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Corporate Participants

Ozgur Serin
Agthia Group – Vice President of IR and Corporate Communications

Iqbal Hamzah
Agthia Group – Chief Executive Officer

Fatih Yeldan
Agthia Group – Chief Financial Officer

Conference Call Participants

Andrew Howell
Citigroup

Jagdish Bathija
Lazard Asset Management

Eyad Faraj
Goldman Sachs

Vijay Sridharan
Gulf Baader Capital Markets

Asjad Yahya
Shuaa Capital

Zohaib Pervez
Al Rayan

Alok Nawani
Ghobash Trading and Investments

Adnan Farooq
Jadwa Investments

Allan Gaidunko
LHV asset mgmt.

Danah AlGhoneim
NCB Capital

Hari Haran
Goldman Sachs

Imad Chukrallah
Amwal Capital Partners

Joel Kukemelk
LHV

Khurram Ghufran
Bank Muscat

Mahmoud Akbar
AlRajhi alpha investments

Metehan Mete
Waha capital

Philippe Sadek
CI CAPITAL

Pradipta Chakrabortty
Harding Loevner

Ramez Merhj
Al Masah Capital

Rami Abi-Samra
Goldman Sachs

Raneem Seroor
SICO Bahrain

Robin Thomas
Qatar Insurance Company

Salman Siddiqui
SHUAA Capital

Samena Dhani
Mashreq Capital

Sanat Sachar
Al Mal capital

Sandeep Srinivas
DUET group

Shankar K P
HSBC
Toghrul Rustamzade
Q invest

Vijay Harpalani
Al Mal capital

Xavier Zawisza
Arqaam Capital

Presentation

Operator
Ladies and gentlemen, welcome to Agthia Group's first half 2016 earnings conference call. I will now hand you over to Mr Ozgur Serin, who will take you through the presentation. Mr Serin, please go ahead.

Ozgur Serin
Good afternoon and thanks for joining us today for Agthia Group's first half 2016 results. As usual, three of us are present to host this session; Iqbal Hamzah, our Chief Executive Officer, and Fatih Yeldan, our Chief Financial Officer, and myself, VP for investor relations and corporate communications. Before we begin, let me remind you that you can find this presentation in the investors section of our website at www.agthia.com. There you can also find condensed, consolidated interim financial information for the period ended 30 June 2016, including the directors' report. Additionally, this conference call may contain forward-looking statements, which should be considered in conjunction with the disclaimer for forward-looking statements contained in our earnings presentation. Following the prepared remarks, we will turn the call over to you for your questions. With my thanks, now over the Hamzah.

Iqbal Hamzah
Good afternoon to everyone. We have achieved a great, successful first half of 2016, as we embarked on the phased execution of our 2020 profitable growth strategy. We continue to post strong growth in revenues and profit in the second quarter. Higher volumes shipped in all categories resulted in a 15% growth versus last year in the first half of the year. Net profit for the first six months grew 16% on the back of higher gross margin or into higher

volume, favourable mix, and low commodity prices. In terms of brand health, Al Ain bottled water maintained its market leadership both in terms of volume and value, increasing value share to 20.6%. In flour, we continue to gain market share, reaching 24.7% in April, May reading. As you know, Grand Mills is a market leader in volume with volume share reaching 33% in retail channels. In juice drinks with Capri-Sun and fruit yoghurt with Yoplait we managed to maintain our market share amid declining or flat markets. We have shown strong progress in the execution of our strategic priorities in the second quarter, both in terms of driving revenue and profit and reinforcing growth enablers in the organisation.

Let me share some examples of our progress in the next few slides. Let's look at our growth drivers. The water and beverage business consisting of bottled and five-gallon water under the Al Ain water, Alpin, Al Bayan, and Ice Crystal brands, fruit juices under the Capri-Sun brand and fresh juice under the Al Ain brand posted half-year revenue of AED 362 million, growing by 26% over the same period last year. The water segment continues to be the growth engine of the group due to on-going expansion in distribution and supported by various consumer activities that were additionally stimulated in Ramadan. We talked about Al Ain bottled water market leadership already. Another success story is Alpin in the UAE, our natural mineral water produced in our own manufacturing facility in Turkey. The business size has more than doubled versus the same period last year following our focus on distribution and visibility. In the meantime, our domestic Alpin business in Turkey continues its accelerated volume and revenue growth, registering 27% top line growth year-on-year. You may recall that we had been talking about launching our Al Ain fresh juice in retail trade, building on a successful acceptance in B2B channels. I am pleased to announce that we have launched Al Ain Fresh in 330 ml [inaudible] format to major retailers in the UAE in mid-July. We currently have five variants with additional flavours in development, which should be ready for launch in quarter four this year.

