



Transcription for AGTHIA

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Corporate Presenter

Iqbal Hamzah

Agthia – CEO

Conference Call Participants

As participant list

Presentation

Operator

Ladies and gentlemen, welcome to Agthia's First Quarter 2015 conference call. I will now hand you to Iqbal Hamzah, CEO. The floor is yours.

Iqbal Hamzah

Good afternoon everybody, and thank you for joining us today for our Results conference call for the first quarter of this year. You should already have the presentation, but it is also available on our website at www.agthia.com under the 'Investor Centre' tab. You'll need to select 'Financial Calendar' and you will find today's presentation as well as the Director's Report and Financial Statement. To begin today's call I will go over some highlights of Agthia's performance in Q1. I will then go over some of our focus areas for the rest of the year, before opening the call to questions.

Let me begin with the highlights for the period. I am pleased to report that Agthia has made a strong start to the year, with a promising quarter of growth. Higher overall sales, improved margins and controlled overheads grew Agthia's net profit to AED 59 million, an increase of 22% from the first quarter last year. Net sales, at AED 435 million, represented an 11% increase year-on-year, which further reinforces the confidence that our customers and consumers have in us and our products.

Agrivita, our animal feed business, added new municipality outlets to its list of customers, in line with our accelerated development plan for the division. Grand Mills, our flour business, saw solid growth following expansion into retail outlets in the Northern Emirates. Chaki Atta achieved record sales this quarter and expanded distribution across retail outlets in the UAE, while our newly-launched Arabic Flour also saw a positive performance in the Northern Emirates.

In the consumer business, we are delighted that Al Ain Water is now the market leader by volume in the UAE, taking the top position for the first



time. During the quarter we re-launched our improved Al Ain Water flavoured water, with a healthier sweetener, and added two new flavours – lemon and mint, and orange – to our existing range. Alpin natural spring water continues to gain distribution and consumer offtake in Turkey, and we've transferred one bottling line from the UAE to Turkey, to meet the growing demand.

We saw continued recovery of volumes and positive momentum for Capri Sun in the first quarter of the year. This was supported by consumer promotions and the re-launch of the Multivitamin flavour with an improved formula, and of Freezies, which are expected to further boost and popularise the portfolio.

In the food segment we launched our premium "Yoplait DELIGHT" dessert, offered in three unique flavours. We also signed an agreement with Monty's Bakehouse UK to manufacture the products for global airlines, and we launched new packaging for our frozen vegetable range. In Egypt the tomato paste line became fully operational, following its transfer from the UAE, and we are now securing new customers for tomato paste and hot chilli.

Overall, our balance sheet remains healthy, with a positive operating cash flow stream to support our future expansion plans.

Let's look more closely at the financial numbers for the quarter. As mentioned earlier, higher sales; improved margins and controlled overheads grew Agthia's profit to AED 59 million, an increase of 22% from the first quarter last year. Net sales, at AED 435 million, represented an 11% increase year-on-year.

Total SG&A expense grew 11% year-on-year to AED 79 million, however excluding the marketing expenses the SG&A grew by 9%. This increase is mainly attributable to higher distribution costs, investment in brand and marketing activities, new business costs, employee-related costs and other inflationary increases. SG&A as a percentage of sales was over 18%, slightly better than last year.

Looking at a breakdown of performance by business divisions, our Agri business saw net sales for the first quarter of 2015 increase 6%, to AED 276 million. Net profit rose 12%, higher than a year earlier, to AED 66 million, primarily driven by Agrivita, our animal feed business, and an overall increase in distribution. During the quarter we maintained our strong market share in both the feed and flour categories, and grew our customer base in both.



During the first quarter of the year, the consumer business recorded net sales of AED 159 million, reflecting a strong 22% growth versus last year, while profit increased by 32% to AED 10 million, due to growth across all categories.

Breaking this down further, our water and beverage segment achieved net sales of AED 135 million, 25% higher than last year. The Al Ain high-speed bottling line, which expanded capacity by 60% last year, enabled greater distribution and consumer recovery this quarter, and of course supported our rise to top bottled water in the UAE. This, combined with increased margins resulting from lower PET usage and cost and production efficiency, helped drive profits in the division.

