

# Agthia Business Update Q&A - Call Transcript

Date: Monday, 30th March 2020

## **Corporate Participants**

**Eng. Jamal Al Dhaheri**

*Agthia – Group Acting CEO*

**Eng. Tariq Al Wahedi**

*Agthia – Advisor to Group CEO*

**Ammar Al Ghouli**

*Agthia – Group CFO*

**Sahar Srour**

*Agthia – IR Manager*

## **Chairperson**

**Nada Amin**

*EFG Hermes – Associate Director / Research*

**Operator:**

Good day and welcome to Agthia Business Update and Q&A 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.

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**Nada Amin:**

Thank you. Hello everyone. My name is Nada Amin, I am from EFG's Consumer and Healthcare Team. It is our pleasure today to be welcoming Agthia's Management Team on the call. I would like to turn over the call to Ms. Sahar Srour, the company's IR Manager for some comments. Thank you.

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**Sahar Srour:**

Good evening, ladies and gentlemen. I hope you are all managing to take care of yourselves and your loved ones. Thank you for joining us today in Agthia Group's business update Q&A session, hosted by HE Jamal Salem Al Dhaheri, Group Acting Chief Executive Officer, Tariq Al Wahedi, Advisor to Group Chief Executive Officer and Ammar Al Ghoul, Group Chief Financial Officer. Before opening the floor to your inquiries, I want to take this opportunity to introduce our new Acting CEO, HE Eng. Jamal Al Dhaheri who brings over 23 years of experience in strategy planning, expansions, regulatory compliance, joint ventures, and engineering and our new CFO, Ammar Al Ghoul, who in his turn has over 20 years of experience in various executive roles including CFO of MS Pharma, CFO of Al Fozan Holding and a Principal at Deloitte & Touche. I now pass the line over to the operator for Q&A. I now pass the line over to the operator for Q&A.

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## **Question and Answer Session**

**Operator:**

Thank you. The question and answer session will be conducted electronically. Please press star one on your telephone keypad at this time to be placed in queue. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. As you are queued to ask a question, a voice prompt on your phone line will indicate when your line has been open. Once again, ladies and gentlemen, to ask a question, please press star one on your telephone keypad and we will pause for a moment.

And we do have a question. We will take our first question. Please go ahead.

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**Metehan Mete – Waha Capital:**

Hi, thanks for organizing the call. I want to know if, since the beginning of the coronavirus situation, like in March, have you seen any uptick in the restocking activity by the retailers given that a lot of the customers have been shopping for, like, FMCG items and like food items, for like the stocking at home. What percentage are we talking about, roughly, year-on-year growth in the items that you sell?

**Tariq Al Wahedi:**

There is an uptick in volumes that we have seen in the last – I would say, 45 days. There has been an increase in the uptick in food and beverage and there is a full coordination from government's side and all the countries that we are operating in and we are seeing the close coordination in terms of building enough stocks for the consumer. The trends are not indicative because they are spikes – they are coming as spikes within a month. But we are seeing double-digit growth, they are on a monthly basis, we cannot really build on them. They will reflect in the total financials for the whole year.

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**Metehan Mete:**

Yeah, and given the demand dynamics, do you also see some temporary decline in the discounting and promotions that you were offering in the water segment? Or the government is asking you to keep the promotions the same?

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**Tariq Al Wahedi:**

Yes, we are seeing a slight reduction into the promo index in the market. But overall, we are seeing a mix of things, but there is a slight reduction into that.

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**Jamal Salem Al Dhaheri:**

But when it comes to the government, there is no direction from the government to do anything specifically in regard to our pricing or our promotion exercise, so that's a business decision that we are taking depending on supply and demand.

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**Zeeshan Bagwan – Abu Dhabi Capital:**

Thank you for taking my question. I had two questions. Firstly, on your water business, so could you elaborate on what part of the water business revenues is driven by the hospitality segment, and what has been the impact on that particular part of business so far? That was my first question.

And second question was I wanted to get some clarity on the community part of the business, community trading. So, that in the community support division, have we seen any increase in terms of restocking or increased volumes because of any support from government?

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**Tariq Al Wahedi:**

Okay, for the hospitality section, yes, there has been some mixed results that we have; hotels are going down, but catering companies are going up, so it is a mixed result. There is overall a slight reduction into this specific segment. But there is a big uptake that is happening into the other channels, like the modern trade or traditional trade or the community support division that you just mentioned. So, there is a big uptake that is happening when it comes direct to the consumer.

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**Jamal Salem Al Dhaheri:**

Yes, when it comes to stocking, yes, because there is spikes in the requirements and demands because of the corona, we are seeing more stocks to cater for more demand, i.e. people are stocking, but we are monitoring it very closely.

