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Presentation

Operator
Ladies and gentlemen, welcome to Agthia Group's First Quarter Results conference call. I now hand over to your host, Ozgur Serin, Group Director Investor Relations and Corporate Communications. Sir, please go ahead.

Ozgur Serin
Good afternoon and thanks for joining us today. Together with me as usual I have Mr Iqbal Hamzah, our Chief Executive Officer, and Mr Fatih Yeldan, our Chief Financial Officer. Before we begin, let me remind you that you can find the webcast materials in the Investors Centre section of our website at www.agthia.com. I would also like to note that we have posted our consolidated financial statements, including the Director's Report, in the same section on our website.

In today's call, Hamzah will cover briefly a few of the highlights from the quarter we left behind, before handing over to Fatih to provide us more detail on our financial performance. We will then continue with Q&A as usual. It is over to you, Hamzah.

Iqbal Hamzah
Thank you, Ozgur, and good afternoon everyone. Back in February, we reported a very successful 2015 performance where we also initiated our [seven-step] strategy to make us a more than $1 billion revenue company by 2020. This strategy aims to transfer us here into a company that is more focused on our core categories, both commercially and organisationally, in order to deliver sustainable and accelerated value to our shareholders. I am pleased to announce that in this first quarter of 2016 we made tangible progress in the execution of our strategy plans and delivered on expectations we laid out. I am pleased to report that we continue to have broad momentum in a macro environment that continues to be quite challenging. Market growth rates of the categories we are in are at best slowing down.

Before we continue further, let's look at the next slide and we will come back to here again. It is pretty clear on this chart that the underlying market of all categories we are competing in are slowing down significantly. The green column is the growth in 2015 average versus 2014, whereas the red column represents the growth in the first quarter of this year versus the same period last year. These figures have been taken from retail audits [inaudible].

We had seen this coming late last year and prepared our action plans accordingly. We focus on distribution, visibility, and customer acquisitions, while continuously supported our brands with marketing activities. We made sure these plans were executed seamlessly, which led us to outgrow the market. With the help of lower commodity prices in addition to our relentless pursuit of cost efficiency, our gross margin improved significantly and helped us deliver profit growth ahead of the revenue growth. Momentum of turnaround in non-core businesses accelerated with a strong double-digit revenue growth and currency level loss reduction in the course of the first quarter. With this positive note, we remain committed to deliver on our full year top and bottom line expectations barring adverse consequences beyond our predictions of on-going economic downturn that UAE and the GCC is experiencing on the back of low oil prices.

Let me highlight some of our key initiatives in this period, initiatives that not only enabled us to stay ahead of the game in the past quarter, but were also essential to lay the groundwork to achieve our target in the face of an ever-increasing competitive environment. In a bid to further reinforce our leading position in water, we rolled out the Essentials for Life proposition with Al Ain Water, elevating the balanced water drive that was launched last year. Essentials for Life aims to increase public awareness about optimum water consumption, while enhancing brand awareness and developing a high emotional connect with consumers. In dairy, we set the pace of [inaudible] in motion, aiming to stimulate the indulgence element in consumers' yoghurt eating experiencing, accentuating the emotions of joy and pleasure delivered by delicious taste of Yoplait Fruit Yoghurt and Yoplait Delight. Additionally, we added to our bakery portfolio, Grand Baker, the ambient [cross-arranged] in four SKUs to penetrate the bakery categories in retail trade, which also helps increase capacity utilisation in our bakery production facility. Early response from trade has been encouraging, building further confidence in our plan to introduce new variants in the near future. As a matter of fact, in April we launched the fifth SKU, [inaudible]. The quarter has also seen addition of [food birth] in three SKUs onto our Yoplait portfolio. In April, we also introduced two new flavours of Yoplait Delight on top of the three already in the market.