While profit in our UAE business increased by a very healthy 27%, net income for the segment overall grew 16%, resulting from the devaluation of Turkish Lira.

Alpin natural spring water continues to gain distribution and consumer off-take in Turkey, driving net sales up 15%. We saw continued recovery of volume and positive momentum from Capri Sun in the first quarter of the year, reflecting a growth of 15% after six quarters of decline.

Our food segment achieved net sales of AED 24 million during the quarter, a growth of 8% for the period, slightly lower than last year, which was mainly attributed to dairy and frozen baked. Our dairy business gross margin has improved significantly, 24% from just 3% last year, following a number of initiatives that we have been carrying out.

Finally, our Egyptian business continues to improve, with net sales growth of 16% in Q1.

I'll now give a brief overview of how we see the business developing for the remainder of this year. We continue to see good results from our strategy of driving profitable growth across all our core categories, improving profitability, diversifying and launching new products, expanding distribution reach and strengthening brand support while, at the same time, addressing underperforming businesses. And, after a long wait, we have finally secured price increases for Al Ain water, Capri Sun, frozen vegetables and tomato paste, which are being implemented in a phased and tactful manner.

Our production capacity expansion of 200ml Al Ain water, Alpin and animal feed are on track for commissioning in the second quarter. To meet currently unexpected demand, we are adding a second new high-speed bottling line, which will be ready by mid-next year, and we'll increase our capacity by about 40%. We are also expanding our distribution centre in Abu Dhabi and Dubai.



In summary, we have made a strong start to the year with a promising quarter of growth, our business and financial fundamentals are strong and we have a solid balance sheet to support our expansion plans. I am positive that we have the right strategy and platform for our respective businesses in place, to further accelerate our growth and return to shareholders.

On that note I'll now turn the call over to the operator for questions.

Question and Answer Session

Operator

Ladies and gentlemen, if you wish to ask a question, please press 01 on your keypad.

Tamer Ghonem – NCB Capital

Good afternoon. I have a couple of questions. First of all, the inventory – would we see like inventory write-downs, going forward? We know it's going to sustain you until six months, but what is the forecast – what expectations there? Could you shed some light on the margins and the sales in Turkey? We show the effect of the currency and the FX this quarter. What are the expectations going forward and can you give us, in absolute terms, how much you are actually now selling in Turkey? Thank you.

Iqbal Hamzah

How much...? Sorry, can you repeat?

Tamer Ghonem – NCB Capital

... you are selling in Turkey – the water, and volume and, if possible, in AED terms.

Iqbal Hamzah

Your first question is (if I understood clearly) in terms of inventory, do we expect any write-down? Am I right?

Tamer Ghonem – NCB Capital



Yes, because we saw it in other companies, so just wondering what Agthia is going to be doing?

Iqbal Hamzah

We don't expect any write-down in inventory - if you are referring to bringing the inventory to net realisable value?

Tamer Ghonem – NCB Capital

Yes.

Iqbal Hamzah

That's done at the end of the year, not during the year, and we have taken the hit last year on the write-down. The inventory we are carrying now, if you take the inventory of grains, we are covered until August-September. I don't expect to have any inventory write-down. Having said that it is too early to say because it all depends at what price we buy towards the end of the year for 2016 and what will be the global grain prices towards the end of the year. It is too early to say it seems we are covered until (as I mentioned) August...

Tamer Ghonem – NCB Capital

Yes.

Iqbal Hamzah

I don't see any inventory write-down, no. Like I said it will be Q4 when we start buying for the rest of the year and for 2016...

Tamer Ghonem – NCB Capital

Yes.

Iqbal Hamzah

Then it depends on how the market behaves.

Tamer Ghonem – NCB Capital

Yes, okay, and the margins outlook...



Iqbal Hamzah

The margins – you have seen that in Q1 we have improved our margins significantly by 2% overall. Literally the margin improvement is coming from – I would say all the businesses, consumer business as well as in the agri business – overall, my response would be that we expect the margin we would be able to maintain, going forward, the Q1 margin.