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**Zeeshan Bagwan:**

Okay. And if you could clarify what part of your – what percentage of your revenues is driven by hospitality segment for water business.

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**Tariq Al Wahedi:**

So, hospitality is a mixed channel for us. It includes restaurants, eateries, catering, etc., so there is a bunch of things. As I said, there is uptick and downtick into that thing. Overall, as representing, I would say, it is roughly about 10-11% of our total revenue.

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**Zeeshan Bagwan:**

Okay, thank you. And just a follow-up to my previous question, could you elaborate on the food security program of the government, have you seen any increased benefit out of that in such volatile times?

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**Jamal Salem Al Dhaheri:**

There is a lot of initiatives happening. And in order to understand the stock level at each manufacturing company, we are trying to analyse the supply and the demand and all of that, so it has its own process – it is a matter that we are discussing on a daily basis, just making sure that the food security is addressed.

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**Tariq Al Wahedi:**

And this is dealt with, from the overall total supply chain from the procurement, availability of raw material and the availability of space at the retailer as well. It is across the board that the government is handling now.

**Zeeshan Bagwan:**

Okay, and how has been the impact on the agri part of your business? Because we have been reading reports of the supply destructions leading to higher wheat prices and all, so have you seen any input pressure on your food part of the business?

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**Tariq Al Wahedi:**

Yes, there is a positive uptake that is happening also in the agri business as well. So, we have positive uptake I mean in both the consumer side and the agri side.

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**Karim Abbas – Franklin Templeton:**

If I can backtrack a little bit and ask, can you shed some light on why the managerial changes have happened, why Fatih has decided to leave at such a difficult time for Agthia as far as the water business and some of the other struggling segments? And so is it strategic, has there been an issue with the performance? So, just if you can let us know why these things have changed so abruptly.

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**Jamal Salem Al Dhaheri:**

Well, with regards to the CFO, it was a very clear decision that he had taken in order to step down because of personal reasons. And well, we have respected that, and we have acted accordingly and we have searched the market for our reputable CFO that he could take over. And we have maintained his service for the next six months in order to make sure that the transfer of knowledge, experience, and all of that is captured and yes, we are not dropping anything in the middle.

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**Karim Abbas:**

Okay, and the changes at the CEO level as well, is that strategic in any way.

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**Jamal Salem Al Dhaheri:**

It is almost the same case, due to personal reasons. But for the case of the CEO, as it is very critical in terms of continuity, the Board have requested Tariq Al Wahedi to stay as an advisor. Especially at this point of time, it is really a rocky moment and it is very important for someone that has been with the company for a long time in order to stay and be part of the journey, at this point of time. So, as you can hear that he is part of this discussion now as he is serving this role.

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**Karim Abbas:**

Okay. If I am not mistaken, Tariq was spearheading the whole M&A strategy for Agthia. Does his advisory role change the timeframe that we had set for Agthia? Does it change that angle of business?

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**Jamal Salem Al Dhaheri:**

In fact, as you know, robust businesses are not linked to people, even the strategy of the company, and that's how we are looking at it. We have a very structured strong management team around us within the company, and so we are progressing on that actively as we speak. Now, we will be looking at opportunities, we are looking at opportunities, especially at this time where we could look at it seriously and Tariq, he is playing a key role into this.

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**Tariq Al Wahedi:**

Karim, I assure you, what the point that Jamal just mentioned, I have taken a decision to step down due to personal reasons. But I was requested by the Board to continue supporting the company, however, I must confirm what Jamal just mentioned. The company is built on a very strong team that really is running the show. I wasn't running the show. And there is a very strong team that was under me that is really pushing the business. But the situation is as is, there is no change in the strategy, and we are still continuing and pursuing our plan as is.

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**Fadi Al-Said – Lazard Asset Management:**

I just want to ask two questions mainly. The first one about if there is any change on your plans when it comes to your expansion through acquisitions, any change in your CAPEX budget going forward for what is happening, especially with the conditions around us. And are you seeing now, because of maybe the kind of evaluation impact of lower evaluation, do you see better opportunities to be acquired in the region? I will start with this question and then I have another question.

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**Jamal Salem Al Dhaheri:**

In fact, all of what you have mentioned is part of our analysis. We are looking at opportunities, as I mentioned earlier. We are pursuing expansion within the business in terms of CAPEX investments. As we have planned, as we are looking at longer term rather than a short term, we are committed to our customers, we are re-evaluating, as we are proceeding, any matter that does arise. So in summary, we are working very hard in order to see how we can benefit from the situation in a better way for Agthia.

