

Agthia Group PJSC

New product launches and margin expansion supported bottom line

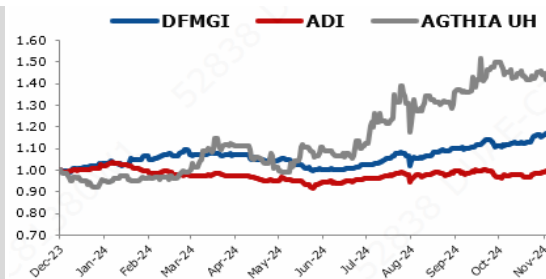
Current Price
AED 7.03

Target Price
AED 8.00

Upside/Downside (%)
+14%

Rating
ACCUMULATE

- Maintained its guidance for FY2024 with expected revenue growth of 10-12%, expansion in EBITDA margin of 40-60 bps, and a net profit margin of 30-50 bps.
- The company launched a new B2B Customer Portal and development and integration of AI technologies marking its progress toward digital transformation.
- Despite the devaluation of the EGP, Egypt's business generated AED 73.2 Mn export revenue in 9M24.
- Agthia's Abu Auf added 49 new stores in Egypt during 9M24, aligned with its goal to expand the retail footprint.



3Q24 Net Profit lower than our estimate

Agthia Group's (AGTHIA/the Company) net profit rose 11.3% YOY to AED 59 Mn in 3Q24, marginally lower than our estimate of AED 64 Mn. The growth in the net profit is due to a reduction in operating expenses owing to positive operating leverage coupled with a decline in finance expenses partially offset by an increase in tax expenses and fall in finance income.

P&L Highlights

AGTHIA's revenue grew 1.1% YOY to AED 1,082 Mn in 3Q24 primarily driven by strong growth in the Water & Food Segment with marginal growth in Snacking & Agri-Business, partially offset by a decline in revenue of the Protein & Frozen Segment due to EGP devaluation. Revenue from the Protein and Frozen segment fell 10.3% YOY to AED 240 Mn in 3Q24 mainly due to a devaluation of Egyptian currency and increased competition. Snacking business revenue rose marginally 2.5% YOY to AED 279 Mn in 3Q24 mainly due to a growth in the performance of coffee and dates coupled with growth in the launch of new products. Water and Food business revenue grew 9.5% YOY to AED 278 Mn in 3Q24 owing to the company's strong leadership position in the segment and strong growth in Al Ain glass bottles business. Agri-business revenue grew marginally by 3.1% YOY to AED 285 Mn in 3Q24 due to strong performance in Animal Feed division. The Company's direct cost grew faster than revenue growing 2.3% YOY to AED 747 Mn in 3Q24. Thus, gross profit declined 1.4% YOY to AED 334 Mn in 3Q24. Furthermore, gross profit margin contracted 79 bps YOY to 30.9% in 3Q24, while the EBITDA margin rose 65 bps YOY to 14.3% in 3Q24 owing to a rise in EBITDA of all segments except Snacking Segment. Snacking segment EBITDA declined 20.5% YOY to AED 30 Mn in 3Q24. Protein & Frozen segment EBITDA marginally declined 1.1% YOY to AED 27 Mn, Water & Food Segment EBITDA rose 6.4% YOY to AED 46 Mn, Agri-business EBITDA significantly

Stock Information

Market Cap (AED, mn)	5,867.96
Paid Up Capital (mn)	831.16
52 Week High	8.19
52 Week Low	4.63
3M Avg. daily value (AED)	3,742,243

3Q24 Result Review (AED, mn)

Total Assets	6,657
Total Liabilities	3,713
Total Equity	2,943
EBITDA	155
Net Profit	59

Financial Ratios

Dividend Yield (12m)	2.84
Dividend Pay-out (%)	50.04
Price-Earnings Ratio(x)	18.69
Price-to-Book Ratio (x)	2.11
Book Value (AED)	3.34
Return-on Equity (%)	11.15

Stock Performance

5 Days	-5.87%
1 Months	-6.12%
3 Months	2.02%
6 Months	31.23%
1 Year	47.96%
Month to Date (MTD%)	-7.11%
Quarter to Date (QTD%)	-9.49%
Year to Date (YTD%)	51.91%

increased 51.3% YOY to AED 58 Mn in 3Q24. Furthermore, the finance income declined from AED 7 Mn in 3Q23 to AED 1 Mn in 3Q24. The finance cost also declined 32.7% YOY to AED 18 Mn in 3Q24 due to effectively managing the hedging and interest rate. Additionally, income tax and zakat expenses grew from AED 10 Mn in 3Q23 to AED 17 Mn in 3Q24 attributed to the introduction of UAE corporate tax in FY2024. Share of profit attributable to non-controlling interest holders fell 28.0% YOY to AED 6 Mn in 3Q24.