Tamer Ghonem – NCB Capital

In both segments?

Iqbal Hamzah

In both segments... I am talking overall, we would be able...

Tamer Ghonem – NCB Capital

Yes.

Iqbal Hamzah

When it comes to flour and animal feed, there could be a slight impact and I'll tell you why there's a slight impact – because, in Q1, our margin was higher because the tender for some of the feed which we supply to government – it did not come and the margin on that product is low, and we got the order in Q2, so we will start selling in Q2. That impacts the margin, but not much... I mean we are talking, if you look at the flour and feed business, probably it will have an impact of 1% maximum.

Tamer Ghonem – NCB Capital

Okay, so some of the contracts with the government, they will be repriced – is that...

Iqbal Hamzah

... no, not repriced. There was a delay from government. We do supply animal feed and what happens is – I don't know whether you know ADFCA, the Abu Dhabi Food Control Authority?

Tamer Ghonem – NCB Capital

Yes.



Iqbal Hamzah

... standards to buy animal feed which they supply to the farms...

Tamer Ghonem – NCB Capital

Yes.

Iqbal Hamzah

There was a delay by them in launching the tender so, in Q1, we did not sell anything to them and that business has a slim margin. We got the order, but the order just came – we were just awarded the tender. We won part of the tender and we will start supplying starting next month.

Tamer Ghonem – NCB Capital

Perfect.

Iqbal Hamzah

The third question regarding...

Tamer Ghonem – NCB Capital

Turkey.

Iqbal Hamzah

Regarding Turkey, we got the hit, because our loans in Turkey are in US Dollar, not in Lira. We did that because of the lower cost. The dollar-denominated loan has a lower cost compared to the Turkish Lira. We got the hit and now we are looking at various options how to avoid this, going forward, because the Turkish Lira devalued further recently.

Tamer Ghonem – NCB Capital

Yes, exactly, if it is kept – the trading at the current levels (talking about the Turkish Lira) doesn't it make sense to annualise this number?

Iqbal Hamzah

This number, the first quarter the hit was around AED 2 million on exchange and, like I said, we are looking at various options how to minimise this exchange because we did look at the hedging but it comes at a cost, right?



Tamer Ghonem – NCB Capital

Yes.

Iqbal Hamzah

Overall, compared to if you look at the total group, the exposure is not that big. It is a big number but, overall, looking at the group level – that is why we are not hedging it, because it's a high cost and the cost is especially high these days because it is still devaluing, so we are looking at other options...

Tamer Ghonem – NCB Capital

Yes.

Iqbal Hamzah

Inter-company loan, for example; we give inter-company loan from here and that will reduce the volume cost and that will [serve us] well on the exchange at head-office level. Another option could be to increase the capital there. It is under-capitalised. So there are various options which we are looking at now to fund it.

Tamer Ghonem – NCB Capital

Yes, okay, perfect. Thank you so much.

Sandeep Srinivas – Duet

Thanks for the call. I have a couple of questions. To start with, I was wondering if you still give us the volume sales, because previously you used to give volume sales per business, which I did not find in your current presentation. That's my first question.

The second question is on the capex for this second high-speed line. Can you just give us what is your budgeted capex for this?

Finally, I want to understand more of your new municipality outlets which you have got in Q1. Should we expect more of this, coming up in Q2 and Q3 or is it done?

Iqbal Hamzah

(Off-mic discussion): Have you forwarded the volumes? *(No, I will send the presentation to all the participants).* I think you should. Anyway, we'll make



sure the next time that you get the volumes separately and not as part of the deck. We'll send it to you separately and you will get it not just after the conference – you will have it on your email – the volumes by category. I think you should include that, okay? *(Sure)...*

Sandeep Srinivas – Duet

Okay.

Iqbal Hamzah

On the capex... where is the capex on the high-speed line? The capex on the high-speed line will be – is this the number? *(Yes)*. \$30 million.

Sandeep Srinivas – Duet

Okay.