Looking outside the UAE, regional expansion is our cote category is well on track. We are now in Saudi Arabia. After detailed due diligence periods due to well-known complexity of the market by means of appointing in February the general trading company of the Olayan Group to distribute our premium flour products in retail trade across the country. We have always been outspoken about our desire to broaden our business and customer base in the region, and Saudi Arabia presents to us a significant retail market opportunity for flour to grow out their footprint in the country. Although outside the boundaries of the first quarter, due its significance and also is a very fresh matter for the investment community, I would also like to mention here about our new joint venture in Kuwait. Two weeks ago we announced a 50/50 partnership with Kuwait's Al Wafir Marketing Services Company to establish water bottling plant in Kuwait. Regional expansion water through acquisitions or joint venture is a critical pillar of our new strategy together with organic growth. You will remember our Al Bayan acquisition back in September last year, which has significantly reinforced our leading position in the bottle water market here at home. We believe this move in Kuwait will provide us with additional muscle to also significantly establish our presence in and beyond Kuwait in the wider region.

Finally, inside the house, progress in our organisational restructuring effort is in line with the expectations we set forward, with most of the groundwork, including deeper level of the organisation, completed and gradual implementation started. Communication is key in order not to disrupt the business momentum. We believe we are doing well there, communicating with the wider organisation transparently at every milestone using several internal communication platforms. Our SAP implementation site, as we progress forward, we are realising that we might have been too ambitious in our go-live target set for early 2017. As we continue to expand our operations, capacity, people, and portfolio, it looks full and complete implementation of SAP will see us through the end of 2017 and into 2018.

Let me now pass the call to Fatih here for financial highlights.

Fatih Yeldan
Thank you, Hamzah and good afternoon everyone. Let me start with the P&L. Net Group revenue recorded AED 486 million in the first quarter, representing 12% growth versus the same period last year. Performance is driven by volume growth in all core categories, but particularly in water. We ended the first quarter with a record quarterly net profit of AED 68 million, 14% higher than the same period last year, and outpacing revenue growth by two percentage points. Accordingly, EBITDA increased to AED 88 million from AED 77 million from a year ago. Higher production volume, lower direct material costs, on account of favourable grains, PET, and milk powder prices, and high margin Al Bayan business resulted in 400 basis points' improvement in gross profit margin. We incurred higher SG&A than last year, but as it had been shared with you in several platforms, this is totally in line with our expectations and guidelines. Out of 385 basis points' increase in SG&A ratio to net revenue, 135 points is attributable to Al Bayan. The remaining increase in SG&A is driven by higher marketing expenses in defence of market share against ever-increasing competition, consultancy expenses, employee related costs in association with new positions and other inflationary increases. Consequently, net profit margin improved to

13.9%, a 28-basis-point increase over that same period last year and EBITDA margin accordingly increased to 18.1%.

Let's have a quick look at our key balance sheet metrics. Overall, our balance sheet maintained its health and strength, total assets reached AED 2.53 billion, an increase of AED 160 million compared to 31 December 2015. The company generated AED 106 million cash from operating activities in the first quarter of the year. Total cash and banks' balance amounted to AED 619 million with sufficient credit lines regularly available at competitive rates in order to cover any short-term additional funding necessities. There is no significant change in working capital in the period, whereas the value of inventory declined, AED 20 million increase in receivables is a normal reflection of higher revenue, increasingly in higher credit term retail channels. Total working capital stood at AED 480 million at the end of the March.

Let's quickly cover the breakdown of revenue by segment and geography. As you can see, except Feed, all categories are growing and they are outgrowing their underlying markets' performance. Water is continuing to lead the pack with an impressive 29% growth. Al Bayan is certainly contributing; however, [inaudible] new Al Bayan like-for-like water is growing at a healthy 13% over the quarter a year ago. We continue to achieve this by concentrated expand distribution with various supporting consumer activities throughout the quarter, enabling us to outperform the market growth rate despite the increased competition.

Let me continue with consumer categories before talking about Flour and Feed on the next slide. Dairy with Yoplait posted a record 46% revenue growth in the first quarter, supported by the launch of Fruit Burst as well as the Joy of Fruit TV commercial that Hamzah has mentioned in his part at the beginning. Although net losses of dairy increased moderately in the first quarter, largely due to front-loaded launch and advertising expenses, this would subside during the rest of the year, and combined with the growing scale and higher gross profit margin, we expect to accomplish our objective of material loss reduction by the end of the year. In Juice, both Capri-Sun juices and Al Ain fresh juices growing healthily, posting overall juice category growth of 4% versus the same period a year ago.

