



Transcription for AGTHIA

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Presentation



Operator

Ladies and gentlemen, welcome to Agthia's Third Quarter 2015 results conference call. I will now hand over to our host, Ozgur Serin. Sir, please go ahead.

Ozgur Serin

Good afternoon everybody. I am Ozgur Serin. I am the Group Director for Investor Relations and Corporate Communications. It is a pleasure once again to host you here on this call and I would like to thank you for allocating your time to join in this call for the announcement of the results for 9 months to September 30th 2015. Together with me here, today I have Mr Iqbal Hamzah, CEO of Agthia, and I have Fatih Yeldan, CFO of Agthia Group PJSC.

I believe you should already have the presentation which is also available on our website at www.agthia.com, under the Investor Centre Financial Information, and you should also find the Directors' Report and Financial Statements in the same place. We will start with a brief on our recent acquisition of Al Bayan Water Company, which will be covered by Hamzah. Fatih will take over and he will talk about the results. Hamzah once again will take the presentation over and will go through our progress on our key projects. He will then conclude with an outlook indicating our strategic priorities as well. This will be followed by the Q&A session.

I am now handing over to Hamzah.

Iqbal Hamzah

Good afternoon to you all. As you know, on October 12th, we announced the acquisition of 100% equity of Al Bayan Water Company. The transaction consisted of three legal entities: Al Bayan Purification and Potable Water LLC; Shaklan Plastic Manufacturing Co (these are the very best companies) and Al Manal Purification and Bottling Mineral Water LLC (this is based in Oman).

Al Bayan is a leading player in 5-Gallon water segment in the UAE. Founded in 1999, Al Bayan has a strong presence especially in the Northern Emirates. A manufacturing operation was set up in Oman in 2002. Al Bayan's manufacturing capabilities, established brands and sales and distribution infrastructure consolidate and reinforce our leading position in the bottled water category in the UAE. It is an excellent fit to our sustainable profitable growth strategy. It will not only help unlock further growth potential for Agthia but also will provide many opportunities for synergy, ranging from



lower production cost to optimised usage of distribution fleet, to additional warehousing and production capacity.

I have been facing questions of 'why Al Bayan' and, first and foremost, it is perfectly in line with our strategy. We made no secret of our aspiration to become one of the top three brands in the categories we have chosen to play. You will see on the next slide that this acquisition propels us right into this position in 5-Gallon bulk water segment in the UAE. Currently, Al Bayan is the number 2 player in 5-Gallon bulk water segment with around 13% share, and with our two brands, Al Ain and Agthia still at 7%, we are occupying number 6 position – with a combined share of 20% we will sit in a strong number 2 position. Those of you who know me well will immediately do the math; it's only a matter of time to get to the top.

Al Bayan's stronghold, both commercially and operationally, are Dubai and Northern Emirates. Ours are Abu Dhabi Emirate. Coupled with our manufacturing expertise, vast sales and marketing knowledge and iconic brand, we have no doubt that this acquisition will contribute significantly to our commitment to deliver profitable growth for our shareholders. Please note that it also provides us with a base in Oman for further future expansion and potential grounding of manufacturing operation for Al Ain Water.

Let me hand over now to Fatih, to take you through our results.

Fatih Yeldan

Thanks Hamzah. Good afternoon. The third quarter has been another period of strong growth for Agthia, with our four businesses maintaining the solid growth momentum exhibited since the beginning of the year. Sales at AED 465 million grew by 14%, versus a year ago, advancing year-to-date sales to AED 1.4 billion in the 9 months to September 30th 2015. This represents a 12% growth, versus a year ago, mainly driven by Water and Beverages, and Flour categories.

Thanks to sustained higher sales and improved gross margins, net profit continues to outpace sales in line with our objectives for 2015. AED 54 million profit in the third quarter increased our 9-month profit to AED 179 million or 19% higher than last year. We will cover the reasons behind improved gross margins on the following slide, on performance of our businesses.