Iqbal Hamzah

On the municipality, yes, we got some new outlets. This is where the growth is coming from, as we expand basically the poultry which is doing very well because of the expansion and expansion in that industry itself, and the municipality outlets which we so far managed to secure. We have secured additional outlets and, yes, there is a plan to secure more of the outlets. It is part of the strategy to keep securing additional outlets.

Sandeep Srinivas – Duet

Okay, and in terms of – I don't know how many outlets are there... I just want to know what is your coverage ratio in terms of all the outlets put together? What is your penetration rate there?

Iqbal Hamzah

At the moment it's penetration is 70%... only 30% to go...

Sandeep Srinivas – Duet

Okay. And, just lastly, I see that the new increase for Al Ain water – the increase in prices has not been impacting your margins for Q1, so I was just wondering when you would start increasing your prices?

Iqbal Hamzah



Sorry, can you repeat again, I missed that?

Sandeep Srinivas – Duet

Yes, I am referring to the new price increase for Al Ain water... it looks like you have not done that in Q1, so I was just wondering when will you start increasing your prices?

Iqbal Hamzah

Actually, the approval we got was for effective April – we did not have the approval to implement the price increase in Q1, so it's already started – the pricing implementation has already started both in modern trade and lower trades, but we are doing it in a tactful manner - it has to be in a tactful manner because of the competition, so we are doing it in a gradual phased manner.

Sandeep Srinivas – Duet

Fair enough.

Iqbal Hamzah

To answer your question it started in April.

Sandeep Srinivas – Duet

Okay. Thank you. That's it from me. Thanks a lot.

Sameer Murad – NBK Capital

Good afternoon, Hamza, and congratulations on the good results so far this year. I have a couple of questions. First, staying on the topic of the pricing for the water and beverage, given that we have seen the gross profit margin starting to improve, at 41%, you mentioned that you'll be doing tactful pricing changes, right? Is it possible that you might opt not to do all the price approvals that you have gotten and how long does the approval from government stand... I mean, do you have a certain period that you need to implement the price increase or is this something you can do in two years' time, or is it several months?

Iqbal Hamzah

First, there is no timeline for the implementation of price increase from the Ministry. It is up to us. They said okay, the approval is effective April 1, but



it is up to us when we decide to implement the price increase. As I mentioned, we will go in phases, so now we are going with the price increase for the retail, for the modern trade and lower trade, and for the other [two which are Orica] and one of the biggest outlets for us, which is the government institution – the government institutions... normally they don't accept price-increases pre-Ramadan, so that we will look at post-Ramadan. The same thing applies on the Orica side – again here we are doing it, but it will be gradual because of the competition – the competition is doing a lot of the price ops and giving FOCs to the trade, and we don't want to get into this price war. That is why we want to do it in a gradual manner and link it to certain events, not just to give these FOCs or discounts. We are linking it to certain events.

Sameer Murad – NBK Capital

Just to make sure I understood, you have the flexibility to implement the price change whenever you want?

Iqbal Hamzah

Yes, to everyone as we decide.

Sameer Murad – NBK Capital

I have another question on the agri business – we've seen that the subsidy from the government remained high in this quarter – any outlook on why the prices in the Northern Emirates have not subsided? Do you have any views why the prices there have remained stable?

Iqbal Hamzah

You see, in Northern Emirates, the industry is keeping the same price. They have not changed the price, although we expected that they would drop the price following the drop in the grain prices. It did not happen, but what they are doing is the industry is giving discounts and free goods to bring the price down – the effective price – okay?

Sameer Murad – NBK Capital

Yes.

Iqbal Hamzah



In terms of the subsidy, the subsidy did not increase. It is more-or-less at the same level in Q2, in terms of rates, the same level as Q4. It is a reflection of volume. The more you sell, the higher the subsidy will be.

Sameer Murad – NBK Capital

On the agri business you mentioned that you're starting to focus on the outside of Abu Dhabi. At the moment, how much of your aggregate in sales comes from outside of Abu Dhabi?

Iqbal Hamzah

Outside of Abu Dhabi it is quite small at the moment... something like 5-6%.

Sameer Murad – NBK Capital

Great, thank you, Hamza.

Iqbal Hamzah

You are welcome.

