

Agthia Group

Current Price

AED 7.32

Target Price

AED 8.00

Upside/Downside (%)

+9%

Rating

HOLD

3Q24 Net Profit lower than our estimate

- Agthia Group's revenue rose marginally by 1.1% YOY to AED 1,082 Mn in 3Q24 primarily driven by strong growth in 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.
- Direct cost grew faster than revenue and inched up 2.3% YOY to AED 747 Mn in 3Q24.
- Thus, gross profit decreased 1.4% YOY to AED 334 Mn in 3Q24 with a gross profit margin of 30.9%.
- EBITDA rose 5.9% YOY to AED 155 Mn in 3Q24 owing to growth in profit of the Water & Food and Agri-Business Segment partially offset by a decline in profit of Snacking Segment. EBITDA margin improved 65 bps YOY to 14.3% in 3Q24 due to improvement in margin across Protein & Food and Agri-Business Segment.
- Operating profit increased 8.7% YOY to AED 99 Mn in 3Q24.
- Net profit attributable to shareholders increased 11.3% YOY from AED 53 Mn in 3Q23 to AED 59 Mn in 3Q24.
- Agthia's Abu Auf added 49 new stores in Egypt during 9M2024 situated at strategic locations across sporting clubs, universities, and new residential compounds.
- The Company launched new products across coffee, snacking, protein, and frozen as well as agri-business portfolio in 9M2024.
- Agthia launched a new B2B Customer Portal and development and integration of AI technologies marking its progress toward digital transformation.

Earnings Call Summary

- The Company generated revenue of over AED 123 Mn through strategic product innovation during 9M24.
- Agthia's revenue grew 10.3% YOY during 9M24 out of which volume contributed 8.5% and 1.8% was due to better pricing.
- Agthia's Digital revenue grew 3.9% YOY to AED 178 Mn in 9M24 which translates to 5.1% of core sales.
- The Company exited from a non-performing UAE dairy business, Yoplait. It led to 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 launched soluble coffee product in Egypt.
- In the Protein & Frozen Segment, Agthia launched premium products under the "Nabil" brand in Jordan which would generate 40% margins compared to existing base business margins of 30%.
- The Company's water business continues to drive the growth of glass bottles, plant-based and 100% rPET bottles.
- Agthia 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.
- The working capital as a percentage of sales declined to 7.4% from 10.4% and the cash conversion cycle improved to 45 days in 9M2024.
- Net debt to EBITDA and interest coverage ratio stood at 1.4x and 7.9x with a borrowing capacity of AED 2 Bn.
- The Company focuses on diversifying its geographical footprint and aimed at increasing exports. It started to sell in Mexico as well as expanding its dates portfolio in the United States.

- Egypt's business delivered a solid performance despite the devaluation of the EGP. It generated AED 73.2 Mn export revenue in 9M24.
- The guidance includes 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.
- The Company maintains its guidance to achieve 10% to 12% revenue growth in FY2024.
- Agthia continues to focus on protecting margins in Egypt by increasing the prices of its products.
- The Company focuses on premiumization of the products across its businesses coupled with leveraging on digitalization of operations to expand margins.
- The subdued revenue growth in 3Q24 was due to a delay in date harvest which it expects to impact the volume till Q1FY25. However, the company believes the growth in Q4 to be strong due to seasonality impact.
- The shipment of dates to the US was impacted due to ongoing supply chain challenges in the Red Sea and strikes in Eastern Seaboards also created a backlog in clearances impacting revenue growth.
- Agthia is venturing to diversify dates supply from UAE and outside UAE.
- The Company implemented higher pricing growth in Egypt to protect margin, which initially impacted volume but the management expects volume to recover going forward.
- Agthia focuses on improving the efficiency of its existing capacity rather than incurring additional CAPEX.
- The company is confident of maintaining QSR volumes in KSA.
- Agthia is interested in favourable M&A deals.

Agthia - P&L

(AED mm)	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch
Revenue	1,070	1,077	1,082	1,080	0.2%	1.1%	0.5%
Cost of sale	-731	-748	-747	-767	-2.6%	2.3%	0.0%
Gross profit	339	329	334	312	7.1%	-1.4%	1.6%
Selling and distribution expense	-165	-148	-148	-148	-0.2%	-10.7%	-0.2%
G&A expense	-90	-79	-93	-80	16.9%	3.8%	18.4%
Research and development costs	-2	-2	-2	-2	-17.5%	-11.1%	7.3%
Other (expenses) / income	9	4	8	13	-41.7%	-19.9%	86.0%
EBITDA	146	150	155	152	2.0%	5.9%	3.5%
Operating profit	91	104	99	95	4.0%	8.7%	-5.3%
Finance income	7	4	1	8	-92.5%	-91.2%	-82.7%
Finance expense	-27	-36	-18	-26	-28.7%	-32.7%	-49.2%
Share of loss from invest in a JV	0	1	0	0	NM	NM	NM
Profit before tax and zakat	71	73	81	77	5.2%	14.7%	11.4%
Income tax and zakat (expense) / benefit	-10	-11	-17	-7	137.2%	72.9%	53.8%
Profit of the year	61	62	65	70	-7.8%	5.7%	4.1%
Non-controlling interest	-9	-7	-6	-6	-1.2%	-28.0%	-7.8%
Net Profit	53	56	59	64	-8.5%	11.3%	5.6%

FABS estimate & Co Data