Agri business net sales reached AED 833 million for the 9 months ending September 30th 2015, a 6% increase compared with the same period last year, mainly driven by aggressive distribution gains in Flour. Net profit rose



14% to AED 177 million, propelled by a 230 basis point gross margin improvement. Besides the favourable impact on our Flour volumes of continued acquisition of new customers, increased distribution and new products, low commodity prices have also contributed to higher profits.

Grand Mills Flour sales grew by 16% to AED 318 million. Note that we had wheat trading business this year which was not in the base. However, at 9% growth excluding wheat trading, growth performance is still a robust one given an average category growth of 2-3%.

Agrivita Feed sales volumes remained steady, versus the same period last year, due to a delay in customer orders of concentrated pellet tenders that was expected in the first half of the year but, instead, only started in the third quarter. In an attempt to mitigate the impact of this and boost sales, we continued to increase the number of Municipality outlets we are covering and to selectively introduce a second shift in response to local shopping habits.

Consumer business continued its ascent to record AED 544 million net sales for the period, an impressive 21% increase versus the same period last year. Net profit soared 52% to AED 61 million. However, excluding the losses of Turkey and Frozen Baked business, profit growth would be 64%. The implementation of a price increase in the retail trade, in conjunction with lower PET usage and higher output from our Hi-Speed bottling line has contributed to the biggest share in a notable overall 430 basis point increase in gross margin.

Although a smaller contributor due to the size of the current business it is nevertheless well worth mentioning the profitability turnaround of our dairy business, Yoplait, from a mere 1% gross margin to an impressive 24%, cutting business losses by half since last year.

In Water and Beverages, net sales for the period reached AED 457 million, 24% ahead of the same period last year. Al Ain Water drove these gains as distribution expanded, particularly in the traditional trade as well as across Northern Emirates.

Alpin Natural Spring Water volume in Turkey is beginning to gain momentum, following setbacks from production issues encountered earlier this year, even as the ongoing devaluation of Turkish Lira negatively affects our financial performance. We are placing additional focus on business development to take advantage of the increased manufacturing and warehousing capacity, to regain lost ground, with the line transferred from our factory in UAE already up and running since the beginning of this month. Meanwhile, Alpin is constantly gaining market share within the Turkish



water segment in the UAE, as our shipments increased almost twofold during the period.

Capri Sun exhibited a robust 12% growth in sales, compared with the same period a year earlier, sustaining the business turnaround, following six consecutive quarters of decline in 2013 and 2014. Improved merchandising, the launch of new flavours and the re-launch of the Multivitamin flavour with an improved formula, in addition to continued brand marketing activities, played a pivotal role in this turnaround.

In Food, net sales reached AED 87 million. The Dairy segment recorded 13% sales growth, with a 24% gross profit margin versus breakeven in 2014, following the execution of a new strategy and lower milk powder prices. The performance of our Frozen Veg and Tomato Paste businesses has also improved. The Food business is still making a loss, albeit lower than last year, due to start-up expenses of the Frozen Baked business. Our efforts to secure a viable business base primarily in the UAE for Frozen Baked are continuing.

We have made encouraging progress in new product development. Meanwhile, shipments of Monty's Bakehouse products to a leading airline will start in November.

In Egypt our business continues to grow, recording an 8% increase in sales for the period. We are securing new customers for Tomato Paste and Hot Chilli, and expect to maintain the momentum for the rest of the year.

When we look at our volume performance, here (on the left-hand side) is Flour and Feed, representing Agri business, and on the right is our segment on the Consumer business. I will not go through each and every one of them separately. As you can see, there is healthy growth in all categories. I would like to highlight our growth in Yogurt, which is a noteworthy achievement despite a rationalisation in margin-eroding plain yogurt as part of our turnaround strategy, thanks to new products in value-added Fruit and Kids' portfolios, in addition to amplified marketing activity.

I will now turn the call back to Hamzah for the rest of the presentation.

Iqbal Hamzah

Thanks, Fatih. Moving to brand health, as you can see on this chart, the green bar is this year and represents June-July year-to-date 2015...

