

## Agthia Group PJSC

Strong growth in volume and pricing supported profitability

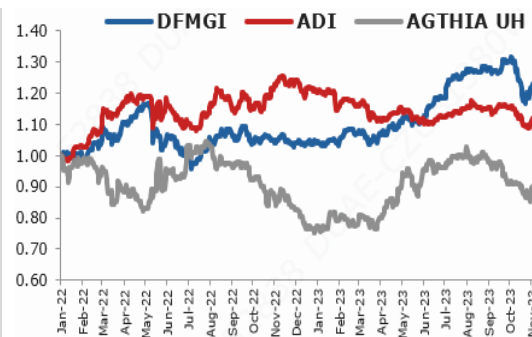
**Current Price**  
AED 5.00

**Target Price**  
AED 6.00

**Upside/Downside (%)**  
+20.00%

**Rating**  
BUY

- Agthia revenue grew 10.9% YOY in 9M23 driven by 1.8% in pricing and 9.1% growth in volume.
- Agthia's revenue grew 20.7% YOY, excluding EGP devaluation while LFL revenue rose 12.6% YOY during 9M23.
- EBITDA margins grew 85 bps YOY in 9M23 primarily due to strong growth across the Snacking, Water & food and Agribusiness segment.
- Agthia's free cash flow grew from AED 307 Mn in 9M22 to AED 707 Mn in 9M23.
- Agthia launched new products in the snacking segment by introducing new brands, Freakin Awesome whole and stuffed dates in the UK and European retail sales channels. It also launched similar kinds of products in the UAE market and new products in India on the festival occasion.



### 3Q23 Net Profit higher than our estimate

Agthia Group's (AGTHIA/the Company) net profit grew 30.4% YOY to AED 53 Mn in 3Q23, higher than our estimate of AED 50 Mn. The increase in the net profit is mainly attributable to strong rise in revenue driven by BMB and Abu Auf acquisition within the snacking segment, and growth in Water and food, and Agribusiness Segment partially offset by an increase in S&G and G&A expenses and rise in finance cost.

### P&L Highlights

Agthia's revenue grew 12.2% YOY to AED 1,070 Mn in 3Q23 mainly due to healthy growth in volume and pricing in 3Q23. Revenue from the Protein and Frozen segment declined 13.2% YOY to AED 268 Mn in 3Q23 mainly due to adverse currency devaluation in Egypt. However, the local currency revenue recorded a growth of 16.2% YOY in 3Q23. Snacking business revenue rose 48.9% YOY to AED 272 Mn in 3Q23 driven by strong volume and value growth in dates coupled with product and packaging innovation, premiumization shift in consumer demand driving growth across domestic and international markets. Water and food business revenue grew 6.9% YOY to AED 254 Mn in 3Q23 attributable to positive growth in both UAE and international channels. Agri-business revenue rose 22.6% YOY to AED 276 Mn in 3Q23 primarily attributable to strong volume growth and improvement in product quality of flour and robust price for feed. Furthermore, Agthia's gross profit rose 26.5% YOY to AED 339 Mn in 3Q23. The Company's selling and distribution expenses rose 29.7% YOY to AED 165 Mn in 3Q23 while G&A expenses increased 8.5% YOY to AED 90 Mn in 3Q23. As a result, total operating profit grew 28.7% YOY to AED 91 Mn in 3Q23. The Company's total EBITDA grew 17.2%

#### Stock Information

Market Cap (AED, mm)	3,957.89
Paid Up Capital (mm)	791.58
52 Week High	5.31
52 Week Low	3.87
3M Avg. daily value (AED)	2,067,699

#### 3Q23 Result Review (AED, mm)

Total Assets	6,320
Total Liabilities	3,193
Total Equity	2,840
EBITDA	146
Net Profit	53

#### Financial Ratios

Dividend Yield (12m)	3.30
Dividend Pay-out (%)	52.92
Price-Earnings Ratio(x)	14.86
Price-to-Book Ratio (x)	1.39
Book Value (AED)	3.60
Return-on Equity (%)	8.99

#### Stock Performance

5 Days	2.25%
1 Months	10.62%
3 Months	-2.15%
6 Months	8.70%
1 Year	11.86%
Month to Date (MTD%)	12.36%
Quarter to Date (QTD%)	6.61%
Year to Date (YTD%)	25.63%