Capri-Sun experienced a slight slowdown in the second quarter after consistently growing for more than a year. This was due to lower consumer off-take, especially in June, accelerated by the school holidays and Ramadan season. We expect to return to positive territory in the third quarter following the launch of big pouch for the youth market, the upcoming new product launch, and the Ice Age promotion linked to the movie in addition to other planned back to school activities.

In flour, economic headwinds in the domestic market persist. We have therefore been making additional efforts to expand geographically via exports as well as continuously expanding our domestic consumer base at home. As a result, the total flour business grew by 3%, helped by our trading business, despite a decline in domestic revenues that faced added pressure from lower commodity prices and cheaper imported products. Animal feeds demonstrated an impressive turnaround from a negative first quarter rate of 7% at the end of the first six months. A Government tender for concentrated pallets one month earlier than last year and our efforts to create both product and consumer service differentiation contributed to this performance. Enhanced product performance to improve formulation and delivery of our products to select farms are initiatives that have been welcomed by our customers in an increasingly competitive market.

Moving to dairy business, under the Yoplait brand, posted AED 16 million in revenue in the first half, growing 37% year-on-year. Intensive [thematic] marketing campaigns like the taste of joy complemented by three new Fruit Burst SKUs and two new flavours of Yoplait Delight have contributed to this impressive performance. Gross profit margin continued to improve, helped by lower [mix powder] prices and reached 33%, which is more than 800 basis points higher than last year. Accordingly, net losses for the period decreased by 10% versus the same period last year. Together with growing scale and higher gross profit margin, we expect to continue reducing losses going forward.

As you will remember, we grouped part of our business under a new category called emerging businesses with the aim of turning them around in the course of 2016 and ’17. The category is composed of tomato paste, frozen vegetables, ambient and frozen bakery, as well as the trading businesses of Monster Energy drink, Date Crown dates and other convenience products. Together, these businesses recorded a half-year net revenue of 76 million, growing 48% year-on-year. Our turnaround strategy is bearing fruit, as gross margins have significantly improved, and aggregated losses fell by 62% to AED 2.5 million. Our Egypt business falls under this category, as the manufacturer of tomato paste, despite adverse effects of currency devaluation and pricing pressure going to lower commodity prices, net revenue grew 6% versus last year. This is mostly driven by exports and by consistently enhancing B2C segment performance with focused distribution.

Before handing over to Fatih, let me cover some of our expansion initiatives, as well as our progress with reinforcing our organisational structure, which are both important pillars of our new strategy. As you know, in February, we announced a distribution partnership with The Olayan Group of Saudi Arabia for distribution of our Grand Mills flour in the retail trade. Following trade agreements and pipeline filling in the first few months, a strong launch programme in the model resulted in encouraging consumer off-take, which demonstrates the future potential of this market. I can mention here that we are at the final stages of partnering with distributors in Bahrain, Oman, and expect to start flour distribution in these markets in quarter three. In May, we entered a joint venture with our Kuwaiti partner to establish a water bottling plant in Kuwait. The plant will produce Al Ain brand water and is expected commence operations by the second half of next year. On the acquisitions front, we are working on water and dairy targets, aiming to land one acquisition this year. We also are planning to launch new products in the rest of the year in water, juice, and bakery, starting as soon as August.

We have made solid progress in our infrastructure reinforcement initiative too. We have completed the design of the new organisational structure and rolled it out for execution across the businesses unit and functions, with C-1 and 2 positions already filled. Expansion work in Al Ain and Dubai warehouses have finished, creating a space for additional 38,000 pallets. Work on the Al Wathba warehouse is in progress, which will add capacity for another 10,000 pallets when completed in second quarter next year. A construction project for grain silos with 50,000 tons of capacity is also progressing, on track for planned completion next year.

With this, let me hand over to Fatih for a brief on financial performance.

