Agthia 9M '19 Results Call Transcript

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Corporate Participants

Tariq Al Wahedi
Agthia – Group CEO
Fatih Yeldan
Agthia – Group CFO
Sahar Srour
Agthia – IR Manager

Chairperson

Nada Amin
EFG Hermes – Associate Director / Research

Operator:

Good day and welcome to the Agthia Nine-Month 2019 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Nada Amin. Please, go ahead, ma'am.

Nada Amin:

Thank you, Operator. Hello everyone and thank you for taking the time to dial in to today's call. On behalf of EFG, it's our pleasure to be hosting Agthia's Nine-Month 2019 Results Conference Call. I'll hand over the call to the company's IR manager, Ms. Sahar Srour. Please, go ahead.

Sahar Srour:

Good afternoon, ladies and gentlemen. I apologize for the delay and thank you for joining us today on Agthia's earnings conference call for the nine month of 2019 hosted by Tariq Al Wahedi, Group CEO, and Fatih Yeldan, Group CFO. As usual, Tariq will first talk about the performance highlights during the period, after which Fatih will go over the financial results. We will then continue with a Q&A session. For your reference, the relevant presentation is available in the investor's section of the company's website at www.agthia.com. Please note that this call may contain forward-looking statements which should be considered in conjunction with the disclaimer included in the presentation. Over to you, Tariq.

Presentation

Tariq Al Wahedi:

Good afternoon everyone. We have successfully completed nine months of fiscal year 2019 moving in the same direction of preserving a leading market position, growing revenues and defending profitability. The Group recorded net revenues of AED 1.55 billion. This implies a 4.3 percent growth year on year mainly driven by our international water markets particularly in Saudi Arabia and Kuwait, Food and Flour segments, supported by 5-gallon water in the UAE. Agthia's bottled water portfolio, on the other hand, continues to safeguard market leadership across UAE in both volume and value share.

Group net profits during the period came in at AED 117.2 million, amidst withdrawn bakery channel subsidy, which is the largest contributor in the shortfall, followed by the rise in wheat and feed grains commodity prices (net of agri-pricing) and the de-growth in bottled water category in the UAE. All of the above factors are external, of which thanks to our disciplined response, their aggregate net impact on profit is reduced.

Let's look at the bottled water market and key players in the UAE retail environment.

The charts depict the volume and value shares of major players for the last 12 months ending August 2019 versus 2018.

Our flagship brand, Al Ain water, maintains its market leadership and reinforces Agthia's overall water portfolio- including Al Bayan and Alpin- record of 30.3 and 27.6 percent volume and value shares, respectively. Alpin still holds its place as the first imported brand in terms of volume while Al Bayan increased its share in the market throughout the period.

Moving on to the next slide, we compare Al Ain water's position with a perspective of the broader water category in the UAE. It is evident that our efforts in preserving profitability led to the outperformance of our water business versus the market in terms of value and slightly by volume. This is again an achievement in the face of UAE bottled water category continual weakening in volume and value; in which MAT August 2019 overall market size declined by 7.3 percent year on year.

Let us check our shipped water volumes across board.

Strong growth in our 5-gallon water home-and-office-distribution business in the UAE persists in the 9-months period, as we expand our customer base specifically in homes and in Northern Emirates.

During the same period, we shipped over 59 million cases of bottled water across the UAE, KSA, Turkey and Kuwait. In the UAE, the YTD dip in overall retail volumes reached 5.3 percent, exceeding Agthia's descent in retail of 2 percent only. This is a testament to our brand endurance against challenging market conditions. Alternatively, robust growth momentum in our international operations carries on. In Saudi, the dual effect of the high-speed bottling line installation and the distribution network expansion all the way to Riyadh, resulted in 66 percent year on year surge in bottled water shipments. In Kuwait, shipped volumes came in ahead of our internal targets on faster execution and wider market penetration.

Under the consumer business, Food segment emerges as an inevitably positive contributor to our P&L.

Powered by Trading items and Tomato Paste / Frozen Vegetables in Egypt, Food recorded 26.2 percent year on year growth during 9M 2019.

In its turn, Trading Items, which now constitute 51 percent of the segment, grew its top-line by 68 percent on new range of products that were added into our 'Community Support Division' portfolio. In TP/FV, Egypt revenues displayed 10.5 percent y-o-y growth on higher volumes.

In Dairy and Bakery, we succeeded in lowering incurred losses despite facing a declining market.

