

## Agthia Group PJSC

Higher taxes and a rise in S&D expenses impacted the bottom-line

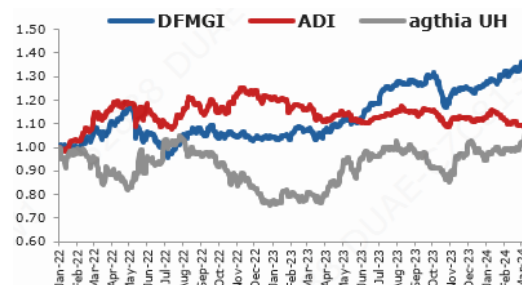
**Current Price**  
AED 5.43

**Target Price**  
AED 6.00

**Upside/Downside (%)**  
+11%

**Rating**  
**ACCUMULATE**

- AGTHIA's revenue grew 12.1% YOY in 2023 driven by 4.1% in pricing and 8.1% growth in volume.
- Excluding EGP devaluation, the Company's revenue grew 20.7% YOY while LFL revenue rose 13.8% YOY during 2023.
- EBITDA margins grew 113 bps YOY in 2023 primarily due to strong growth across the Snacking, Water & food, and Agribusiness segment.
- The Company further targets revenue to grow by 10-12% and EBITDA margins to expand by 40-60 bps in 2024.
- Total debt grew to AED 1.6 Bn in 4Q23. While the Net debt to EBITDA ratio declined from 2.3x in 4Q22 to 1.3x in 4Q23.



### 4Q23 Net Profit slightly lower than our estimate

Agthia Group's (AGTHIA/the Company) net profit declined 6.4% YOY to AED 83 Mn in 4Q23, slightly lower than our estimate of AED 91 Mn. The decline in the net profit is mainly attributable to higher tax expenses and a rise in selling and distribution expenses partially offset by a growth in revenue driven by the acquisitions of BMB and Abu Auf's in the snacking segment, as well as growth in the Water and food, and Agribusiness segment.

### P&L Highlights

AGTHIA's revenue grew 15.4% YOY to AED 1,290 Mn in 4Q23, mainly due to healthy growth in volume and pricing in 4Q23. Revenue from the Protein segment declined 4.5% YOY to AED 260 Mn in 4Q23 mainly due to adverse currency devaluation in Egypt. However, excluding the currency devaluation the local currency revenue recorded a growth of 18.7% YOY in 4Q23. Snacking business revenue rose 24.5% YOY to AED 427 Mn in 4Q23 driven by product innovation in mid and high-value ranges, expansion of date varieties, and significant growth across retail channels in both the UAE and international markets. Water and food business revenue grew 4.2% YOY to AED 248 Mn in 4Q23 attributed to innovation and advancements in product offerings such as Al Ain Plus, premium glass bottles, and rPET bottles. Agri-business revenue rose strongly 34.1% YOY to AED 355 Mn in 4Q23 mainly due to strong volume growth backed by a rising proportion of specialty and premium products. The Company's direct cost grew 11.0% YOY to AED 892 Mn in 4Q23. Thus, AGTHIA's gross profit rose 26.6% YOY to AED 398 Mn in 4Q23. Gross profit margin expanded 274 bps YOY to 30.8% in 4Q23. Selling and distribution expenses rose 24.5% YOY to AED 152 Mn in 4Q23 while G&A expenses fell 7.5% YOY to AED 89 Mn in 4Q23. As a result, total operating profit grew 52.0% YOY to AED 175 Mn in 4Q23. AGTHIA's

### Stock Information

Market Cap (AED, mm)	4,298.26
Paid Up Capital (mm)	791.58
52 Week High	5.51
52 Week Low	3.94
3M Avg. daily value (AED)	2,155,350

### 4Q23 Result Review (AED, mm)

Total Assets	6,640
Total Liabilities	3,447
Total Equity	3,194
EBITDA	237
Net Profit	83

### Financial Ratios

Dividend Yield (12m)	3.04
Dividend Pay-out (%)	50.04
Price-Earnings Ratio(x)	16.46
Price-to-Book Ratio (x)	1.48
Book Value (AED)	3.68
Return-on Equity (%)	9.12