Fatih Yeldan
We left behind six months with strong P&L performance, broadly in line with our expectations. Let's look at the top lines before going through the details on next slide. Group revenues passed the AED 1 billion, reaching AED 1.04 billion. This reflects a 15% drop versus last year and as mentioned by Hamzah, the growth engines have been water and feed. Higher sales with better gross margins propelled net profit of AED 145 million, a 15% increase over the same period of last year. Higher margins are mainly thanks to a better product mix, higher efficiencies especially in our water bottling lines, and lower raw material prices, enhanced by our successful forwarding-buying contracts for the last two years that provided us with six and nine months' courage at favourable commodity prices. Significantly reduced losses in our emerging businesses category have also helped in this profit performance. There is no bad news on the balance sheet or in our cash position. We remain a cash positive entity and continue to generate positive operating cash.

On the next slide, I would like to look at the revenue drivers in the first half. The main growth driver is higher volume. Of a total AED 134 million net revenue growth, AED 105 million is attributable to volume increase versus the same period of last year. All categories shipped more this year, although the engine was bottled water with +19%. New businesses, Al Bayan and Al [Fua] have brought in a total of AED 49 million. Aggressive competition in water, flour, and animal feeds in particular, in addition to lower commodity prices and cheaper imports in the market, have put adverse pressure on our pricing structure in the first half of the year. Combined with approximately AED 3 million negative foreign exchange impact in Egypt and Turkey, AED 20 million was lost in pricing. Gross profit margin reached 34.9%, which is 262 basis points better than the same period last year.

We talked about drivers of this performance so let me move to SG&A expenses. There is an increase in our SG&A. This was expected as a result of Al Bayan's high gross margin, high overhead business model, which we had been communicating to you across several platforms. Included in this figure are our marketing expenses, which were frontloaded in the first part of the year because of accelerated competition in the marketplace. Stripped of these two elements, SG&A ratio to net revenues stands at 16.7% and represents 112 basis points' increase versus a year ago. In addition to inflationary cost increases, and [inaudible] cost in association with new positions also contributed in higher expenses.

Overall, our balance sheet maintained its health and strength. Total assets reached AED 2.6 billion, total equity stands at AED 1.6 billion. The company generated AED 134 million from operating expenses in the first half of the year. Total cash and cash equivalents and fixed deposits amounted to AED 659 million with sufficient credit lines readily available at competitive rates in order to cover any short-term additional funding necessities. Working capital was AED 644 million, almost evenly divided into inventory and receivables. Please note that receivables balance has increased in parallel with higher revenues that are also increasingly in higher credit term retail channels.

On the next slide, we will briefly see the key financial indicators. I will not go through these ratios one by one. It is clear that we continue to maintain our operating efficiency and a strong financial position. Please note that the figures for 2016 are derived using trailing 12 months, that is last four quarters, revenue and profits, which leaves projected business growth in the second half of the year out of the calculation.

Before I provide guidelines for the outlook for total year, let me share two main challenges that are ahead of us in the second half of the year. Slowdown in the economy and in turn in consumer spending is persistent; as we showed earlier, we are starting to feel the adverse implications of this already in our flour business in B2B. Overall, where growth continues, it is a much slower pace than last year and where it's contracts, it is at relatively higher rates, like in the case of cheap yoghurt and flour. As you can see from our shipment performance in this category, we have managed to protect ourselves to a large extent so far, and our pipeline for the second half of the year is filled with activities and initiatives in order to withstand this uncertain economic environment. That's the first challenge. The second challenge relates to subsidies. We have recently been informed that the Government is considering rationalisation of its flour and animal feed subsidy programmes. We are in discussion with the Government regarding to the full extent of this and we'll be in a position to share details once finalised. While it is difficult to predict the impact of such a policy change at this stage, it may result in some share volume reductions in both flour and feed businesses.

In light of the above considerations, we have revised our earlier guideline growth indicators for the total year. We now expect revenues to grow between 9% and 10%. This was previously between 10% and 12%. Accordingly, we expect a profit growth band of 10-11%. Our guideline for average working capital ratio to net revenue stays at 25-27%. As a precautionary measure, we intend to defer any non-essential CapEx until we understand the situation better. We therefore have reduced our guideline CapEx for total 2016 to AED 150-190 million from AED 200-250 million. We don't expect any change in our acquisition ambitions; hence we are still aiming to secure at least one acquisition this year.