Operator:

Ladies and gentlemen, please stand by as we are experiencing a momentary interruption in today's conference. Thank you for your patience and please continue to hold.

Tariq Al Wahedi:

Hello everyone again, our apologies for the small glitch that happened. We are just testing all of our investors today, just to see their patience with us today. Going back to agri-business, finally, which is the final slide we have – I won't take longer time from you – flour continued its positive momentum, recording a 14% year-on-year line growth. This was mainly driven by elevated domestic and exported volume plus wheat sales coupled with slightly higher prices to partially counter higher global wheat costs. Excluding the impact of the full withdrawal of the remaining subsidy in Bakeries, profitability of the flour segment would have improved this year.

Animal Feed, on the other hand, recorded healthy profit margins on favourable volume mix tilted towards subsidized commercial farms. Reduced volume due to lower grain trading and lessened demand from small-sized farms brought feed revenues down by 8.7 percent.

I will now pass the line to Fatih for the financial review. Thank you.

Fatih Yeldan:

Good afternoon, everyone. The Group recorded AED 1.55 billion net revenues for the period, up 4.3 percent y-o-y.

Consumer-business generated AED 877 million net revenues during nine months of 2019. The international markets and 5-gallon HOD businesses continue to stir top-line growth of 3.5 percent y-o-y in the Water and Beverage segment residing at AED 690 million. Expanded distribution network and high speed line (HSL) installation in the Saudi market not only resulted in higher market share but also contributed to the 42.3 percent top-line growth across the kingdom. Similarly, the beyond-expected progress in Kuwait operations added to the outstanding performance of the international portfolio. In the UAE, higher shipped volumes of 5-gallon triggered buoyant y-o-y revenue growth of 6.3 percent in HOD. Conversely, price promotions in the Bottled water put pressure on our volumes. Net revenues of Food segment, on the other hand, rose by 26.2 percent y-o-y largely driven by ‘trading items’ and Egypt as highlighted by Tariq on the previous slide.

Agri-Business net revenues came in at AED 672 million during the period. Flour revenues of AED 300 million logged in 14 percent y-o-y growth on elevated domestic and exported volume and wheat sales. Animal Feed revenues went down by 8.7 percent on reduced volume due to lower grain sales and lessened demand from small-sized farms.

Moving on to the next slide where we show Group gross profit margin since quarter one of 2018.

Current quarter gross margin came in at 32.8% versus 31.8% in Q2 2019 and 35.1% in Q3 2018.

Higher quarter on quarter margin is largely driven by the favourable mix in Animal Feed and better recorded margins in Saudi and Kuwait. In comparison with Q3 2018, the drop in margin is mainly attributed to full flour subsidy withdrawal in the Bakery channel and lower bottled water pricing. More details to follow on slide 13.

Let’s shed some light on Net profits.

Group net profit stood at AED 117.2 million. Although the numbers changed, same external factors linger as they were in H1. More than half of the profit shortfall is attributed to the AED 24 million flour subsidy included last year but is not available anymore. We continue to focus on preserving market share, broadening our geographical presence, raising agri-pricing and resuming with cost optimization in order to protect profits from persistent pressures of higher grain costs and lower bottled water pricing.

This is further explained on the next slide where we are showing two waterfalls that explain top-line and bottom-line reconciliation between last year and this year.

Starting with revenues, AED 15 million from Kuwait and AED 14 million higher Agri-pricing have more than offset the AED 14 million lost revenues against lower water pricing during the period. Strong growth momentum across our Food segment, KSA operations and 5-gallon water business resulted in the additional "organic" growth, taking our net revenues to the AED 1.55 billion mark.

In addition to the resulting impact of the above items on profits, we highlight 4 additional factors. We recorded AED 26 million of cost savings and a one off AED 5 million tax incentive from our Turkey subsidiary; both of marginally counter the AED 24 million withdrawn subsidy in the bakery channel along with the AED 26 million rise in grain costs.

With this, we conclude today's prepared remarks. The floor is now open for questions. Thank you.

Question and Answer Session

Operator:

Thank you, sir. Ladies and gentlemen, if you would like to ask a question over the phone at this time, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, ladies and gentlemen, please press star one to ask a question. We will pause for just a brief moment to give everyone an opportunity to signal for questions.

We'll now take our first question over the phone from Ali Al Nasser from Vergent. Please, go ahead, your line is open.

Ali Al Nasser:

Hello Tariq, thanks for taking the time. I have a couple of questions, please.