Rayel Momany – Capital Investment

Good evening, Mr Hamza. Most of my questions have been answered but, nonetheless, I have two questions and the first one: could you please give us the current utilisation rate on the water segment?

The second question is regarding the presentation slide 5; could you please explain to us how or why the volume share of Masafi has been in a deep decrease? Is that because you did not change your prices?

Iqbal Hamzah

No. The one we showed you – you are referring to the volume?

Rayel Momany – Capital Investment

Yes, the volume.

Iqbal Hamzah

The volume – that is not because of the price – that's a reflection of what we are doing in terms of our visibility and in terms of getting the distribution, the expansion, and supporting the brand, so that's a reflection of the



activities. If you look below at the value you will see that we are closing the gap as well there, in terms of value, and with the price increase I expect, Insha Allah, we'll pick up there as well.

Rayel Momany – Capital Investment

Yes, Insha Allah.

Iqbal Hamzah

Regarding the capacity utilisation of water, we are [at about 80% of] capacity utilisation and that's why we are going for second high-speed line, which will be up and running mid-next year.

Rayel Momany – Capital Investment

80%, which means you still have room to increase your capacity utilisation?

Iqbal Hamzah

Yes, still we have, but also you have to keep in mind the fact that the maintenance has to be done. There could be breakdowns, so if you take all of this into account, then you cannot take the risk. I have 20% capacity balance, right, but one breakdown can have a big impact.

Rayel Momany – Capital Investment

So, basically, this is the maximum you can do, 80% - is it fair to say that?

Iqbal Hamzah

No, it's not fair... we can go up to 90%-95%, depending on the efficiency of the machine, and we are running at a very high efficiency at this point in time. I am saying that we have to factor in those unknown things as well, the probability of those, so although I have a capacity balance of 20%, what if the demand is more? Then I won't be able to supply. What if there's a breakdown in one line? That will have an impact and I won't be able to ship, so big on the focus – we have internal focus which shows that we must have the line up and running mid-next year. If we don't, then we will have some problems meeting the demand in the second half of next year.

Rayel Momany – Capital Investment

That's it for me. Thank you so much.



Iqbal Hamzah

Thank you.

Nihar Al Rasheed – HSBC Saudi Arabia

Hello. I was wondering – how much does Egypt and Turkey present in terms of total sales?

Iqbal Hamzah

Total combined, both businesses represent... I mean in 2014 it was 4-5% of the total...

Nihar Al Rasheed – HSBC Saudi Arabia

... this is for both?

Iqbal Hamzah

Yes, for both combined.

Nihar Al Rasheed – HSBC Saudi Arabia

And in terms of Monster Energy drink, what do you expect the numbers to be in terms of beverage representation?

Iqbal Hamzah

Which one?

Nihar Al Rasheed – HSBC Saudi Arabia

Monster Energy drink.

Iqbal Hamzah

Monster at the moment is not that big... you can see the distribution... I don't know whether you have noticed that the visibility is there; it is on the shelf; everywhere you can find it, so our sales team has done a very good job, but in terms of distribution what we have to do now is to create the pull and that we are working on. In terms of total business, we are expecting 2015 it would be – not big, like I said – probably 1% of the total sales.



Nihar Al Rasheed – HSBC Saudi Arabia

And your plans to enter the Saudi market – any progress?

Iqbal Hamzah

Yes, we are in discussion... we have short-listed three distributors and now we are in discussion to select one. As I mentioned our plan is to go with selected products first, being the flour, because the retail flour market is big. We have prioritised the products and on the top is the retail flour.

Nihar Al Rasheed – HSBC Saudi Arabia

Thank you. That's it from me.

Fatema Al Doseri – SICO

Hello Hamza. I have a question about PET. I am just wondering, how much did you secure at the oil prices, because the PET price has kind of slightly rebounded.

Iqbal Hamzah

We have secured for the full year.

Fatema Al Doseri – SICO

Okay. Can I have an update about your bakery segment?

Iqbal Hamzah

The bakery segment – I updated you the last time that we had appointed a distributor. They have started selling and we have secured a couple of accounts. They are distributing the samples. The supply to the airlines through the Monty's Bakehouse is progressing quite well. We have secured one order from one airline, so things are moving in the right direction.