The turnaround non-core business is progressing very well. The quarter has seen us relaunching our Al Ain frozen vegetable range with the new blue scheme packaging, in addition to launching the Grand Baker ambient croissant line in four flavours. Early response by our trade partners has been very encouraging in terms of the future potential of this line, which we enriched with a plain variant in April. As for our frozen bakery, efforts to expand our airline catering customer base are continuing and we expect to acquire additional airlines in the coming months, including the revenues of [inaudible], which was recently added onto our portfolio, non-core segment revenues reached AED 32 million.

This slide gives a breakdown of our revenue by geography and also sheds light on what's happening in Flour and Feed. Our Agri business consists of Flour and Feed, and in addition to domestic business, we also trade commodities I both, as well as exporting flour to mainly East Africa and Saudi Arabia. With this background in sight, our Agri business has growth by 2%, driven by 16% growth in Flour and offset by a decline in feed by 6%, as you will remember from the previous slide. Flour has been growing on all fronts, particularly important is the growth in the home market, 3% versus a year ago, owing continuous B2B customer base expansion in both Abu Dhabi and Northern Emirates, in addition to deeper and wider lower trade penetration. However, it has been a more demanding quarter for the Animal Feed business where both accelerating competition and declining commodity prices put downward pressure on market prices. As a consequence, despite volume growth at around 2% in the UAE, revenues declined by 2%. A decline in feed trading carried overall feed category shortfall versus a year ago to 6%. Consumer business on the other hand performed very well on all fronts, posting growth versus a year ago quarter.

We already talked about UAE business in the previous slide. In Turkey, after a struggling last year against the backdrop of production interruptions and currency devaluation, business returned to growth. It is not worthy to mention here that contribution of our Turkey business usually remains in shape [inaudible] talk about Alpin business only in Turkey. Turkey is producing Alpin for the UAE as well, where we are progressively increasing our market share in the Turkish water segment and especially in the key retailers. Both volume and revenue generated by Alpin in the UAE have almost doubled in the first quarter of this year. In Egypt, despite a currency adjustment in March devaluing the Egyptian Pound by more than 12%, quarterly net revenues recorded 3% growth compared to the same period a year ago due to the improved mix and increased share of exports.

Now a brief update on the major capital expenditure projects that I know you are keeping an eye on. I am very glad to announce that our second high-speed bottling line is up and running, which increased our bottling capacity by more than 40%, right on time at the end of March. We have also completed our staff move into all facilities in Dubai, which will also start serving as an important warehouse soon. Ambient storing area will be completed in June and cold stores are expected to be operational in quarter four 2016. We selected the project management and consultancy company for the construction of new grain silos with which the project has effectively started. Expected completion is middle of next year.

Finally, in our attempts to expand our Grand Mills facility, which is essential for capacity necessities, we were allocated an adjacent land at Port Zayed to our existing facilities. Negotiations are concluding on the terms and conditions, and we expect to sign a contract within this quarter. With this, I am handling the call back to Hamzah for his closing remarks.

Iqbal Hamzah
Thanks Fatih and thanks for listening to us today. Before we move onto the Q&A, let me close the prepared session with some closing remarks. We are aware that we still have a lot of work to do. However, we have defined a clear path to get there and we are making consistent progress in order to accelerate value creation for our shareholders. We are becoming more focused on our core categories in order to drive growth, more efficient to drive profit, even ahead of the revenues. We have already landed one acquisition in the UAE and another joint venture in Kuwait in water, and we are working hard to complete at least one more acquisition within this year. There is no shortage of challenges, as I mentioned earlier; however, our driving force is our wholehearted passion to go further, to do more, and to do all of these together with more than 3,500 employees we now have in the company.

With that, it is through the operator to take your questions. Thank you.

Question and Answer Session

Operator
[Operator Instructions]

Our first question is from Jagdish Bathija from Lazard Asset Management. Please go ahead.

Jagdish Bathija
I had a few questions with regards to the international side of the business. Firstly, in Saudi Arabia, the distribution, how does it work? Is it B2B or B2C and if it's B2B then who takes the inventory risk? Secondly, in Turkey, we have seen volumes grow, as you mentioned, but when do we see breakeven? Thirdly, what's the strategy in Egypt? Do we see any further expansion there? Lastly, some details about the water distribution in Pakistan and the JV in Kuwait.