Balance Sheet Highlights

AGTHIA's total gross debt rose from AED 1.58 Bn in 2Q24 to AED 1.63 Bn in 3Q24. The Company's net debt to EBITDA ratio marginally improved to 1.4x in 3Q24 compared to 1.3x in 4Q23. Agthia optimized its working capital as a percentage of revenue from 10.4% in 9M23 to 7.4% in 9M24. Agthia's Cash conversion cycle also improved from 72 days in 9M23 to 45 days in 9M24 due to an increase in payable days partially offset by an increase in receivable and inventory days. The company's free cash flow to the firm decreased from AED 713 Mn in 9M23 to AED 430 Mn in 9M24 due to lower cash generation from working capital and higher capex partially offset by an improvement in profitability.

Target Price and Rating

We assign ACCUMULATE rating on AGTHIA with a target price of AED 8.00. AGTHIA recorded a healthy growth in revenue and EBITDA in 3Q24, despite inflationary pressures, currency devaluation in Egypt, and increased competition. The Company maintained its guidance for FY2024 and expects revenue to grow 10-12% and margins to expand in 2024. EBITDA margin is expected to expand by 40-60 bps and net margin by 30-50 bps in FY2024. AGTHIA revenue grew 10.3% YOY during 9M24 out of which volume contributed 8.5% and 1.8% was due to improved pricing. AGTHIA is prioritizing product innovation and premiumization coupled with leveraging on digitalization of operations across all segments and aiming to expand margins. It generated revenue of over AED 123 Mn through strategic product innovation in 9M24. The Company launched premium products under the "Nabil" brand in Jordan which would generate 40% margins compared to existing base business margins of 30%. AGTHIA's water business continues to drive the growth of glass bottles, plant-based and 100% rPET bottles. The company launched a B2B portal for HORECA and food service channels allowing them to upload orders efficiently into ERP. The company also integrated an AI recognition model in the dates facility in Al Ain which would facilitate them to improve the quality and size of dates, aligned with its goal to digitalize business units. These steps are aligned with the Company's aim to integrate digitalization into the business to improve customer experience and margins. Agthia's Abu Auf added 49 new stores in Egypt during 9M2024, aligned with its aim to expand its retail footprint. It also launched soluble coffee products in Egypt. Agthia exited from a non-performing UAE dairy business, Yoplait. It led to a one-time asset write-off of AED 10 Mn negatively impacting profit in 9M24. This exit decision is expected to result in a benefit of AED 5 Mn per year. The Company's Egypt business delivered a solid performance despite the devaluation of the EGP. It generated AED 73.2 Mn export revenue in 9M24. In addition, it focuses on protecting margins in Egypt by increasing the prices of its products. AGTHIA has guided revenue of AED 6 Bn, EBITDA margin in the range of 15.5-16.5%, and a net margin of 8.5-10% range by FY2025. This growth is expected to be realized through a mix of organic and inorganic opportunities. It also focuses on improving the efficiency of its existing capacity rather than incurring additional CAPEX. Thus, considering all these factors, we assign an ACCUMULATE rating on the stock.

Agthia - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	32.63	129.76	25.80	23.91	22.61	16.39
PB	2.28	2.36	2.04	2.10	2.03	2.10
EV/EBITDA	16.68	25.38	14.93	12.94	10.12	9.08
Dividend yield	2.0%	2.3%	2.3%	2.3%	2.6%	2.9%