YOY to AED 146 Mn in 3Q23 while EBITDA margin rose 59 bps YOY to 13.7% in 3Q23. Snacking segment EBITDA grew 52.2% YOY to AED 48 Mn in 3Q23 mainly supported by favorable price and mix effects observed in both domestic and international markets along with robust growth from Abu Auf's premium coffee and BMB post restructuring in Saudi. Protein and frozen business EBITDA declined 30% YOY to AED 36 Mn in 3Q23 mainly due to significant input cost inflation and currency devaluation. Water and food business EBITDA grew 56% YOY to AED 51 Mn in 3Q23 driven by volume growth and cost optimization in UAE and KSA. Agriculture business EBITDA rose strongly 48% YOY to AED 48 Mn in 3Q23 driven by effective execution in feed operations across commercial farms. Furthermore, the Company's finance income declined 9.1% YOY to AED 7 Mn in 3Q23 while finance expense increased from AED 23 Mn in 3Q22 to AED 27 Mn in 3Q23. Additionally, income tax and zakat expense increased 19.6% YOY to AED 10 Mn in 3Q23 while the share of profit attributable to non-controlling interest holders grew 29.5% YOY to AED 9 Mn in 3Q23.

### Balance Sheet Highlights

Agthia's total debt declined for the third consecutive quarter to AED 1.5 Bn in 3Q23 as compared to AED 1.8 Bn in 2Q23. The Company's net debt to EBITDA ratio declined from 1.9x in 2Q23 to 1.4x in 3Q23. Net cash generated from operating activities grew from AED 360 Mn in 9M22 to AED 772 Mn in 9M23.

### Target Price and Rating

We maintain our BUY rating on Agthia Group with a target price of AED 6.00. The Company delivered a strong growth in profitability owing to strong double-digit growth in revenue and EBITDA. Agthia recorded a strong growth in revenue during 9M23 driven by 9.1% growth in volume and 1.8% growth in pricing. Excluding currency devaluation, the Company's revenue grew 20.7% YOY while it recorded LFL growth of 12.6% YOY during 9M23. The Company expects its revenue to grow 10-12% in 2023. EBITDA grew 18.0% YOY to AED 465.1 Mn in 9M23. In contrast, EBITDA margins expanded 85 bps YOY during 9M2023 primarily due to strong expansion in margin across the Snacking, Water & food and Agribusiness segments partially offset by contraction in a margin of Protein and frozen Segment. The commodity cost continues to abate with an impact of commodity price inflation of AED 15 Mn in 9M23 as compared to AED 46 Mn in 1H23. The Company expects its EBITDA margin to grow 40-60 bps in 2023. The working capital also benefits from the softening of commodity prices as working capital as a percentage of sales fell from 14% in 9M22 to 10% in 9M23. Agthia is prioritizing product innovation in all its segments. The Company introduced new brands for Al Foah dates in the UK and European markets, launched stuffed dates pouch and Maamoul biscuits in the UAE, and also launched limited edition Diwali gifting packs in India. Furthermore, BMB launched new premium and affordable chocolate brands, with a strategic focus on the UAE and KSA markets. Abu Auf expanded its product range by launching multiple new products and extending product lines, aiming to reinforce its position in Egypt and increase exports to the UAE. Agthia also maintained a healthy balance sheet with strong cash balance and low leverage which will help to support its inorganic growth going forward. Agthia's free cash flow also grew from AED 307 Mn in 9M22 to AED 707 Mn in 9M23. Thus, based on our analysis, we maintain our BUY rating on the stock.

### Agthia - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	14.3	21.9	87.0	17.5	16.0	14.5
PB	1.6	1.5	1.6	1.4	1.4	1.3
EV/EBITDA	9.3	11.1	16.6	11.3	9.6	7.7
Dividend yield	3.0%	3.0%	3.3%	3.3%	3.3%	3.3%