One is on the HOD revenue in the UAE which is growing well while the bottled water market is contracting. I was just wondering, do you see a wider phenomenon here where consumers are shifting to HOD over bottled that may be explaining the divergence, or are these numbers strictly specific to Agthia and do not reflect the wider market theme?

Tariq Al Wahedi:

As far as HOD sales, yes, we have noticed the growth and we noticed the recess that happened in the bottled water market. Again, we can't confirm a trend as of now, whether this is a global phenomenon or just something that happened within us. This is something yet to be confirmed whether there is a shift that's happening between PET to HOD. What I can assure is that we are capturing some of the consumers. They are moving from here to the other side, and hopefully they are still within the ecosystem of Agthia. That's what's happening.

Ali Al Nasser:

Fair enough. Maybe just sticking to the UAE water segment, this quarter in particular, there was an elevation of advertising and promotional expenses. Is that mainly the discounting activity that is included in that number?

Fatih Yeldan:

In front of me, I don’t have exactly the quarterly marketing expenses, but you're right; most of the activities – for example, if you put – which we do – more leaflets, more promotional displays and those kind of stuff, it goes to the marketing line. On the marketing, if I look at the numbers, but here, I do not see. This is total.

Ali Al Nasser:

What about discounting?

Fatih Yeldan:

No, discounting basically is within the net sales, so it will not hit the marketing expense. The marketing expenses basically will be like advertising and other such promotional activities – displays, some leaflets, those kind of stuff. But there was no dramatic change on the marketing.

Where do you see the marketing, because normally we don’t have marketing separately reported?

Ali Al Nasser:

I see – I think you put it in – the line is called marketing, selling and distribution expenses

Fatih Yeldan:

That is not only marketing. It is basically our sales distribution and marketing expenses; so basically, it is including everything. Within that number, actually, the marketing part will be the small part of it. The big part is actually our sales and distribution. And distribution, if you look at in the total obviously, it reflects all of the freight costs, for example, freight, sales team costs, all the stuff basically like that.

Ali Al Nasser:

Understood, understood. Just two more questions, please. On the cash flow side, you had a very strong performance, at least if I just look at third quarter, and it seems that you’ve been able to lengthen your payables. I was just wondering, what are some of the areas you've pulled on to make these gains and are these sustainable gains?

Fatih Yeldan:

Actually, for a long time, we are working with the procurement department to increase the payment terms with our suppliers, and they succeeded quite well in that. So, you see a quite big change versus last year in the trade payables, which gives actually the benefits in the cash flow. Whatever we have, basically, obviously, it will continue. We are still trying to increase even further, but some of the suppliers we cannot achieve that exactly; but still, there is room to go. We increased also, basically, days payable outstanding quite significantly in the last month. So, now we have – if I compare with the previous year, so we have now about 46 days. For example, last year it is about 37, so you see about 25% almost increase, which gives the benefit basically on the trade payables balance and helps the cash flow. Inventories were also quite, actually, good helping out on that. Receivables is the one on our balance sheet and the cash flow. Because of the liquidity in the market, our receivable days went up about 12 days. It was 83 and now is about 95. But mostly, obviously, it is coming from also quite big companies around, so there are no major bad debt issues from UAE market. They are our big customers like municipalities, and those kind of guys. But obviously everyone is trying to pay a bit late and we see that in our DSO basically in the collections. But we are offsetting that more than that in the payables.

Ali Al Nasser:

That makes sense. The last one is on the international. Just wondering, how did the prices per liter compare in Saudi versus the UAE? Because I know you shared the volume data but I was just wondering if it looks similar on a revenue basis.

Fatih Yeldan:

If I forget about case size differences and lots of other things, if I just do calculation like that, it won't be apple to apple, but it's about roughly 10% less than UAE in Saudi, for example. But, again, like I said, cases, channels, lots of things there which will be making some variances in this kind of calculation. It will not be a perfect calculation what I said. But if I take the numbers just sales versus volume and compare, it's 10% lower in Saudi for the weighted average.

Ali Nasser:

Thank you, Fatih, that's clear. Thank you, Tariq.

Operator:

Ladies and gentlemen, if you do find your question has been answered, you may remove yourself from the queue at any stage by pressing star two. We'll now take our next question over the phone from Divye Arora from Daman Investments. Please, go ahead, your line is open.

Divye Arora:

What we have seen in the nine month results, in the third quarter results, that most of the weakness is coming from the water and beverage division. Agri business division has been down because of the subsidy impact. But actually, the key driver of the weakness is the bottled water and beverages. The profitability is down around 33% for the nine months in this business. Gross profit is down 4%, but the profit is down much higher because of the Agthia expenses being higher.