Iqbal Hamzah

Okay. The export to Saudi of flour is targeted at B2C, the retail business, and as I mentioned in my previous calls that the retail market is quite big in Saudi. It's between 250-300,000 tons a year and it is through our distributor, Olayan, which is… they're quite big and they're quite strong with a national network.

Moving to Turkey, yes, we are growing the volume both in Turkey domestically and also in UAE. Actually in UAE the volume has doubled. It's doing quite well. In terms of breakeven, we expect next year to break even in Turkey, but if you look at the total overall, when we say Turkey breakeven, we look at only the domestic business, but when you add the domestic business and the export business, which are sold here in UAE, when you combine these together, the situation is different. In Turkey, we are planning to break even next year.

Egypt, we don't have any plans currently to expand. First we want to consolidate whatever we have and the situation in Egypt of course is not helping us at this point of time. Whilst the situation stabilises, only then we will look at any sort of expansion or adding any new categories, that will be not in '16, it will be in '17.

Moving to Pakistan, it is a big market. We appointed a distribution in Pakistan and the first shipment already left. Actually, the second shipment is leaving now and it is both… when it comes to our exports, we don't go for a trading model; we go for a very organised… you know, brand supported with brand activities and proper distribution. Basically, we control the visibility, the distribution, the shelf space together with the distributor, and we provide the support which is needed to promote the brand, so that's the model for Pakistan as well. It's very initial, just two shipments has left, but we are positive that that should pick-up in Pakistan, the Al Ain brand.

Did I answer your questions?

Jagdish Bathija
Yes, thanks, but just coming back to Saudi Arabia, you mentioned it's through a distributor, B2C through a distributor; I want to understand who takes the inventory risk, I mean, once the shipment leaves from Agthia? Is it on the distributor there or…?

Iqbal Hamzah
This is ex-factory when the distributor takes the delivery, the title passes to him.

Jagdish Bathija
Okay, thank you.

Operator
Our next question is from Ms Noura from Al Ahli Capital. Please go ahead.

Ms Noura
I have some questions. The first one is regarding the JV in Kuwait. Can you give us more colour on the size and how much to add, and if you can just tell us who is the main competitor in Kuwait? The other question is regarding the market shares for the bottled water. As of the end of 2015, you were the number one player, is it still the same or…?

Iqbal Hamzah
Okay, let me take your second question first. In terms of market share for Al Ain, we have further consolidated our leadership position. We are maintaining our leadership position. Before, we were the market leader in terms of volume; in the last reading, which was February and March audits, [inaudible] audit, we are also now the market leader in value, so in both and, of course, the objective is to increase the leadership position, enhance, consolidate the leadership position moving forward.

Moving to JV in Kuwait, this is part of the strategy which I shared earlier with you, the regional expansion of Al Ain in GCC, and this is part of that strategy. As I mentioned that we have entered into a JV with a very strong local partner. The market is big, and when you take the export out of Kuwait, it is significant, because a lot of [inaudible] from there goes into Jordan, into Iraq. Why we decided to get into Kuwait is for obvious reasons, because 70% of the retail phase goes out of Kuwait co-ops, and to be strong in this co-op you have to be a local producer. This was one of the main reasons why we decided to setup a plant in order to strengthen our position there.

In terms of players, the number one player in Kuwait is Abraaj, which is if I am not wrong owned by a private equity in Kuwait, and there are some other players, Arwa, Aquafina, Nestlé, and ABC, but the market leader is Abraaj.

Ms Noura
Okay, can you give us some guidelines on the capacity and the expected CapEx?

Iqbal Hamzah
The capacity, we are going with one line first with a capacity of 27,000 bottles per hour, and according to the projection, this line should be enough for the next four years. We will read the capacity in year four and then we have to look at expansion.

In terms of investment, I am not in a position to disclose now, and the reason being, our partner in Kuwait they have not announced yet, so once they announce this JV then I will be in a position to disclose CapEx.

Ms Noura
I am sorry; does the Kuwaiti company own the land?

Iqbal Hamzah
The land will be owned by the joint venture, yes. They acquired the land and land is very difficult to get in Kuwait, expensive and is quite difficult and the most difficult part is getting the water bottling license. Our partner, they managed to get both, the land and the license.

Ms Noura
With that question, what is the market type in Kuwait?

Iqbal Hamzah
It is around… it is total water including HOD if you take is around 600 million litres. We take probably 50% of that would be PET, the small format.