### Stock Performance

5 Days	3.43%
1 Months	6.26%
3 Months	5.44%
6 Months	8.82%
1 Year	32.12%
Month to Date (MTD%)	3.23%
Quarter to Date (QTD%)	11.27%
Year to Date (YTD%)	11.27%

total EBITDA grew 26.8% YOY to AED 237 Mn in 4Q23 while the EBITDA margin rose 166 bps YOY to 18.4% in 4Q23. Snacking segment EBITDA grew 47.6% YOY to AED 114 Mn in 4Q23 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 15.3% YOY to AED 37 Mn in 4Q23 mainly due to the currency devaluation in Egypt and external challenges impacting operations in Jordan. Water and food business EBITDA grew 8.8% YOY to AED 45 Mn in 4Q23 driven by volume growth and cost optimization in UAE and KSA. Agriculture business EBITDA rose strongly 28.9% YOY to AED 55 Mn in 4Q23 driven by improved volumes and cost effectiveness. Furthermore, the Company's finance income declined 44.6% YOY to AED 5 Mn in 4Q23. While finance cost rose 1.6% YOY to AED 27 Mn in 4Q23. Additionally, income tax and zakat expenses grew significantly from AED 6 Mn in 4Q22 to AED 54 Mn in 4Q23. Share of profit attributable to non-controlling interest holders grew from AED 2 Mn in 4Q22 to AED 11 Mn in 4Q23.

### Balance Sheet Highlights

AGTHIA's total debt grew to AED 1.6 Bn in 4Q23 as compared to AED 1.5 Bn in 3Q23. The Company's net debt to EBITDA ratio declined from 2.3x in 4Q22 to 1.3x in 4Q23. Net cash generated from operating activities grew from AED 297 Mn in 2022 to AED 965 Mn in 2023. Cash and cash equivalents stood at AED 630 Mn in 4Q23. Net cash generated from operating activities grew from AED 772 Mn in 9M23 to AED 965 Mn in 2023.

### Target Price and Rating

We revise our rating on AGTHIA from BUY to ACCUMULATE with an unchanged target price of AED 6.00. AGTHIA's stock price rose 5.9% since our last rating. The Company delivered a strong double-digit growth in revenue and EBITDA in 4Q23. The revenue growth is fueled by 8.1% growth in volume and 4.1% growth in pricing. While, excluding currency devaluation, the Company's total revenue grew 20.7% YOY in 2023. AGTHIA's LFL revenue including the Abu Auf grew 5.7% YOY in 2023. EBITDA grew 20.8% YOY to AED 702 Mn in 2023. In contrast, EBITDA margins expanded 111 bps YOY during 2023 primarily due to strong expansion in margin across the Snacking, Water & food segments partially offset by contraction in the margin of Protein and frozen and Agribusiness segments. Despite facing headwinds such as currency devaluation and geopolitical tensions, AGTHIA exceeded the 2023 revenue target of (10-12%) with 12.1% growth. Moreover, the Company also substantially expanded EBITDA margin, rising 111 bps, well beyond the projected 40-60 bps range for 2023. The Company further targets revenue to grow by 10-12% and EBITDA margins to expand by 40-60 bps in 2024. 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 pouches and Maamoul biscuits in the UAE, and 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. The company also maintained a healthy balance sheet with a strong cash balance and low leverage, which will help support its inorganic growth going forward. AGTHIA's free cash flow grew from AED 179 Mn in 2022 to AED 800 Mn in 2023. Moreover, according to the semi-annually dividend policy, the Company proposed a cash dividend of AED 10.25 fils per share for 2H23 (1H23: AED 8.25 fils) generating a total dividend yield of 3.4% in 2023, in addition to Bonus share of 5% for the 2023. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

### Agthia - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	23.5	93.6	18.8	17.3	16.3	13.3
PB	1.6	1.7	1.5	1.5	1.5	1.4
EV/EBITDA	11.9	18.0	11.9	10.1	7.8	7.6
Dividend yield	2.8%	3.1%	3.1%	3.1%	3.4%	3.4%