Just to start with, first to look at the top line of this business, so what are we expecting? What is the outlook for the market? Next year in 2020, do we expect the volumes to continue to contract and prices to further go down from the current level? That's number one. And number two: on the Agthia side, why is there an 11% increase in the SG&Aon a nine-month basis? Is this more coming from the UAE or this is more linked to the Saudi business? Thank you.

Tariq Al Wahedi:

Let me answer the first part, which is about the forecast for the water market. As you rightly mentioned, we saw a shrinkage happening to the category of bottled water business as we have seen in reports with the slide that I shared with you. This phenomenon is strange because we started to see this trend starting from May and increasing. Now, of course, we might say that this was due to the longer summer this year because Ramadan is moving forward, so many people were traveling. So, that might be a cause. Yet we are seeing better numbers for the closure of October. I cannot really forecast what will be the forecast for Q4, how it is going to be. Again, these next couple of months will show us.

In the meantime, we saw that we had very good, strong growth in the bigger bottles, and we have managed to capture wider consumer base in that. And it is quite healthy because it's more of a home rather than corporate, which is normally the higher margin for us, basically.

So, going back to your point, I cannot really shed light on what will be the forecast of that. We are seeing an improvement in this month, October. The close of October was good.

Divye Arora:

Do you mean, are you seeing a growth? Are you seeing a growth?

Tariq Al Wahedi:

Yes, we saw the volumes are back. But again, it could be promotional activities; there is lots of back to school activity that's happened. I cannot tell you exactly. I need a full quarter to be able to tell you yes or no, but October was quite healthy from what we saw.

Divye Arora:

And how about the pricing?

Tariq Al Wahedi:

The pricing overall is flat. We don't see any further deterioration on the price. I would say it's very much flat. Again, promotional activities are there. Each company is maintaining their own activities in there, but we are not dragging the prices further down, at least from our perspective. As you could see, our performance versus the remainder of the market, we managed to hold the value reasonably well compared to others basically.

Divye Arora:

So, if we make an assumption, let's say, that next year the market is going to be declining by the same 2% or 3% in terms of volume, then do you expect a further pressure on pricing? Because again the companies will fight for the market share by discounting further?

Tariq Al Wahedi:

Of course, of course. If that trend continues, then on the mainstream water there will continue to be more pressure. This is definitely what we are going to continue on, but we are hoping that the market is going to revive and will go back. Consumption of water should remain, and we haven't seen any major changes that happened that should alarm us to go and start to look at major changes or disturbances to the market as of now. It was summertime, and it was a longer summertime that affected us during this particular quarter.

Divye Arora:

Okay. About the cost then, is there a way for you to – let's talk about the cost of sales first. Is there a way to cut costs from here, so if there's a decline in the top line, can that be offset by a decline in the cost of sales? Is there a way out so that your gross margins don't decline further from here?

Fatih Yeldan:

Hi, this is Fatih. You asked for the overhead as well, right? You were asking for the sales and marketing expenses, right?

Divye Arora:

First, let's tackle this one, the cost of sales, and then we go into the sales and marketing. So, because your gross margins are declining

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Fatih Yeldan:

Cost of sales basically in water business is mostly PET, correct; and as a commodity, if the prices are cheaper, basically our costs gets benefit out of it. The rest, basically, overheads, if you exclude depreciation, is mostly about labor and maintenance. In those things, if you look at the last three or four years, we had overall in the company, and most of it was coming from consumer business, over AED 200 million cost optimization to offset the subsidy impact coming from the agri-business. So, it has done actually a lot. It is very difficult to do much more than that because, as I said, it is quite limited to items like labor or maintenance. And if you touch both of them, then you can have much more issues actually. If you cut the maintenance to much lower levels, you will have different issues, efficiency issues. So, I don't think that in the water will be a much more significant cost optimization there. PET prices, as I said, depending on the commodity market, sometimes helps, sometimes actually impacts negatively. But that's the quite big part of the total water sales, which is the variable part.

Divye Arora:

Can I ask you a counter-question? The PET, how big is that, let's say, in terms of the revenue or in terms of cost of sales for the water business? What is PET's contribution to that total cost of sales, bottled water business?

Fatih Yeldan:

PET contribution is almost about 12-13% of the sales of the water business.

