	0.6	0.5
EV to sales (x)	1.0	1.2	1.7	1.1	1.1	0.9	0.7	0.6	0.4
Liquidity									
Cash Ratio (x)	0.6	0.9	0.8	0.6	0.4	0.6	0.7	0.6	0.8
Current Ratio (x)	1.6	2.0	1.8	1.6	2.2	2.5	2.8	2.3	2.6
Quick Ratio (x)	1.3	1.6	1.3	1.1	1.4	1.6	1.7	1.5	1.6
Returns Ratio									
ROA (%)	4.4%	1.1%	3.7%	4.0%	6.1%	6.0%	7.0%	8.8%	9.2%
ROE (%)	6.8%	1.8%	7.8%	8.8%	11.6%	11.0%	12.3%	13.6%	13.2%
ROCE (%)	6.4%	1.5%	4.8%	5.5%	7.4%	7.4%	8.6%	11.4%	11.8%
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%	8.2%	7.7%	8.8%	10.2%	10.3%
EBITDA Margins (%)	12.7%	8.1%	14.4%	13.6%	15.1%	13.4%	13.8%	14.9%	14.5%
PBT Margins (%)	6.5%	1.8%	8.1%	7.4%	9.0%	8.4%	9.6%	11.2%	11.4%
EBIT Margins (%)	6.5%	1.6%	8.3%	8.5%	10.6%	9.4%	10.5%	11.7%	11.4%
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	1,285	921	678	268	-409
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	1.6	1.2	0.9	0.3	-0.5
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

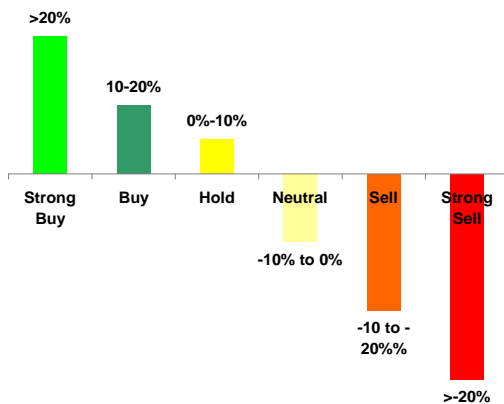
Key contacts

Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

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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