Ms Noura
Okay, thank you very much.

Iqbal Hamzah
You are welcome.

Operator
Our next question is from Xavier Zawisza from Arqaam Capital. Please go ahead.

Xavier Zawisza
Good afternoon gentlemen and thank you very much for your time today. I just had a quick question regards the gross profit margin for Al Bayan, if that was something you guys were going to be letting go of, and also if you could expand on the dairy net losses, they increased quarter-on-quarter.

Fatih Yeldan
Gross profit margin as we were mentioning as well before for Al Bayan is around 70%, but also, as you know, this business, HOD business has very high overhead base, because of distribution, but gross profit wise margin is very high around 70%. When it comes to dairy, actually, we improved the GP margin, now it is 30% from 20, now it is 30%, so also sales increases by 46%, but first quarter, you know, we are actually having heavy advertising, heavy support behind the brands, marketing support behind the brands. We have TV advertising as well included in that, so that is why, actually, we have some upfront pending, so in the remainder of the year, you will see a normalisation and also you will see that the bottom line will improve and will improve in the total year versus last year, but in the first quarter, you are right, we are slightly behind last year on the profit, despite the gross profit improvement, but it will be catching up now.

Xavier Zawisza
So front loaded marketing costs.

Fatih Yeldan
Exactly.

Xavier Zawisza
You mentioned the gross profit margin for Al Bayan up and around 70%, where did that then come in at around EBIT? Do you mind mentioning the EBIT margin for Al Bayan?

Fatih Yeldan
Just one second. EBITDA margin is around 25%.

Xavier Zawisza
EBIT or EBITDA did you say there, sorry?

Fatih Yeldan
EBITDA.

Xavier Zawisza
Thank you very much, gentlemen. Thank you for your time today and congratulations on the results, they are fantastic.

Operator
Our next question is from Alok Nawani from Ghobash Trading & Investment. Please go ahead.

Alok Nawani
Good afternoon gentlemen, and thank you very much for the call. Just a follow-on question on our joint venture in Kuwait. I was wondering if you could just kindly clarify what would be your annual capacity in terms of cases per year, and also what timeline you had in mind. Secondly, on flour KSA, I was wondering if you could give us a revenue number for your first quarter. Finally, you also mentioned that you might be looking for one more acquisition by the end of this year, I was just wondering if you could clarify what segment and geography, potentially, that might be in. Thank you.

Iqbal Hamzah
Your question is what is the annualised capacity of the Kuwait joint venture, it is around 13 million. It will be around 13 million, 12 million cases.

Alok Nawani
What would be the timeline for that?

Iqbal Hamzah
We will comment production mid next year.

On the second question on acquisition, yes, we are actively looking into targets, and like I said, we are targeting to land one, if we manage to get the right target at the right price and this will happen in one of these two categories, which is water and juice and dairy. That is the category. Geography, water will be in GCC, not in UAE, outside UAE, but within GCC and the dairy in UAE.

Your next question on the revenue of flour, flour revenue for quarter one is 120 million first quarter.

Alok Nawani
No, but flour specifically within KSA, your KSA exports.

Iqbal Hamzah
KSA we just started. Actually, a shipment… two shipments left.

Fatih Yeldan
It was only AED 200,000/300,000.

Iqbal Hamzah
It is only two shipments left, which is small at the moment.

Fatih Yeldan
It is small now, because we are continuing to ship in April/May now, but first quarter, it was only last few days of March, it is a couple of hundred thousand Dirhams.

Alok Nawani
Okay, thank you very much.

Operator
Our next question from Manna Accawia from Mubasher Financial Services. Please go ahead.

Manna Accawia
Hello everyone, thank you for the nice presentation. Actually, I have a question concerning the capacity for Al Bayan water, so what is the expected capacity?

Iqbal Hamzah
You want to know the capacity, how much is the capacity for Al Bayan?

Manna Accawia
Yes.

Iqbal Hamzah
Al Bayan capacity is around 15 million bottles per year, and the current utilisation is 50%.

Manna Accawia
60 or 30?

Iqbal Hamzah
No 50, 5-0. To be precise, 45%.

Manna Accawia
49%.

Iqbal Hamzah
45%.