To wrap up, as you can see, the economic slowdown has not impacted our growth path so far in 2016 and we have strong initiatives in the pipeline in order to continue this momentum. Our acquisition ambitions as well as our geographic expansion initiatives are also advancing and we will continue to pursue them in the rest of the year. Subsidy rationalisation is a developing challenge and although it is too early to quantify the impact on business, discussions with the Government on the mechanisms are still on-going. We proactively slowed down some of our planned flour and feed expansion projects until we see a clearer picture. All in all, we are committed to continue to grow in line with our profitable growth strategy.

This concludes our prepared remarks for today's call. I am now handing over to the operator for Q&A session. Thank you.

Question and Answer Session

Operator
[Operator Instructions]

Our first question comes from Andrew Howell, Citigroup. Please go ahead.

Andrew Howell
I just would like to ask a little bit more about this subsidy policy rationalisation. As you said, I'm sure it's too early to go into the quantified details of this impact it may have, but maybe if you could just give a little bit more background, I'm curious firstly as to how this has come about; has the Government approached you directly? Could you explain a little bit about what may be driving changing of this policy, which has been in place for

some time? What are some of the motivations the Government may have for freeing up the system? Also, maybe if you could explain, just briefly summarise, what is the nature currently of this subsidy? As I understand, it's slightly different how it works in flour versus animal feed. Thank you very much.

Iqbal Hamzah
Let me explain. The subsidy was started back in mid-2007 and since then it is still continuing. Recently, before I go to that, the subsidy is both on flour and animal feed. On flour, the bulk of the flour is subsidised and some SKUs which are not subsidised and the same thing in feed, that not all the feeds are subsidised, but mainstream feeds are subsidised. The subsidy is applicable only on the volumes sold in Abu Dhabi Emirates, and the mechanics of the subsidy today for both flour and feed is the same, which is Northern Emirates price minus the subsidised price here in Abu Dhabi Emirates to get the difference times the volume sold in Abu Dhabi. This is the subsidy which we claim and is paid by the Government. As you know, because of the economic situation, because of the low oil prices, the UAE Government is revisiting all the subsidy programmes and we have seen the changes in the subsidy, for example, in electricity, in water, in fuel, as already done. Recently we have been informed, we were contacted by the Abu Dhabi authority who is responsible basically for the food security in the Emirates, informing us about the possible change in the subsidy regime. Let me clarify one thing, is that they are not considering to withdraw this subsidy 100%. As we mentioned in our report that we are still in discussions on the timing, on the products, on the channels; which channel will be subsidised, which products will continue to be subsidised, and this we are not clear year. Just to clarify that it's not 100% withdrawal of subsidy; there will be withdrawal of subsidy by channel, by product.

Andrew Howell
And do you expect this to be implemented this year or is this much more likely a 2017 development.?

Iqbal Hamzah
We expect this to be this year, implemented this year, the second half of the year. Okay, that's why we are… we are still in discussions, we asked for some clarification, we are discussing with them, we are providing the information which they need, we are sharing the data, and then things will be clearer – most probably clarified within this month, so we would be in a position to share with you the beginning of September the full details of this rationalisation – I will call it rationalisation – of subsidy.

Andrew Howell
One follow-up from me on a different topic to do with your bottled water expansion into Kuwait; I am just curious what type of volumes are you expecting to see out of that as it scales up and what is the timeline for achieving those?

Iqbal Hamzah
As you know, this bottling plant there is a greenfield, it is not an acquisition, it is a greenfield, it is a joint venture. Of course, the volume ramp up will take some time to establish the product there. We are looking at the full capacity utilisation of this bottling line in year five. We are in the process of putting together the business plan, the commercial plan on the whole – putting together this structure, the volume, the activities which are required that we are working on it, which looks better than our initial projection when we decided to put the factory. It is too early to mention anything on the volume.

Today, our volume in Kuwait, which is basically a distributor model is very small, negligible I would say.

Andrew Howell
But you said 100% capacity utilisation on five years on what kind of capacity are you talking about?

Iqbal Hamzah
We are talking here of capacity of 45,000 bottles per hour capacity.

Operator
Our next question comes from Jagdish Bathija from Lazard Asset Management. Please go ahead.

Jagdish Bathija
Hi, congratulations on a very good set of numbers. I just had a couple of questions. Assuming the subsidy was removed completely, just an assumption, I want to understand what would be the impact if prices don't go up, what would be the impact on gross margins as of today, assuming you don't increase prices, 100% of the subsidies are removed. That is one. Secondly, I see SG&A actually moved up to 22% of revenues as against 18,

18.5 last year. I want to understand is this increase a one-off, or is this going to be the norm as a percentage of revenues, early 20s, or is it just because Al Bayan and everything has been fully added and integrated into the business model that we see a one-time hike in SG&A. Thank you.