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**Fadi Al-Said:**

Okay, my second question relates to the value of the company. And it is a non-business related question, more of your view on the value of the company. Since 2015, the value of the company has been dropping significantly. Are you looking at doing something that is not conventional, to be able to support the value of the company? You are trading below book, you are trading at very low multiples and very – it shows like the market does not really appreciate the assets or the value of the company. Is there any kind of views on buybacks, one-time dividends taking into consideration the strong balance sheet that you have? What are the things that maybe, you know, tough times require tough decisions? Are you looking at doing something outside the box to be able to reverse this very negative trend over the past five years?

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**Tariq Al Wahedi:**

If you will allow me, I think, if you would see, from 2015 or 2016 specifically we have been doing lots of unconventional things in the company. We have been driving the market, the marketing and the brand equity, the product development and the innovation cycle that we have over here. At the same time, we have expanded a lot into our strategy; we had a very clear strategy that we have shared with all our shareholders. We told them our six-step plan that we had and – or every single event, we shared the same plans. And we have fulfilled almost 90% of them other than one very specific one that we couldn't do and they were at all part of the plan. The work we are doing now is totally part of the plan like the geographic expansion and expanding into different countries and so on.

Now, when it comes to unconventional maneuver for the stock market, I think that is a different discussion, that we cannot disclose or discuss over here. That's something that will go to the Board for them to decide what sorts of things that they want to do. But again, if you look at – you mentioned that our numbers were on a downtrend basically and I think that was more – it is a macro thing rather than a micro thing. It is not really belonging to Agthia specifically, but it is a total market that we have seen and within ADX or DFM, we have seen the trend that is happening across throughout the last few years that is happening. So, it is across the board. However, our financials I think are very strong. We have outperformed lots of turnarounds in the company, and we have shown very robust numbers that we have held even through very tough times. And for example, what I am saying is that instead of – when you look at the company's share price, and you have to see the significant balance sheet, one of the things that can maximize shareholder value is sometimes mixing the capital structure in a way that increases maybe the value of the equity. And buying back shares – if it makes more sense, buying back shares or reducing the capital compared to acquiring the company that could be higher than the multiple of the company. This is the more on the creative side on how to maximize the value, which is – I understand that the stock market in general has not been doing well. But also there is some specific dynamics that has happened for the company over the past years, with subsidies and competition that impacted the company specifically. And maybe that is why I said it is nonbusiness related, but I think – and we have seen that has helped in many, many other companies in different markets, where they are more looking at the capital structure side alongside the business.

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**Jamal Salem Al Dhaheri:**

I can't agree more, there is always initiative, there is always reviews of certain ways and means of how we can strengthen our position into the market. So yes, we are looking at different options, some of what you have mentioned and we are evaluating continually and looking at what will be best for everybody.

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**Karim Abbas:**

Just on the water business, so we have seen the pressure on pricing due to competition. You guys have maintained market share, but what's the endgame? This year is probably going to be difficult again in the UAE. If I am guessing correctly, some of the players that have a very large share in the hospitality business, larger than what Agthia does, are still going to flood the rest of the market with discounts to make up for the lost volumes. And so maybe we can end up with even weaker net profit margins from that segment this year. Is there any kind of strategy to, I don't know, buy out other firms, or is there something that's being worked on as a new kind of line that can improve the margins for the segments? Maybe you can shed some color on where that's going?

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**Jamal Salem Al Dhaheri:**

Well, what you have mentioned is a very clear matter that Agthia is going through at the moment. And the options of the M&A, for example, in order to consolidate and to control a bigger stake within the market where we have a bigger sale, that is something that we are looking at it seriously. So, it is part of our M&A exercise review that we will see what is the outcome of that.

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**Tariq Al Wahedi:**

And cost optimization is an ongoing thing, since we started, this exercise from 2016, we have – every single year, we managed to save a lot on the bottom line, and that is an ongoing exercise that we always do. And as I said, we always optimize and so when it comes to production lines and deficiencies or go-to-market plans, but at the same time, we also drive new products that has higher margins. I am sure that all of you have seen the plant-based model that we have launched last month and that has really a big, huge impact across the board in terms of acceptance from all the customers. So products like this do margin enhancement, although they are on a smaller scale. At the same time, you have cost optimization, and then we have the wider strategy of looking to consolidate across the market.

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**Karim Abbas:**

Okay, and for the other business segments, is there any segment that on the chopping block again? I remember a while back, you were considering several decisions regarding the bakeries, the dairies, etc. So, now, is there anything that can be chopped or turned around that can make a quick impact to the group's profitability?

**Jamal Salem Al Dhaheri:**

Yes, with regards to these, let's say, other businesses that you have mentioned, such as the bakery, we are looking at options of how we either turning around the business, trying to consolidate with other players, looking at other options.

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**Tariq Al Wahedi:**

We are looking into options to how to manage the situation of these leading accounts, but we came across throughout the last four years, with a major big turnaround case where all the businesses that were bleeding, they became profit-making businesses now. We understand that the bakery is still challenging, and we are looking at multiple options to deal with that in the near time period.