Manna Accawia
Thank you so much, and concerning the flour revenues from KSA, you said when is it expected start or generate revenues from it.

Iqbal Hamzah
Can you please repeat your question?

Manna Accawia
I was asking about the expected revenues from retail flour in KSA, when will you expect to generate revenues and how much.

Iqbal Hamzah
Annualised revenue we are looking at around…

Fatih Yeldan
This will be around AED 2 million/3 million, and next year…

Manna Accawia
Sorry, how much?

Fatih Yeldan
AED 2 million/3 million, next year will be double.

Iqbal Hamzah
Next year we will double.

Manna Accawia
Double revenues, okay, thank you so much. Thank you.

Operator
[Operator instructions]

Our first question is from Nada Amin from EFG Hermes. Please go ahead.

Nada Amin
Hi gentlemen, thank you for having this call and a great set of results. I was just wondering how long the inventory you have will cover your needs for… so I remember the last call said that needs are covered through to August. How much visibility do we have on that?

Fatih Yeldan
Hi, Nada. We have coverage for most of the commodities we are using until October.

Nada Amin
Okay, great, thank you very much, I appreciate that.

Operator

Our next question is from Raed Momani from Capital Investments. Please go ahead.

Raed Momani

Good evening everyone. I just jumped into the call, so I don't know if the question I am about to ask has already been asked by someone else, sorry for that. just wondering, speaking like, follow-up on the inventory, so I am giving that oil prices have increased, what is the impact on the PET cost and what would be the impact like… because last month the UAE increased the oil prices by 10%, so what is the impact on your distribution chain? The last question is about flour prices in Northern Emirates, did the price increase change? One final question, I guess at the beginning of the call, before I lost the call you said the market is challenging, so could you please elaborate on that?

Iqbal Hamzah

Now, in terms of flour prices in Northern Emirates, it has not changed despite the drop in the grain prices, the price is still the same. What is happening now is the competition, they are doing some promotional activities. For example, you buy 10 bags you get two bags free, this sort of thing, okay, to bring the price down. That is number one.

Raed Momani

What would be the impact on your segment, the flour segment? Do you expect the margins to contract?

Iqbal Hamzah

This activity is not, because what happens, okay, net prices has dropped but the input cost has dropped as well, so at this point of time there is no impact on our GP margin, actually, the GP margin has improved, it has improved.

Now, your second question is on what I meant… in terms of PET, you see we covered ourselves until October. Again, we are seeing in PET, when the prices were low, we covered ourselves until October, so we are covered, there are only two months where we have the exposure and that is not a big deal, so the prices going up or down is not going to impact.

In terms of distribution, the distribution, yes, the prices had increased and this really had an impact on our distribution cost, which we expect that will be offset from saving in other areas. We don't expect the SG&A to increase because of that, because there are some savings there as well.

When I said that we have some challenging market, I meant that because of the lower oil prices, you're aware of the economic situation in the whole of the region, there is a slowdown in the category, almost all food category, and because of this slowdown, there is – every player is trying to get the volume. There is a sort of price war, which has started in the marketplace, discounting, okay, promotions, heavy promotions. Because of that, we have to react as well, but we are not reacting to the extent the competition is reacting, we have put a cap because we don't want to damage our brand. So far, we have been successful, we are doing tactical activities. Basically, we have now stopped above the line activity, now, all the activities we are doing is below the line, in store, to protect our volume.

Raed Momani
I see, so do you expect that to affect your negatively?

Iqbal Hamzah
There will be some impact because of the discounts, which we have to pass on, but at the same time, we will gain some efficiencies as well from the new bottling line, so in terms of the GP margin, margin will not be impacted, but the top line to some extent will be impacted because of the discounts. It is basically the price.

Raed Momani
I see, fair enough. One last question, you know the GCC are looking forward to impose taxes on sugary products, so would that impact you?

Iqbal Hamzah
Well, that is 2018, not now. The timing they gave is for 2018. No, actually, this is the UK. What you are referring to is UK, they have decided on the timing, January 2018, but in UAE they have not decided yet when.

Raed Momani
I know they have not decided yet, but I see… if they decided, let's say, what is the…

Iqbal Hamzah
We are ahead of that. We have already taken the initiative. Our R&D people, they have already started working on reducing the level of sugar,

sodium in all our products and we have a very clear plan (five-year plan) how we are going to reduce every year by how much. The plan is already there.

