

Agthia Group PJSC

New product launches and margin expansion supported bottom-line

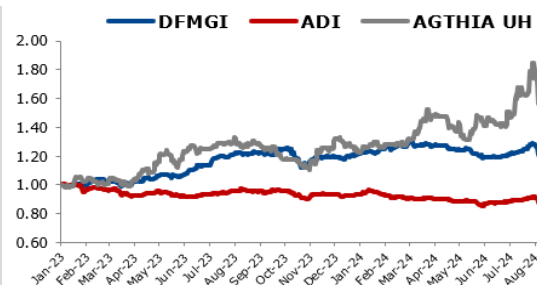
Current Price
AED 6.83

Target Price
AED 7.60

Upside/Downside (%)
+11%

Rating
ACCUMULATE

- The Company maintained its guidance for FY2024 with an expected revenue growth of 10-12%, expansion in EBITDA margin of 40-60 bps, and a net profit margin of 30-50 bps.
- Agthia launched a new protein manufacturing plant in Jeddah costing AED 90 Mn with an annual production capacity of more than 7,000 tons in KSA, featuring two production lines capable of producing 50 different SKUs.
- The Company implemented productivity enhancement measures which enabled it to save AED 63 Mn in 1H24.
- Agthia's Abu Auf added 44 new stores in Egypt during 1H24, aligned with its goal to expand its retail footprint.



2Q24 Net Profit lower than our estimate

Agthia Group's (AGTHIA/the Company) net profit rose 44.9% YOY to AED 56 Mn in 2Q24, marginally lower than our estimate of AED 60 Mn. The growth in the net profit is mainly attributable to an increase in revenue owing to double-digit growth in the Snacking segment & healthy growth in the Water and food segment coupled with an expansion in margin partially offset by an increase in finance expense.

P&L Highlights

AGTHIA's revenue grew 5.7% YOY to AED 1,077 Mn in 2Q24, mainly due to healthy growth in the Water & Food segment coupled with double-digit growth in the Snacking segment, partially offset by a decline in the Protein and Frozen segment revenue. Revenue from the Protein and Frozen segment fell 1.7% YOY to AED 241 Mn in 2Q24 mainly due to a devaluation of Egyptian currency partially offset by a 2.2% YOY growth in Nabil. Snacking business revenue rose significantly by 22.6% YOY to AED 271 Mn in 2Q24 driven by robust performance of dates and coffee coupled with new product launches. Water and Food business revenue grew 4.5% YOY to AED 265 Mn in 2Q24 primarily attributable to a growth in revenue across UAE, Oman and Kuwait. In UAE, AGTHIA Al Ain bottled water brand retained its market-leading position and also increased its glass bottle water capacity leading to triple its production of glass bottle water in the mid-term. Agri-business revenue grew marginally by 0.2% YOY to AED 299 Mn in 2Q24. The Company's direct cost grew 2.1% YOY to AED 748 Mn in 2Q24. Thus, AGTHIA's gross profit rose 14.8% YOY to AED 329 Mn in 2Q24. Gross profit margin expanded 244 bps YOY to 30.6% in 2Q24, while the EBITDA margin rose 113 bps YOY to 13.9% in 2Q24 owing to a rise in EBITDA of all segments. Snacking segment EBITDA rose by a robust 45.3% YOY to AED 38 Mn in 2Q24. Protein & Frozen segment EBITDA also grew 32.7% YOY to AED 36 Mn, Water & Food Segment EBITDA rose 19.1% YOY to AED 38 Mn, Agri-business

2Q24 Result Review (AED, mn)

Total Assets	6,142
Total Liabilities	3,174
Total Equity	2,968
EBITDA	150
Net Profit	56

Financial Ratios

Dividend Yield (12m)	2.58
Dividend Pay-out (%)	50.04
Price-Earnings Ratio(x)	18.44
Price-to-Book Ratio (x)	2.02
Book Value (AED)	3.38
Return-on Equity (%)	10.86