Iqbal Hamzah

On the subsidy, if you take the worst scenario that subsidy will be removed 100%, which is not the case as I stated earlier, right, it will be removed maybe from some channels, some products. The subsidy will continue both on feed and flour, and will be specific to channels. Today, we are getting a subsidy of around AED 300 million a year. When the subsidy is removed, the prices will go up, this has already been agreed with the authorities that we have to increase the prices. The prices will be in line with our prices in Northern Emirates.

In terms of GP margin, it will impact the GP margin because of higher – in terms of margin, because of higher top line, the margin will depress.

Number two on SG&A, yes, the increase you see is basically due to Al Bayan, right, and there are some one-time expenses in the first half of the year and the upfront spending of marketing activities to protect our volume in this very challenging business environment. We expect the percentage in terms of total sales, SG&A will be around 21% moving forward.

Just to mention here as well what… versus our budget, we are lower in SG&A and we are controlling the avoidable expenses, we are putting a freeze on certain hirings and controlling the expenses as a proactive action.

Operator

Our next question comes from Eyad Faraj from Goldman Sachs. Please go ahead.

Eyad Faraj

Thank you. Hi, gentlemen, congratulations on your results. I have got a few questions I was hoping we could talk about. First on the water business, could you give me some colour on how you expect growth in this water business to go forward? I think in the call you said that this growth isn't completely sustainable given the change in the market. Then within that, two follow-on questions from that. how are you seeing margin pressure within 2017 going forward, or where do you see your margins due to the increase in commodity prices? Then just a little bit of colour on the second high speed bottling line that was due to be commissioned this year. Those are my first questions, and I have got another few questions if possible.

Iqbal Hamzah
Okay, let's take your first question. Our water category has grown by 26% year-on-year, and that is including Al Bayan, which is not in the base. If you exclude Al Bayan Water, our water category grew by 15% versus the category growth of 5%, so we have gained share. Now, in terms of growth, like I said, the market has shrunk, there is a slowdown and we do expect that in the second half of the year, it will not be – this level of growth it will slowdown, but in terms of margin we will maintain the margin for water. As well as you know that on the water side, this is a core category, a growth driver for us. There are plans for regional expansion, one of them is Kuwait. We entered now – we launched our Al Ain brand in Pakistan, we have appointed a distributor out there and we are also working for aggressive penetration in our existing export market, namely Oman, Qatar, Bahrain. There is an aggressive growth plan for these markets.

In terms of margin pressure, yes, we do expect that next year there will be margin pressure, and basically, the margin pressure assuming the commodity prices remains at today's level, it doesn't increase, even then we expect the margin to contract and that is because there will be high competition, aggressive competition, the market will be open for flour and feed. We will lose initially the market share. We have to spend money on activities to protect the volume. To answer your question, yes, we do expect the margin to contract next year. How much is too early to say, unless we get full clarity on the subsidy regime.

Moving to the third question on the second high speed line, that started already the commercial production that was in April, so the second high speed line is up and running, and that is who we are getting the efficiency and improvement in the market.

Eyad Faraj
Can you give us any colour in terms of capacity on that, in terms of where you are on utilisation?

Iqbal Hamzah
We have two high-speed lines now, each high-speed line capacity is 20 million cartons a year, so we have 40 million cartons a year capacity, but we are also running other lines, which we have, so at the moment the capacity

utilisation of one line is 100%, one line. The second line capacity utilisation, I don't have the number yet, but I am just guessing the number, it will be around 30% utilisation.

Eyad Faraj
Great, very helpful thank you. My last two questions, I know it is a bit early, but could you give us some colour on the breakeven in the yoghurt business. The second question is on the agri business, I don't want to get into the subsidies, but more importantly on the CapEx, because you had plans to spend $25 million to expand distribution centres in the UAE and you were looking to increase distribution outlets to 5,500 in the UAE and in Abu Dhabi in particular. Can you give us some colour on what has happened there?