Raed Momani
I see, thank you so much.

Operator
[Operator instructions]

We have one further question from Alay Patel from Baring Asset Management. Please go ahead.

Alay Patel
Hi there, good afternoon, thanks for the call. Just a couple of questions on your CapEx guidance. I think you previously highlighted a AED 200-250 million range for 2016. Has this changed at all? This is a force outside of the Kuwait JV, and if you can also provide any guidance on your dividend policy please.

Iqbal Hamzah
The CapEx stays at the level which we shared with you earlier, no change. It stays at that level between AED 200-250 million for 2016.

When it comes to dividend, yes, we have a policy on the dividend. Basically, it is looking at the… first, we look at what are the requirements of the funding moving forward, and based on that, we go to the Board and we propose. What we try to do always is to somehow maintain the payout ratio.

Alay Patel
Okay, thank you very much.

Operator
[Operator instructions]

We have a question from Jagdish Bathija from Lazard Asset Management. Please go ahead.

Jagdish Bathija
Thanks, sorry, just wanted to follow-up on this, the CapEx you mentioned was AED 200-250 million. I see you hold cash of over 600 million if I am not mistaken and [CFO] is at a healthy rate of 106 million. Are there any chances of you returning the excess cash to the shareholders, given the CapEx is now at a stable rate moving forward?

Fatih Yeldan
We are keeping the money, because not only, obviously CapEx. As you know, in our strategy, the main player is acquisitions, so JV plus acquisitions, so that is why we are keeping more than actually what we need for CapEx.

Iqbal Hamzah
There are no plans to give extra dividends to the shareholders using the surplus funds. This we are keeping to invest…

Jagdish Bathija
But couldn't you better utilise that…

Iqbal Hamzah
… as Faith mentioned. We are looking at the future – delivery of future growth.

Jagdish Bathija
Sure, sir, but couldn't you utilise that for the CapEx to fuel further growth?

Iqbal Hamzah
Yes, we can, because our net debt is negative.

Jagdish Bathija
Exactly, you actually are under-leveraged.

Iqbal Hamzah
Correct and…

Jagdish Bathija

Wouldn't it make sense to utilise that and reduce your overall WACC?

Iqbal Hamzah
That is correct, but as Fatih mentioned, our key growth driver moving forward will be the acquisitions, right, so if the midsize or the large size acquisition comes, of course, we have to leverage. Whatever cash we actually have, if we manage to land the acquisition plus the CapEx, this will disappear within this year and then we will be leveraged.

Jagdish Bathija
Thanks.

Operator
The next question is from Fatema Al Doseri from SICO. Please go ahead.

Fatema Al Doseri
Hello, gentlemen, thank you for the conference call. I just have two questions. My first question is regarding the agri business, so the next few quarters will see a similar trend, basically, in terms flour, growth is coming from the exports market and in terms of [inaudible]. Then the second question is regarding your water business, are we still seeing price competition in the UAE and have you passed on all the price increases that you received last year?

Iqbal Hamzah
In the water business, not all the price increases we have passed on, but yes, I would say that the bulk of the price increase we have passed on, especially in quarter four and quarter one this year, because of the very intense competition, everyone is trying to take share (take volume), so yes we did that, but despite of doing this, we are maintaining our gross margin.

On the flour and feed, we expect the flour momentum to continue. There will be growth on a total year basis. Feed is too early to say. In quarter one, yes, we were behind last year. Quarter two so far looks good, volume is picking up. We have taken many actions to get back the volume we have lost, and the indications are positive, the response is positive, the feedback from customers is very positive. Of course, we are trying to recover whatever we have lost in quarter one, but I am not sure we will be able to recover all of the losses in quarter two, but total year we are looking at recovering the lost volume of quarter one. Like I said, quarter two so far is doing well. That is because of the many actions we have taken to protect our volume.

Fatema Al Doseri
Okay, thanks.

Operator
We have no further questions. Dear speakers, back to you for the conclusion.

Ozgur Serin
Thank you very much everyone for joining us today again. If you have any questions, please get back to us and you know how you can reach us, otherwise it is available on the website as well. Thank you very much and goodbye from all of us.

Operator
This concludes today's conference call. Thank you all for your participation. You may now disconnect.