Operator:

As a reminder, ladies and gentlemen, please press star one if you wish to ask a question today. We will now take our next question from Metehan Mete from Waha Capital. Please, go ahead, your line is open.

Metehan Mete:

Hi. My first question is focused on the agri-business profitability. I guess, in the third quarter, we have seen some adverse commodity price moments which has increased the raw materials cost. I was just wondering, what’s the quantity of the profit shortfall that you saw in the third quarter because of the adverse commodity costs? The second is that when I drill down the financials and I see the other operating expenses line, I’ve been seeing it as being costed of AED 80 million per year. I guess, these are the headquarter costs that you have, but given that you already own the office building, the office that you have, you already own it, shouldn’t be there on those other operating expenses?

Fatih Yeldan:

Metehan, before we forget, let’s answer the first one. So, agri-business, mainly grains we are going quite long; so, we buy for six months, kind of thing. That’s why even if the grain cost goes up in the global market, we don’t get the impact immediately; so, our Q3 actually was not having impact from the changes in the global market. This impact, if it will be, it will impact us in the coming months, but not in the Q3. There was no impact on Q3. Q3 was still actually way profitable for the agri-business, so we didn’t see any impact on Q3, as I said, because we are using what we had. The ones that current market prices may impact us after March and April in the new purchases that we are going to have, but no impact on Q3.

Metehan Mete:

Sorry, just on the first one, before we finish it, my question is what will be the rough estimate of the impact in terms of AED 1million because of those weather conditions, like the adverse market in the first quarter 2020 onwards in the agri-business?

Fatih Yeldan:

For next year, I cannot tell anything. I cannot give any outlook about those things because of the change in the ADX regulations, correct, so, I cannot project the next year now. But, obviously, as I said, we are buying long. It doesn’t mean it may impact us Q1 or Q2 and it will be significant or not, but if you are asking as a number, I cannot tell you any numbers, unfortunately.

So, when it comes to your second question, you are talking about in the segment reporting the head office expenses?

Metehan Mete:

Yes, I'm seeing the – yeah, the other operating expenses, which was just not allocated

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Fatih Yeldan:

That is basically head office, but don't think it is ranked, right. So, basically, head office, for example, Tariq, myself, Mubarak, all the team here, correct? We have around 100 people in the head office, giving basically service to the operations and also corporate functions, like legal, whatever; so, basically, the costs reflect that. There is no rent in it. There is depreciation and those kind of things for the head office, but that's not any big part of it. Mainly, it is salary, benefits kind of expenses there, for the head office headcount.

Metehan Mete:

Sure, sure.

Operator:

We'll now take a follow-up question from Divye Arora from Daman Investments. Please, go ahead, your line is open.

Divye Arora:

Hi, sorry. I apologize, but the previous question about the costs, the answer to that question was not completed. You were telling us about the cost of sales. We were discussing about the PET prices. The question is that, let's say the volumes don't drop anymore and the prices are stable, can we expect the gross margin to stabilize or there is slight inflationary pressure on salaries, or rather you can cut costs further and improve the margins? Is it the other way around?

Fatih Yeldan:

In water business, you mean?

Divye Arora:

Yes, in the water business. Yes.

Fatih Yeldan:

Water business, if prices stays as it is, and then obviously PET – another question, if PET price also stays as it is, and any inflationary increase, actually, we are trying to offset by cost optimizations since they are not that significant, so we are able to offset them. But when it comes to further improving the gross margin, that's possible with the volume because there are lots of things that are fixed expense, like depreciation and even most of the maintenance. So, those kinds of expenses, for example, if the volume growth happens, then automatically your unit price, unit cost, let’s say, will be less and gross margin will improve, which what we had for example in the last years. This year, in the bottled water, there is a volume decline, which actually results in the gross margin variance; not only the price, but also the volume. So, basically, if volume comes, even without cost optimization, there will be positive impact on the gross margin. And cost optimization, as I said before, it cannot be dramatic, but it can be still enough to offset the inflationary pressure.

Divye Arora:

Okay. On the Agthia side, there was a big increase in the Agthia around 10% to 11%. This was driven by the UAE bottled water business or this is driven by the Saudi and Kuwait operations?