Iqbal Hamzah
On the distribution centres, expansion is basically on the retail side, not really on the B2B, which is the feed and flour, this is continuing. We have… as you know that we shared with you in the past that we have acquired, we have purchased a distribution centre in Dubai, the fit-out work has been completed and this warehouse is already operating, but it will be fully ready by end of this year, because of the… they plan to put the [cooling stores] there as well, so by end of this year, but it is functional now. We are expanding our Al Wathba warehouse; there is the expansion of a warehouse in Al Ain, so these are retail business related, consumer business and this is moving on.

Now, coming to flour and feed, there was a plan for capacity expansion of animal feed, which we have put on hold for the time being, unless we are clear on the subsidy mechanism, subsidy rationalisation. That part of feed expansion is on hold.

Eyad Faraj
This is the 60,000 tons per annum increase.

Iqbal Hamzah
No, we were considering 150,000-ton expansion. 60,000-ton is already done, it is completed. It completed last year. Another new one was around 150,000, which is on hold.

Eyad Faraj

That is helpful, and then just on the yoghurt business. I saw it was 800-basis-point margin expansion. Is it too early to talk about a breakeven?

Iqbal Hamzah
I would say yes, but there are initiatives, many initiatives in this yoghurt business to breakeven. Our aim is to breakeven next year, and we are working towards that, how to breakeven, there are plans in place. It all depends on the market situation now, because the market has contracted, even the dairy category overall in UAE has contracted. If this continues, that will have an impact on our plan, but initially, the plan was to breakeven next year. If this situation continues, the current environment continues then it will be 2018 breakeven.

Operator
Our next question comes from Vijay Sridharan from Gulf Baader Capital Markets. Please go ahead.

Vijay Sridharan
Good evening and congrats on your good set of numbers. My first question is on your Saudi exports, I just want to understand what would be the contribution you are expecting in terms of volume going forward, and the margins on the same. Is it better than the UAE markets? My second question is on your Turkey market. Given the current situation, do you think it will have an impact on your business?

Iqbal Hamzah
In Saudi market, as you know, we are only in the flour retail category. We are expecting the volume to ramp up slowly, because we are a new player in the market, it is a new brand in the market. It is growing. So far we have shipped around 1,000 tons in Saudi, and we expect this volume over a period of four to five years to go up to 5,000-6,000 tons. In export, the GP margin, of course, is lower compared to the domestic markets, but it helps in terms of volume for the overhead absorption, since we have the free capacity, it always helps.

Now, moving to Turkey. The recent turmoil in Turkey it didn't have any major impact on our business in Turkey, because Turkey contributes on our turnover, 1% of our turnover. It is not big. So far there is no impact on the volume, in fact, they are in line, so far year-to-date, they are in line with the budget, both sales and profits.

Operator
Our next question comes from Asjad Yahya from Shuaa Capital. Please go ahead.

Asjad Yahya
Thank you very much for the call. Just a few things to understand a bit better on the subsidy side, if you can try and help me out. you mentioned rationalisation and you did mention there will be some adjustment in prices as the subsidies are adjusted, so will that be a one-for-one, meaning if the subsidy goes off, let's say, by 10 you can raise your prices by 10.

Iqbal Hamzah
It is not exactly one-to-one, we will bring the prices in line with Northern Emirates.

Asjad Yahya
For that to happen, basically, subsidies will be removed from select products, like you said, for example, select channels and the prices will then match the Northern Emirates.

Iqbal Hamzah
Yes, correct.

Asjad Yahya
In absolute terms, the GP shouldn't really be affected. Is that right or wrong?

Iqbal Hamzah
One impact will be because of the higher top line, right, it is not related to the absolute, but we do expect there to be some impact on GP margin from the subsidy.

Asjad Yahya
But the absolute amount, unless you start losing market share shouldn't change, right?

Iqbal Hamzah
Well, in the market share, we do expect to lose market share initially. Our estimate is that we may lose up to 20%, but there is a plan to recover this volume from geographical expansion, from export to Africa, as well as within the market here by increasing the market share in retail side.

Asjad Yahya
The last thing from my side, do you see – if and when subsidies are rationalised – do you see an impact going down to SG&A as well, as a percentage of revenues if you need to market even more?

Iqbal Hamzah
SG&A, I don't think so, no. In fact, if the volume goes down, SG&A when it comes to flour and feed, when it comes to the distribution cost will drop.

Operator
Our next question comes from Zohaib Pervez from Al Rayan. Please go ahead.

Zohaib Pervez
Thank you for the call. My first question is what is the contribution to the total group profits from the flour and animal feeds which is sold in the UAE, because that will be affected with the subsidy removal.