FABS Estimates & Co Data

**Agthia – P&L**

AED mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	1,118	1,070	1,290	1,176	9.7%	15.4%	20.6%	4,067	4,561	12.1%
Cost of sale	-804	-731	-892	-797	11.9%	11.0%	22.1%	-2,910	-3,200	10.0%
<b>Gross profit</b>	<b>314</b>	<b>339</b>	<b>398</b>	<b>379</b>	<b>5.1%</b>	<b>26.6%</b>	<b>17.4%</b>	<b>1,158</b>	<b>1,361</b>	<b>17.6%</b>
S&D expense	-122	-165	-152	-162	-5.9%	24.5%	-8.0%	-508	-577	13.7%
G&A expense	-96	-90	-89	-92	-4.0%	-7.5%	-1.3%	-346	-352	1.8%
Research & development costs	-2	-2	-2	-3	-32.4%	-25.5%	-21.8%	-9	-8	-13.2%
Share of loss from invt	1	0	-1	0	NM	NM	NM	3	3	-13.0%
Other (expenses) / income	20	9	20	13	51.1%	0.5%	NM	52	48	-8.8%
<b>EBITDA</b>	<b>187</b>	<b>146</b>	<b>237</b>	<b>207</b>	<b>14.6%</b>	<b>26.8%</b>	<b>62.1%</b>	<b>581</b>	<b>702</b>	<b>20.8%</b>
<b>Operating profit</b>	<b>115</b>	<b>91</b>	<b>175</b>	<b>135</b>	<b>29.0%</b>	<b>52.0%</b>	<b>91.1%</b>	<b>350</b>	<b>474</b>	<b>35.4%</b>
Finance income	9	7	5	7	-32.1%	-44.6%	-28.0%	27	26	-6.5%
Finance expense	-27	-27	-27	-28	-2.3%	1.6%	-0.2%	-76	-113	48.7%
<b>Profit before tax and zakat</b>	<b>97</b>	<b>71</b>	<b>148</b>	<b>115</b>	<b>29.0%</b>	<b>52.6%</b>	<b>108.5%</b>	<b>301</b>	<b>382</b>	<b>26.8%</b>
Income tax and zakat	-6	-10	-54	-15	NM	NM	NM	-29	-83	187.4%
<b>Profit of the year</b>	<b>91</b>	<b>61</b>	<b>94</b>	<b>100</b>	<b>-5.9%</b>	<b>3.6%</b>	<b>53.0%</b>	<b>273</b>	<b>300</b>	<b>9.9%</b>
Non-controlling interest	-2	-9	-11	-9	21.1%	NM	25.9%	-26	-39	49.5%
<b>Net Profit</b>	<b>89</b>	<b>53</b>	<b>83</b>	<b>91</b>	<b>-8.6%</b>	<b>-6.4%</b>	<b>57.5%</b>	<b>247</b>	<b>261</b>	<b>5.8%</b>

FABS estimate & Co Data

**Agthia - Margins**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross profit	28.1%	31.7%	30.8%	274	-84	28.5%	29.8%	138
EBITDA	10.3%	8.5%	13.5%	326	499	8.6%	10.4%	178
Operating profit	16.7%	13.7%	18.4%	166	470	14.3%	15.4%	111
Net profit	7.9%	4.9%	6.4%	-150	151	6.1%	5.7%	-35

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	6.03	70.0%	4.22
Relative Valuation (RV)	5.93	30.0%	1.78
<b>Weighted Average Valuation (AED)</b>			<b>6.00</b>
Current market price (AED)			5.43
Upside/Downside (%)			+11%

### 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 9.4% and after-tax cost of debt of 5.2% with debt-to-equity ratio of 36.4%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 1.0 and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 5.2% is calculated after adjusting a tax rate of 21.6%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,257
Terminal value (AED, Mn)	4,826
<b>FV to Common shareholders (AED, Mn)</b>	<b>4,771</b>
No. of share (Mn)	792
Current Market Price (AED)	5.43
<b>Fair Value per share (AED)</b>	<b>6.03</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT	469	520	572	611	653
D&A	250	255	260	265	270
Change in working capital	-188	-192	-387	-198	-193
(-) Capex	-228	-245	-241	-239	-248
<b>Free Cash Flow to Firm (FCFF)</b>	<b>304</b>	<b>338</b>	<b>205</b>	<b>438</b>	<b>482</b>
Discounting Factor	0.85	0.78	0.72	0.67	0.62
<b>Discounted FCFF</b>	<b>257</b>	<b>264</b>	<b>148</b>	<b>292</b>	<b>297</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 2024 EV/EBITDA multiple of 7.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Juhayna Food Industries SAE	368	7.22	5.71	12.00	8.86
Suntory Beverage & Food Ltd	10,050	6.01	5.37	16.80	15.40
Hormel Foods Corporation	18,730	14.70	13.70	21.80	20.20
Saudia Dairy & Foodstuff Co	3,220	18.50	16.70	25.50	23.50
Almarai	15,630	12.90	12.10	24.50	22.30
Bunge Ltd	13,350	6.32	6.39	9.65	9.06
Tate & Lyle PLC	3,030	7.78	7.19	12.70	11.60
Kewpie Corporation	2,620	7.67	7.19	23.80	20.50
Anjoy Foods Group	3,500	7.03	5.67	13.90	11.60
<b>Average</b>		<b>9.8x</b>	<b>8.9x</b>	<b>17.9x</b>	<b>15.9x</b>
<b>Median</b>		<b>7.7x</b>	<b>7.2x</b>	<b>16.8x</b>	<b>15.4x</b>
<b>Max</b>		<b>12.9x</b>	<b>12.1x</b>	<b>23.8x</b>	<b>20.5x</b>
<b>Min</b>		<b>7.0x</b>	<b>5.7x</b>	<b>12.7x</b>	<b>11.6x</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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