Stock Performance

5 Days	0.00%
1 Months	2.25%
3 Months	26.95%
6 Months	40.07%
1 Year	40.62%
Month to Date (MTD%)	-4.61%
Quarter to Date (QTD%)	13.83%
Year to Date (YTD%)	46.96%

EBITDA increased 16.7% YOY to AED 50 Mn in 2Q24. All the segments recorded an expansion in EBITDA margin. Furthermore, the Company's finance income declined 7.0% YOY to AED 4 Mn in 2Q24, while finance cost rose 33.5% YOY to AED 36 Mn in 2Q24 owing to higher benchmark rates. Additionally, income tax and zakat expenses grew from AED 8 Mn in 2Q23 to AED 11 Mn in 2Q24 attributed to the introduction of UAE corporate tax in FY2024. Share of profit attributable to non-controlling interest holders fell 24.9% YOY to 7 Mn in 2Q24.

Balance Sheet Highlights

AGTHIA's total gross debt rose from AED 1.5 Bn in 1Q24 to AED 1.6 Bn in 2Q24. The Company's net debt to EBITDA ratio marginally rose to 1.6x in 2Q24 compared to 4Q23. Net cash generated from operating activities declined from AED 130 Mn in 1Q24 to AED 110 Mn in 2Q24, mainly due to lower profit generated in 2Q24 partially offset by a lower investment in working capital. Cash and cash equivalents stood at AED 403 Mn in 2Q24 compared to AED 483 Mn in 2Q23.

Target Price and Rating

We revise our rating from HOLD to ACCUMULATE on AGTHIA with a revised target price of AED 7.60. AGTHIA recorded a healthy growth in revenue and EBITDA in 2Q24, despite inflationary pressures, currency devaluation in Egypt, and challenges in Jordan. 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 is already taking proactive measures as it has implemented productivity enhancement measures, which have enabled it to save AED 63 Mn in 1H24. AGTHIA is prioritizing product innovation in all segments, and aligned with this goal, it launched several new products in the Snacking, Protein and Frozen, Water & Food as well as Agri-business Segments. It generated revenue of over AED 92 Mn through strategic product innovation in 1H24. The Company launched the Agrivita marketplace, which will enable customers to buy animal feed online, and Al Ain app to provide home delivery of water. These steps are aligned with the Company's aim to integrate digitalization into the business to improve customer experience. Agthia's Abu Auf added 44 new stores in Egypt during 1H2024, aligned with its aim to expand its retail footprint. It also boosted its glass bottle water capacity in the UAE enabling the Company to triple its production in the medium term. Agthia plans to further expand its capacity and drive growth in the Protein segment, in line with this it opened Phase 1 of the protein manufacturing plant in Jeddah. Both phases 1 and 2 will boast an average production capacity of 7,000 tons, with a capability to produce around 50 SKUs. The addition of the Phase 1 facility is likely to add a revenue of AED 50-60 Mn annually. The Phase 2 is expected to commence production by the end of 1H25. The Company plans to turn Egypt into an export hub capitalizing on its low-cost location, and geographical proximity, coupled with free trade agreements. In addition, it is also looking forward to expanding its coffee business in Egypt. 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	30.0	119.2	23.9	22.0	20.8	16.8
PB	2.1	2.2	2.0	1.9	1.9	1.9
EV/EBITDA	15.3	23.2	14.5	12.1	9.4	8.3
Dividend yield	2.2%	2.4%	2.4%	2.4%	2.7%	3.0%