Fatema Al Doseri – SICO

Can you give us guidance on how much it's going to contribute to the revenues or bottom line?

Iqbal Hamzah



The bottom line will be a loss because this is the first year of operation, and on the top line what we are expecting at the moment is small. It's AED 15 million. Let's see where we get.

Fatema Al Doseri – SICO

Okay. Thank you. I have one more question. In regard to other income, you made a net loss of 0.5 million...

Iqbal Hamzah

... yes, versus last year of [3] million – am I right?

Fatema Al Doseri – SICO

Yes.

Iqbal Hamzah

That reflects a charge – it's a consultancy fee charge in Q1.

Fatema Al Doseri – SICO

Okay, so it's not going to be recurring?

Iqbal Hamzah

No, it's not – correct – it's a consultancy fee charge...

Fatema Al Doseri – SICO

Okay, so going forward we should expect around 2 million because you mentioned earlier that other income should be around 10 million annually?

Iqbal Hamzah

That is true, so going forward you will see the plus...

Fatema Al Doseri – SICO

Okay...

Iqbal Hamzah



... because the other income we get is for the management fee to manage the Abu Dhabi government's security stock... this is a one-time charge which was reflected in Q1.

Fatema Al Doseri – SICO

Okay...

Iqbal Hamzah

... it just came to my mind – let me correct it – there will be some charges in Q2, because we did not charge the full amount there...

Fatema Al Doseri – SICO

Okay.

Rayel Momany – Capital Investment

Mr Hamza, just a follow-up question – I have just noticed on Bloomberg there's some news quoting that Agthia is considering to do some acquisition; could you please add more colour on this?

Iqbal Hamzah

This we are sharing – I mean we have been sharing with you on the acquisition. We are actively working on it because M&A is one of our key growth drivers, as part of our strategy that comes from the top is to sustain a profitable growth moving forward. We are looking at it and we are in discussion; very initial stage, and the categories we are looking at are three: water, dairy, juice – the three categories.

Rayel Momany – Capital Investment

Should we expect any of these acquisitions to happen this year?

Iqbal Hamzah

We are trying our best, but it all depends on what the expectation of the other side is, because we are not going to pay whatever they ask. We'll pay what makes sense, and we are looking for targets (like I told you) in one of the three categories, whichever comes first. Again, to answer your question, I would love to land one in this year but depending on the right price.



Rayel Momany – Capital Investment

Let's say, if you are looking to acquire a company, what is the target rate of return you are looking at?

Iqbal Hamzah

... target?

Rayel Momany – Capital Investment

... target rate of return you are looking at, so if you're looking to acquire a company, what would be the target rate of return you are looking at in order to acquire that company?

Iqbal Hamzah

What we look at are a couple of things and, of that, two are important; one is, of course, the multiple, right? And what synergies we can capture, moving forward, because there definitely has to be synergy there, and in terms of the target rate of return it will be different for water; it will be different for dairy and juices, so I cannot give you a number what rate of return. Basically it's the multiple and it has to be below Agthia's multiple.

Rayel Momany – Capital Investment

Fair enough, thanks so much.

Iqbal Hamzah

Pleasure.

Sultan Al Shallal – Jadwa Investments

Thank you for the conference call. What is your target for the food... what do you expect the breakeven would be on the bottom line, and also what products or segments within food are contributing to these losses?

Iqbal Hamzah

The loss is coming from dairy and frozen baked; these are the two main contributors. I mentioned it earlier as well – the dairy business we expect to break even 2017, right? That is one of the main reasons we are looking at the dairy because in our existing portfolio dairy is a premium product. We



are not in the low price products and we want to have a dual-brand strategy here, that Yoplait is a premium product and we bring some other product, other brand, which will be a price-fighter brand. We are very small in plain yoghurt, which is 80% of the category, and this category, we need to be there. How we will get there is through acquisition. Do you have another question?

Sultan Al Shallal – Jadwa Investments

In general, when do you think the break-even will be for the full segment?

Iqbal Hamzah

'17.