Fatih Yeldan:

On the 10%, 11%, I think you mean the sales and marketing, because that was 10%, 11%. The rest is kind of flat. Now, on that one, let me tell you, that out of 11% point, about 2% comes from the sales promotions and advertising line because of more promotions that actually we are doing because of the market situation. 2% comes from Kuwait, because if you know our business last year first eight months we didn’t have Kuwait and now we have Kuwait. Automatically, it brings some S&D cost. 5% points, about half of it, comes from Saudi because Saudi 40% plus growing. You can imagine S&D also is growing. 1% point coming from flour which is because of we have some higher trading and export volumes, which you see in the flour net sales. And obviously it comes with the distribution freight costs which is reported under this line. This is basically 10% out of 11%, and the rest is general increase.

Divye Arora:

So, what do we expect going forward? Will this be controlled going forward, or this should grow, especially with the Saudi and all, this will continue to grow with the increase in sales?

Fatih Yeldan:

Not continuing to grow like this, but obviously, as the business grows, these are mostly variable things, mostly. We can see growth, but normally speaking, as I said, Kuwait we didn’t have last year, so that’s why you have this 2% impact coming; AED 4-5 million out of AED 20+ million comes from just Kuwait. Flour, again trading and export brings some impact. So, if the volume comes, yes, this line is quite related to the volume. And if you look at Kuwait, Saudi and flour, the growth is very, very high, so that’s why this line is impacted. When your sales maybe a few percent decline, like in water, but the other way around, it is not coming immediately. For example, you don’t cut your salesforce immediately because you have 2% less volume, right? But when the volume comes much higher, like 40% growth, you have automatically more trucks, more people, more fuel, more everything.

Divye Arora:

Understood. So, what sort of margins you are seeing in Saudi and Kuwait right now, gross margin, EBITDA margin? Are these businesses profitable as of third quarter? Or if they are not, then how long will it take them to be profitable?

Fatih Yeldan:

Basically, in both of them, we see high 30, like you were mentioning before in other meetings as well. And they are actually going up since the start of the year. So, they are in the correct trend basically, and they are at very high end of the 30s, I would say, both of them. When it comes to EBITDA, they are around 15% on the EBITDA. Saudi is already profitable. When it comes to Kuwait, anyway, our projection was get breakeven for next year; so, we are having some slight loss this year, but much less than what we projected.

Divye Arora:

Is it possible to understand what is the EBITDA for the UAE water business, EBITDA margin?

Fatih Yeldan:

UAE water business, around 20%

Divye Arora:

20% and Saudi is at 15% right now.

Fatih Yeldan:

Yes.

Divye Arora:

Kuwait is where exactly in EBITDA terms?

Fatih Yeldan:

Kuwait, I don't have with me. Later on, if you send a message to Sahar, we can come back to you.

Divye Arora:

Okay. Also, can you just give some color on your Saudi strategy, the expansion strategy in Saudi into the center region? What is the update on that, inorganic growth or organic growth?

Tariq Al Wahedi:

Our strategy is very clear and well-defined, and we will continue to invest and grow our business in Saudi, as we highlighted. As you can see, the double-digit growth will continue. Whether that will be organic or inorganic, that will continue to be our target and aim, and this is where the investment is going to go forward basically.

Divye Arora:

How about going into the – obviously, Jeddah, you already have the capacity, so you are growing organically over there now. But how about Riyadh? Is any decision made what is the strategy over there, acquisition?

Tariq Al Wahedi:

Yes, all Kingdom will be covered, including Riyadh. This is our aim, to have a full Kingdom strategy that we expand into. If you recall in our previous calls, we clearly said that we have a three-year strategy that covers the total Kingdom, and we are following, pursuing that basically. So, yes, Riyadh is going to be covered as part of that, as Riyadh is a major market. Today, we are covering Riyadh from Jeddah at a high cost, but we already have penetrated Riyadh. We have penetrated Dammam. We have penetrated Qassim. We are in the south as well. So, our distribution is increasing, and that's why you see an increase in our distribution cost as well.

Divye Arora:

Okay. Any update on the merger division side, anything you're looking at in Saudi right now?

Tariq Al Wahedi:

Yes, we are screening many targets in Saudi that we are going through and continuously monitoring, and negotiating, and doing working on and doing the due diligence. So, inorganic growth is very important to us as well.

Divye Arora:

Are you close to finalizing something very soon, like say in one or two months?

Tariq Al Wahedi:

I cannot say at this stage. Once there is something that is close, you will hear it from the news, for sure.

Divye Arora:

Okay, thank you.

Operator:

There are no further questions over the phone at this time. I would like to turn the conference back over to our hosts for any additional or closing remarks.

Sahar Srour:

Thank you all again for joining. If you have any further questions, please don't hesitate to contact me. Thank you.

Operator:

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.