FABS Estimates & Co Data

Agthia – P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	1,019	1,449	1,077	1,064	1.2%	5.7%	-25.7%	4,561	5,097	11.7%
Cost of sale	-732	-1,033	-748	-754	-0.8%	2.1%	-27.6%	-3,200	-3,559	11.2%
Gross profit	287	417	329	310	6.0%	14.8%	-21.0%	1,361	1,538	13.0%
S&D expense	-126	-163	-148	-140	5.3%	17.2%	-9.5%	-577	-663	14.7%
G&A expense	-87	-111	-79	-90	-12.8%	-9.2%	-29.2%	-352	-408	15.8%
Research & development costs	-2	-2	-2	-1	22.5%	-12.3%	3.7%	-8	-11	38.9%
Other (expenses) / income	6	19	4	13	-68.2%	-33.5%	-78.7%	48	51	6.9%
EBITDA	130	233	150	147	1.6%	15.0%	-35.6%	702	810	15.4%
Operating profit	77	159	104	91	15.0%	34.7%	-34.5%	471	507	7.7%
Finance income	4	4	4	6	-44.0%	-7.0%	-19.7%	26	25	-2.5%
Finance expense	-27	-16	-36	-24	50.9%	33.5%	119.1%	-113	-89	-21.1%
Share of loss from invt	1	0	1	0	NM	-9.2%	NM	3	0	NM
Profit before tax and zakat	56	148	73	73	0.0%	31.2%	-50.4%	382	443	15.9%
Income tax and zakat	-8	-20	-11	-7	47.0%	29.4%	-46.1%	-83	-75	-8.8%
Profit of the year	47	128	62	66	-5.2%	31.6%	-51.1%	300	368	22.8%
Non-controlling interest	-9	-12	-7	-6	14.8%	-24.9%	-42.1%	-39	-44	14.4%
Net Profit	38	116	56	60	-7.2%	44.9%	-52.0%	261	324	24.0%

FABS estimate & Co Data

Agthia - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross profit	28.1%	28.7%	30.6%	244	181	29.8%	30.2%	33
Operating Profit	7.6%	11.0%	9.7%	209	-129	10.3%	10.0%	-37
EBITDA	12.8%	16.0%	13.9%	113	-213	15.4%	15.9%	50
Net profit	3.8%	8.0%	5.2%	140	-283	5.7%	6.4%	63

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	8.12	70.0%	5.23
Relative Valuation (RV)			
EV/EBITDA	6.26	15.0%	0.94
PE	6.50	15.0%	0.98
Weighted Average Valuation (AED)			7.60
Current market price (AED)			6.83
Upside/Downside (%)			+11%

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 8.6%. It is arrived after using the cost of equity of 9.4% and after-tax cost of debt of 5.5% with a debt-to-equity ratio of 27.8%. Cost of equity is calculated by using a 10-year government bond yield of 4.9%, beta of 1.0 and equity risk premium of 4.51%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,861
Terminal value (AED, Mn)	6,359
FV to Common shareholders (AED, Mn)	6,751
No. of share (Mn)	831
Current Market Price (AED)	6.83
Fair Value per share (AED)	8.12

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT	421	483	528	559	592
D&A	303	303	305	309	313
Change in working capital	-73	-91	-47	-34	-38
(-) Capex	-229	-252	-265	-274	-280
Free Cash Flow to Firm (FCFF)	421	443	521	560	587
Discounting Factor	0.97	0.89	0.82	0.76	0.70
Discounted FCFF	204	395	428	424	409

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 8.2x and 16.6x, respectively in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Juhayna Food Industries SAE	414	7.1	5.8	13.7	10.2
Suntory Beverage & Food Ltd	10,598	6.6	6.0	16.6	14.7
Bunge Ltd	13,501	7.6	7.5	10.1	9.8
Tate & Lyle PLC	3,109	8.2	7.8	11.5	10.4
Almarai	15,380	13.2	11.6	24.7	21.1
Savola Group	5,871	10.0	9.9	21.0	19.7
Kewpie Corporation	3,400	8.9	8.5	23.0	20.6
Anjoy Foods Group	3,249	6.6	5.7	13.8	11.8
Saudi Dairy & Foodstuff Co	2,937	15.4	14.4	21.8	20.4
Average		9.3x	8.6x	17.4x	15.4x
Median		8.2x	7.8x	16.6x	14.7x
Max		10.0x	9.9x	21.8x	20.4x
Min		7.1x	6.0x	13.7x	10.4x

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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