Sultan Al Shallal – Jadwa Investments

Okay, great, thank you so much.

Operator

Ladies and gentlemen, if you have any questions, please press 01 on your telephone keypad. Thank you for holding until we have our next question. Our next question is from Mr Vijay from Gulf Brother Capital Market. Please go ahead.

Mr Vijay – Gulf Brother Capital Market

Good evening. I have one question. I just saw this finance income being around a triple number to the previous quarter. Is there a specific reason?

Iqbal Hamzah

Which one?

Mr Vijay – Gulf Brother Capital Market

Finance income.

Iqbal Hamzah

Are you talking of net?



Mr Vijay – Gulf Brother Capital Market

Not net, gross I am talking about.

Iqbal Hamzah

Finance income?

Mr Vijay – Gulf Brother Capital Market

Yes, finance income.

Iqbal Hamzah

The finance income is the return we are getting on the deposits, on the fixed deposits. There is a market-to-market impact as well if you look at the last period. Q4 you will see there is – I don't recall but I think it was negative if I am not wrong. We have some investments and, on a market-to-market basis, this quarter was positive versus Q4 it was negative. Two impacts: (1) fixed deposits; and (2) is on the investment we have. *(Talking together ... five year investments)...* Market-to-market was negative; Q1 it was positive.

Operator

Our next question is from Siddarth Nag from Franklin Templeton. Please go ahead.

Siddarth Nag – Franklin Templeton

Hi, Hamzah, and thanks for the call. So a very quick one virtually – I just wanted to get better clarity on how much was the promotion spend on this *(audio)...* because a lot of work was done on improving the product portfolio and revamping the portfolio strategy. So I just wanted to get an understanding of the absolute spend. The second thing was why the general administration expenses are *(audio)...* so could you just talk to some of your initiatives in terms of the cost efficiencies you are deriving there? Probably, lastly, on the food break-even, I just wanted to get your thoughts you mentioned the 2017 break-even, so whether that is a cash flow break-even number you are talking about or is it like an IRR? I think you expect to be NP-positive by 2017, so I just wanted more on that/

Iqbal Hamzah

Yes, I am talking of NP. NP-positive means that cash flow positive. Sorry, I didn't catch your general admin expense.



Siddarth Nag – *Franklin Templeton*

Again I just wanted to get an understanding of what the absolute spend on promotions that you have been spending to revamp the entire product portfolio.

Iqbal Hamzah

I have to get back to you on this breakdown. We will get back to you by dropping you an email on how much within the SG&A is the promotions. SG&A has grown by 11% but, if you exclude the marketing expenses from there, the growth is 9%, meaning that the investment in Q1 is higher. We will give you the absolute number. You will get it today, how much we have spent.

The forecast is there because what we are doing now is to support the brands aggressively upfront during the year so we get the benefit during the year. So you will see a lot of activities starting now. Starting next week, there are a lot of activities you will see on the radio, on the billboards, newspaper, magazines, in-store, so there is a very comprehensive plan of activities to support our brands.

Siddarth Nag – *Franklin Templeton*

Okay, thanks, it sounds good. And on the G&A expenses, what are the initiatives being taken on that front, why the absolute number (*audio*)...

Iqbal Hamzah

Why the absolute number is low or high? What is your question?

Siddarth Nag – *Franklin Templeton*

Slightly lower but you can say almost flattish.

Iqbal Hamzah

It is almost flat, yes.

Siddarth Nag – *Franklin Templeton*

So any initiatives particularly that is helping you control-manage those costs better?



Iqbal Hamzah

Last year – maybe the one big reason I can give you why it is lower, what was last year, last year Q1 we had the CEO and the CFO. This year, I am there but I don't have a CFO yet, so there is a cost impact in Q1 this year. There is no charge of CFO expenses there, so one main reason.

Siddarth Nag – Franklin Templeton

So this is what we can expect going forward, this kind, or even actually things really change as time passes?

Iqbal Hamzah

As time passes, there will be some increase, there will be some general administration expenses. The SG&A you should expect – I mean this quarter you are seeing it is flat or versus last year slightly below but, moving forward, you will see a slight increase in G&A. It will not remain flat, moving forward.