FABS Estimates & Co Data

**Agthia – P&L**

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	954	1,019	1,070	1,133	-5.6%	12.2%	5.0%	4,067	4,447	9.3%
Cost of sale	-685	-732	-731	-816	-10.4%	6.6%	-0.3%	-2,910	-3,113	7.0%
<b>Gross profit</b>	<b>268</b>	<b>287</b>	<b>339</b>	<b>317</b>	<b>6.8%</b>	<b>26.5%</b>	<b>18.3%</b>	<b>1,158</b>	<b>1,335</b>	<b>15.3%</b>
S&D expense	-127	-126	-165	-136	21.6%	29.7%	31.0%	-508	-569	12.1%
G&A expense	-83	-87	-90	-96	-6.6%	8.5%	3.5%	-346	-360	4.2%
Research & development costs	-2	-2	-2	-2	-2.7%	2.6%	5.9%	-9	-11	18.3%
Share of loss from invt	1	1	0	1	-75.2%	-59.7%	-75.2%	3	1	-67.4%
Other (expenses) / income	15	6	9	7	38.7%	-35.0%	54.6%	52	36	-31.9%
<b>EBITDA</b>	<b>125</b>	<b>131</b>	<b>146</b>	<b>181</b>	<b>-19.3%</b>	<b>17.2%</b>	<b>11.9%</b>	<b>581</b>	<b>670</b>	<b>15.3%</b>
<b>Operating profit</b>	<b>71</b>	<b>79</b>	<b>91</b>	<b>91</b>	<b>0.4%</b>	<b>28.7%</b>	<b>15.7%</b>	<b>350</b>	<b>431</b>	<b>23.1%</b>
Finance income	8	4	7	6	15.1%	-9.1%	83.5%	27	26	-5.2%
Finance expense	-23	-27	-27	-28	-2.1%	16.4%	0.9%	-76	-113	49.2%
<b>Profit before tax and zakat</b>	<b>55</b>	<b>56</b>	<b>71</b>	<b>69</b>	<b>2.6%</b>	<b>28.7%</b>	<b>27.4%</b>	<b>301</b>	<b>343</b>	<b>14.0%</b>
Income tax and zakat	-8	-8	-10	-10	-1.3%	19.6%	15.1%	-29	-38	31.4%
<b>Profit of the year</b>	<b>47</b>	<b>47</b>	<b>61</b>	<b>60</b>	<b>3.3%</b>	<b>30.3%</b>	<b>29.6%</b>	<b>273</b>	<b>306</b>	<b>12.1%</b>
Non-controlling interest	-7	-9	-9	-10	-11.3%	29.5%	-3.8%	-26	-34	30.3%
<b>Net Profit</b>	<b>40</b>	<b>38</b>	<b>53</b>	<b>50</b>	<b>6.2%</b>	<b>30.4%</b>	<b>37.5%</b>	<b>247</b>	<b>272</b>	<b>10.2%</b>

FABS estimate & Co Data

**Agthia - Margins**

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	28.1%	28.1%	31.7%	358	358	28.5%	30.0%	155
EBITDA margin	7.4%	7.7%	8.5%	110	79	8.6%	9.7%	108
Operating margin	13.1%	12.8%	13.7%	59	84	14.3%	15.1%	78
Net profit margin	4.2%	3.8%	4.9%	69	117	6.1%	6.1%	5

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Agthia. We have assigned 70% weight to DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	6.18	70.0%	4.33
Relative Valuation (RV)	5.57	30.0%	1.67
<b>Weighted Average Valuation (AED)</b>			<b>6.00</b>
Current market price (AED)			5.00
Upside/Downside (%)			+20.00%

### 1) DCF Method:

Agthia is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.3%. It is arrived after using cost of equity of 9.2% and after tax cost of debt of 5.9% with debt to equity ratio of 36.8%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.0 and equity risk premium of 4.7%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt is calculated using interest cost of 5.9% after adjusting a tax rate of 11.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,368
Terminal value (AED, Mn)	4,930
<b>FV to Common shareholders (AED, Mn)</b>	<b>4,896</b>
No. of share (Mn)	792
Current Market Price (AED)	5.00
<b>Fair Value per share (AED)</b>	<b>6.18</b>

### DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBIT	383	441	558	647	794
D&A	239	235	233	238	252
Change in working capital	-116	-126	-180	-167	-243
(-) Capex	-133	-150	-174	-262	-346
<b>Free Cash Flow to Firm (FCFF)</b>	<b>62</b>	<b>399</b>	<b>436</b>	<b>456</b>	<b>458</b>
Discounting Factor	0.92	0.85	0.78	0.72	0.67
<b>Discounted FCFF</b>	<b>57</b>	<b>337</b>	<b>341</b>	<b>328</b>	<b>305</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local as well as international peers to value Agthia and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 8.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Juhayna Food Industries SAE	427	6.27	5.02	11.20	9.08
Suntory Beverage & Food Ltd	9,733	6.35	5.62	18.20	16.30
Hormel Foods Corporation	17,850	13.50	13.00	20.80	19.10
Saudia Dairy & Foodstuff Co	2,483	14.00	12.50	20.30	18.50
Almarai	14,440	13.20	11.90	25.60	22.00
Bunge Ltd	15,390	5.63	6.25	7.83	9.12
Tate & Lyle PLC	3,163	8.30	7.56	12.60	11.50
Kewpie Corporation	2,319	9.05	7.01	29.10	20.30
Anjoy Foods Group	4,780	12.10	10.10	22.00	18.50
<b>Average</b>		<b>9.8x</b>	<b>8.8x</b>	<b>18.6x</b>	<b>16.0x</b>
<b>Median</b>		<b>8.7x</b>	<b>7.6x</b>	<b>20.3x</b>	<b>18.5x</b>
<b>Max</b>		<b>13.2x</b>	<b>11.9x</b>	<b>22.0x</b>	<b>19.1x</b>
<b>Min</b>		<b>6.4x</b>	<b>6.3x</b>	<b>12.6x</b>	<b>11.5x</b>

Source: FAB Securities

## 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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