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**Divye Arora – Daman Investments:**

I would like to understand, so you were saying that obviously, the hotels and all are not doing that well in this environment. And 10% of your sales – water sales come from the hospitality segment. Retail probably is doing better because people are hoarding water in general. So, looking at March, the month of March, what is the net impact – let's say, you have seen a drop of 5% in water volumes or net-net, there is not much impact on you. Can you give us some color what's happening exactly in terms of the volume? That's number one and number two is, you have been studying some acquisitions in Saudi, you were trying to expand further into Saudi, into Riyadh, into the – more toward the other [inaudible] within Saudi. So given the current environment, have those plans been put on hold, especially the acquisitions that you are looking at? That's it, thank you

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**Tariq Al Wahedi:**

Okay, as far as the March numbers, as I mentioned, it has been positive in terms of volumes. There has been good impact and there has been growth in sales of double digits. There was a spike into the demand. Going back to your Saudi question, our plans remain as is and we were pursuing several options that we were checking. But due to corona situation now and the restriction on travel, those had to slow down a little bit for now. But the books are open and definitely we are on the lookout.

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**Divye Arora:**

So you were saying the net impact is positive of the corona, in general, on the volumes, after taking into account the lowest volumes to hospitality?

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**Tariq Al Wahedi:**

Yes. As I mentioned, the hotel industry impacts us only by 10-11%. So it is not that big an impact on us. Our revenue is driven by other sectors more, other channels more.

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**Zeeshan Bagwan:**

So I just wanted to get further clarity on the water parts of the business in Saudi and Kuwait. So have you seen positive impact even in Saudi and Kuwait on the water parts of the business?

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**Tariq Al Wahedi:**

Okay, Kuwait, it has been positive. There was again a big spike on demand that happened. Saudi, I would say it is flat, it is business as usual, there is no impact at all.

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**Zeeshan Bagwan:**

Okay, okay, good to know that. And could you provide us some more color on the animal feed part of your business, how has that got impacted in this recent coronavirus scare?

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**Tariq Al Wahedi:**

Animal feed has been doing okay because everybody is stocking material and is stocking animal feed for their farms and so on, so our productions are maxed out and our sales are doing excellent.

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**Sherif El-Haddad - Al Mal Capital:**

I have a question on your receivables. How are your receivables holding on the non-retail side of business?

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**Tariq Al Wahedi:**

Specifically, if you are referring to the government, we don't have issue. If you are referring to the corporates, as per our last call, there has been a bit of slowdown in the payment and there is a bit of slowdown that is coming in terms of cash flows in the market. But for us, this is only impacting us by 10% overall.

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**Sherif El-Haddad:**

Yeah, and how do you plan to treat that – so do you plan to write that off eventually or do you plan to just keep holding that on your balance sheet until they pay you down?

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**Jamal Salem Al Dhaheri:**

I don't think we have reached a situation where we are planning to provision requirements, I think from an accounting point of view, we are still financially sound. I think Ammar can comment on this one as well.

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**Ammar Al Ghouli:**

Even on the big chunk provided for back at the end of 2019 for Saudi Arabia, we have a strong belief that the collectability is into very high probability given the financial solidness and robustness of the major customers among the top outstanding balances. So if I understood your question very well, I believe that we are not in a position to address any current write-offs. However, provisions are being taken in line at the first place with the IFRS requirements and then the conservative Agthia receivables provision policy.

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**Sherif El-Haddad:**

Okay, is it true that on the retail side, your margins are higher than in the restaurants or the hotels business, your 10%? Is that true or is it the other way around?

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**Jamal Salem Al Dhaheri:**

Yeah, the margins are mixed, it depends from one client to another, from one channel to other. We cannot just generalize and say I have a solid statement between retail and food service. On average, it is at about the same, because again, the retail, we have mixed channels as well. We have subscribers, traditional trade, modern trade and there it gets varied, in terms of profitability. So overall, it balances out, basically

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**Sherif El-Haddad:**

Okay. The reason I am asking this is probably you will see the increase in volume on retail would be –so people who are not eating at restaurants would probably buy more from the supermarkets and then it will balance out. Maybe there is a bit of stock up, but the stock up will eventually be utilized so it really doesn't impact volumes much.

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**Jamal Salem Al Dhaheri:**

Look, as far as corona is there, definitely, people will hold their stock up. They will keep it there. So, the uptake will remain the same. The moment corona goes away, then there will be a slowdown in the trade definitely, because people will start consuming their stock up that day.

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**Operator:**

All right, and it looks like we have no further questions in the queue at this time. I would like to turn the call back over to our speakers for any additional or closing remarks.

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**Sahar Srour:**

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

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**Operator:**

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