FABS Estimates & Co Data

Agthia – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	1,070	1,077	1,082	1,080	0.2%	1.1%	0.5%	4,561	5,061	11.0%
Cost of sale	-731	-748	-747	-767	-2.6%	2.3%	0.0%	-3,200	-3,526	10.2%
Gross profit	339	329	334	312	7.1%	-1.4%	1.6%	1,361	1,536	12.8%
S&D expense	-165	-148	-148	-148	-0.2%	-10.7%	-0.2%	-577	-633	9.6%
G&A expense	-90	-79	-93	-80	16.9%	3.8%	18.4%	-352	-375	6.4%
Research & development costs	-2	-2	-2	-2	-17.5%	-11.1%	7.3%	-8	-11	38.0%
Other (expenses) / income	9	4	8	13	-41.7%	-19.9%	86.0%	48	40	-15.0%
EBITDA	146	150	155	152	2.0%	5.9%	3.5%	702	784	11.6%
Operating profit	91	104	99	95	4.0%	8.7%	-5.3%	471	558	18.4%
Finance income	7	4	1	8	-92.5%	-91.2%	-82.7%	26	14	-45.4%
Finance expense	-27	-36	-18	-26	-28.7%	-32.7%	-49.2%	-113	-96	-15.4%
Share of loss from invt	0	1	0	0	NM	NM	NM	3	0	NM
Profit before tax and zakat	71	73	81	77	5.2%	14.7%	11.4%	382	476	24.6%
Income tax and zakat	-10	-11	-17	-7	137.2%	72.9%	53.8%	-83	-76	-7.8%
Profit of the year	61	62	65	70	-7.8%	5.7%	4.1%	300	400	33.5%
Non-controlling interest	-9	-7	-6	-6	-1.2%	-28.0%	-7.8%	-39	-40	3.7%
Net Profit	53	56	59	64	-8.5%	11.3%	5.6%	261	360	38.0%

FABS estimate & Co Data

Agthia - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross profit	31.7%	30.6%	30.9%	-79	35	29.8%	30.3%	50
Operating Profit	8.5%	9.7%	9.1%	63	-55	10.3%	11.0%	69
EBITDA	13.7%	13.9%	14.3%	65	42	15.4%	15.5%	9
Net profit	4.9%	5.2%	5.4%	49	26	5.7%	7.1%	139

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. In the relative valuation, we have used both PE and EV/EBITDA to value the Company.

Valuation Method	Target	Weight	Weighted Value
DCF Method	8.41	70.0%	5.89
Relative Valuation (RV)			
EV/EBITDA	6.52	15.0%	0.98
PE	7.59	15.0%	1.14
Weighted Average Valuation (AED)			8.00
Current market price (AED)			7.03
Upside/Downside (%)			+14%

1) DCF Method:

Agthia is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.5%. It is arrived after using the cost of equity of 9.3% and after-tax cost of debt of 5.6% with a debt-to-equity ratio of 27.6%. Cost of equity is calculated by using a 10-year government bond yield of 4.8%, beta of 1.0 and equity risk premium of 4.5%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,783
Terminal value (AED, Mn)	6,552
FV to Common shareholders (AED, Mn)	6,988
No. of share (Mn)	831
Current Market Price (AED)	7.03
Fair Value per share (AED)	8.41

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	469	519	564	608	645
D&A	226	232	239	247	256
Change in working capital	-72	-86	-64	-53	-48
(-) Capex	-192	-209	-239	-256	-269
Free Cash Flow to Firm (FCFF)	430	456	500	546	585
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Discounted FCFF	106	416	420	423	417

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 and PE multiple. It is valued at a 2024 EV/EBITDA and PE multiple of 8.6x and 17.5x, respectively in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Juhayna Food Industries SAE	621	8.1	6.7	13.3	10.0
Suntory Beverage & Food Ltd	10,021	6.7	6.1	17.5	15.2
Bunge Ltd	12,094	6.9	7.1	9.2	9.4
Tate & Lyle PLC	3,608	7.9	6.9	14.1	12.7
Almarai	14,345	12.2	11.0	22.5	19.9
Savola Group	7,681	11.6	10.2	29.9	18.6
Kewpie Corporation	3,190	8.6	8.3	22.9	20.9
Anjoy Foods Group	3,625	9.2	8.2	17.5	15.5
Saudi Dairy & Foodstuff Co	2,938	16.4	15.1	21.8	20.2
Average		9.7x	8.8x	18.7x	15.8x
Median		8.6x	8.2x	17.5x	15.5x
Max		11.6x	10.2x	22.5x	19.9x
Min		7.9x	6.9x	14.1x	12.7x

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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