Iqbal Hamzah
The contribution of profits is 70%.

Zohaib Pervez
So 70% of the total Group profit?

Iqbal Hamzah
Yes, around 65% comes from flour and feed, in line with the sales.

Zohaib Pervez
What is the contribution of the UAE towards this, Abu Dhabi, because there is where the feed is going to be – where the subsidy is going to go, correct?

Iqbal Hamzah

Bulk of our sales is in Abu Dhabi, 90%. I would say 85% of the sales of flour is Abu Dhabi, 95% of the feed is Abu Dhabi. Animal feed. Basically, you can say that the bulk is there so the impact which you are trying to understand on the bottom line, you asked for the contribution, is 65-70% contribution to total profit.

Zohaib Pervez

Thank you. my second question is, could you give us more colour on the slowdown on the market contraction that you're talking about, and what are the customer segments that are most impacted?

Iqbal Hamzah

There is an overall slowdown when it comes to retail. If you talk to the key retailers, key accounts, they will confirm, yes, there is a slowdown when it comes to the premium products, food or beverages, they have noticed a slowdown versus last year, not a slowdown, I would say there is negative growth even with these key accounts. The category which we compete in, all of them are showing a slowdown, for example, water category, bottled water category last year on average grew by 10%, which has slowed down, according to the recent AC Nielsen data, which has slowed down to 5%. Flour category has slowed down significantly. It is around… 12, 13% decline. Yoghurt category, flat. We do expect that moving forward if the situation doesn't improve, it may get worse. But the good thing is that despite all of these not a very encouraging market environment, we are still growing much ahead of the market when it comes to – especially on the consumer business. Water grew by 26%, yoghurt we grew by another 34, 35%, right, on the emerging business with the frozen vegetable, tomato paste, we grew by 48%. Despite the contraction of the market, we are still growing and strong growth.

Zohaib Pervez

My last question is, what is making this market contract? Is it less spending by people, there are less people? More competition?

Iqbal Hamzah

It is not competition, it is a mix of things. People are (1) more cautious before they take out money from their pocket, they are more selective, maybe they are downgrading to low price products. There are various factors. Plus, you know, as well there is some restructuring going on in the other businesses, population yes, is an impact as well. Consumer confidence is not there, so people are cautious, before they spend they think.

Operator
Our next question comes from Alok Nawani from Ghobash Trading and Investments. Please go ahead.

Alok Nawani
Good afternoon gentlemen and thank you for the call. Most of my questions have been answered, but I will ask for two clarifications please. One is, you mentioned you have revised your net profit guidance down to 10-11% growth. What was that number previously? Secondly, you mentioned that there were expansion plans going forward for both flour and feed. Have they both been put on hold or just the feed? Thank you.

Iqbal Hamzah
Let me take your second question first. There was a plan for feed, flour was planned for 2018. Feed was planned for 2017, so both the plans at this point of time once we heard, we have put on hold. The only which we will move ahead in flour and feed is the construction of warehouse where we are short of space, but the capacity expansion for both flour and feed is on hold until we are clear what will be the impact on the volume moving forward.

On your first question, what was the original estimate for this… our early estimate was 12% sales growth and… 12-15% both sales and profits.

Operator
We have a question from Adnan Farooq from Jadwa Investments. Please go ahead.

Adnan Farooq
Thank you for the presentation. I just wanted to clarify, you mentioned that initial estimates that you expect to lose 20% of your sales. Is that for both feed and flour?

Iqbal Hamzah
It is flour.

Adnan Farooq
And what about the feed business?

Iqbal Hamzah
In the feed business, it probably may go up to 30.

Adnan Farooq
Do you expect because of the competition to lose 20% in flour and 30% of your feed sales?

Iqbal Hamzah
Correct, volume, because it is a mix of products.

Adnan Farooq
This is assuming the same that you said that you expect that the subsidy rationalisation will take place on certain channels and on certain products.

Iqbal Hamzah
Yes, correct.

Operator
[Operator instructions]

We have no more questions for the moment, Mr Ozgur Serin, back to you for the conclusion.

Ozgur Serin
Thank you very much. This concludes our call today. Thank you for participating and giving your time. Some of you or most of you know me, my number, and if you have any further questions, please don't hesitate to reach me. Otherwise, you can also get my contact details on our website, so thanks very much once again. Have a good afternoon.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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