Siddarth Nag – Franklin Templeton

And probably one thing on Turkey, I just wanted to get a sense of how the absolute sales there are doing. You were moving some of the line from UAE to Turkey and that will, obviously, show through sometime mid-next year but I just wanted to get a sense of how the absolute sales is growing there and what the number is for Q1.

Iqbal Hamzah

Let me see the number I have; it's here. The Turkey growth for Q1 was 15% growth in sales.

Siddarth Nag – Franklin Templeton

But that's in local currency terms, their terms?

Iqbal Hamzah

No, this is in dirham. The second line, we will commence production next month. We want to catch the summer season, so sales should accelerate starting middle of the year.



Siddarth Nag – *Franklin Templeton*

Right and you would be roughly at – I mean if you look at the water and beverages as a total unit, what will be the biggest contribution there roughly?

Iqbal Hamzah

Contribution if you look at water and beverage? Let's talk about how much will be the bottled water. I will give you a number – it will be around 5% of the water.

Siddarth Nag – *Franklin Templeton*

Just the water, okay.

Iqbal Hamzah

Just the water – from Turkey because don't forget that we sell Alpin water here as well in UAE. I am only talking on the Turkish market, which we sell in Turkey.

Siddarth Nag – *Franklin Templeton*

Sure. And you are not seeing any senses of like additional competition from the market there because the market as a whole is (*audio*)... in terms of breakwater and I understand that spring water is something which is a good product and can be sold outside Turkey but in a [shifting market] it is just to be sold in markets catering to the GCC in general and not just in Turkey because Turkey, as a market, is (*audio*)...

Iqbal Hamzah

The more we sell outside – when I say outside, it is UAE, I will just say the more money we make because there is tough competition there in Turkey. The prices are low and, in terms of margin, we make more here in UAE compared to Turkey. So the whole focus is to sell as much as we can in UAE GCC.

Siddarth Nag – *Franklin Templeton*

Okay, great, thank you.



Operator

Ladies and gentlemen, I would like to remind you if you have any further questions, please press 01 on your telephone keypad. Thank you for holding. We have one more question from Sonu Padmanabhan from Goldman Sachs. Please go ahead.

Sonu Padmanabhan – Goldman Sachs

Hi, Hamzah. This is Sonu from Goldman Sachs. Just a quick question on your entry into the Saudi market – I was wondering who would be the biggest competitor in your regional flour space when you enter the Saudi market and what is the market share that you plan to acquire maybe in like a couple of years after the acquisition?

Iqbal Hamzah

Your first question will be who is the main player – the main player is Kuwaiti Flour. Kuwaiti Flour is the main player in the Saudi regional market and the target we have set for ourselves in two years' time, we want to get 10% market share.

Sonu Padmanabhan – Goldman Sachs

So Kuwaiti Flour, it has like a dominant market share of more than 50%? Is that so?

Iqbal Hamzah

Honestly, I don't have the number with me but we can share that number with you later, but they are the dominant player.

Sonu Padmanabhan – Goldman Sachs

Thank you.

Operator

Ladies and gentlemen, I would like to remind you that if you have any further questions, please press 01 on your telephone keypad. Thank you for holding. Our next question is from Metihan Nete from Waha Capital. Please go ahead.



Metihan Nete – Waha Capital

Hi, Hamzah. I just wanted to ask if there any also price regulations in Saudi Arabia regarding the flour products?

Iqbal Hamzah

Are there any regulations?

Metihan Nete – Waha Capital

Yes, price regulations, like price caps.

Iqbal Hamzah

I have to get back to you. Honestly, I don't know. I have to check. I don't know whether there is a price cap. Can I get back to you?

Metihan Nete – Waha Capital

Yes, sure.

Operator

We have no further questions at this time. Mr Iqbal Hamzah, the floor is yours to close.

Iqbal Hamzah

Thank you everybody, once again, for joining us today and for your continuing press to Agthia. If you have any questions or queries after the call, please contact our Investor Relations Department at agthia.com. I look forward to speaking to you again soon. Thank you.

Operator

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