In Bottled Water, with our flagship brand Al Ain, we have gained another 100 basis points, taking us to 25% volume share and reinforcing our



leadership in this category. This is a result of our aggressive distribution gains and increased consumer off-take. At 10%, Capri Sun maintains its share and its number 3 position in single-serve juice segment. With Yoplait Fruit and Kids' Yogurt products, we serve our consumers in this value-added segment of the market where we sit in number 3 position, right after Activia...

Increase in our market share in both Fruit and Kids is a remarkable one, reflecting the result of our well-executed turnaround strategy, our portfolio rationalisation, new flavours and brand reinvigoration. With almost 22% share in Tomato Paste, we are the market leaders in the UAE. Our share in Frozen Veg is 8% and we are number 3. The growth in our share is a result of the introduction of new products as well as the launch of new packaging.

In Flour and Feed, Grand Mills and Agrivita maintained their market-leading positions at 41% and 53% respectively, despite intense competitive activity in the marketplace.

Moving to weighted distribution, our weighted distribution figure is a reflection of our relentless focus on distribution and acquiring new customers, except Capri Sun and Fruit Yogurt where we have slightly declined, which is negligible and mainly driven by lower trade in line with our strategy of profitable distribution. New products and new packaging have resulted in significant distribution gains in Frozen Veg. Introduction of a new Arabic flour, in addition to significant new customer acquisitions across the UAE, has carried our distribution in flour to 74% from 60% last year.

Let me now update you briefly on the progress of our major projects. We are on track for completion in the next couple of months of the three projects:

1. Turkish capacity expansion, which includes a brand new production and warehousing building, in addition to increasing small PET bottle production capacity by 100% to 6 million cases.
2. New-look Alpin PET bottle which is planned to be launched in December. Please ignore the word "glass" bottle. The glass bottle is planned to be launched mid-next year. It is a typo.
3. Our warehouse expansion in Al Ain will be operational in Q4 this year.

Our 2nd Hi-Speed Line is on track for Q2, 2016 completion. Dubai and Al Wathba warehouse expansions are planned to be completed by Q4 next year. New grain silos are expected to be operational in Q2, 2017.



For the outlook into the rest of 2015 and beyond, let me start with our strategic priorities which are pivotal for our sustainable profitable growth. Portfolio expansion will continue to be our focus in all 4 categories, in order to reinforce and enhance our leading positions in respective categories. We will continue to strengthen our presence in this trade unwaveringly, both in domestic and international markets. We will continue acquiring new customers, which is an essential pillar for distribution expansion. In Q4 this year we're launching retail flour in Saudi. We will redesign our organisational structure to support our growth aspirations. Last, but not least, M&A will stay on our radar screen as an important pillar of our growth strategy.

To wrap it all up, as you have seen we have a solid 9 months behind us, consistently delivering top and bottom-line growth versus a year ago. Our business and financial fundamentals are strong and we have a solid balance sheet to support our growth and expansion plans. Combined with our determination to excel in executing our strategic priorities, we expect to maintain our year-to-date performance into the end of the year. I am confident that we have the right strategies and platforms in place for our respective businesses to sustain profitable growth and accelerate value creation for our shareholders.

I will now turn the call to the operator for questions. Thank you.

Question and Answer Session

Operator

Ladies and gentlemen, I would like to remind you, if you wish to ask a question, please press 01 on your telephone keypad. Our first question comes from Andrew Howell from Citi. Please begin.

Andrew Howell

Thanks for taking the question and congratulations on a great quarter. Two questions from me, firstly on the Al Bayan acquisition – I don't know if you could tell us a little bit more about the size of that transaction in financial terms as well as how you financed the purchase? I'm also curious about the gross margin and overall profitability of Al Bayan and how that compares with your current water business, and how we might see margins going forward when you have combined the two? That is my first question.

The second one is, if you could talk a little bit about the bottled water market in UAE right now and the competitive dynamics, I see you continue to grow market share despite your price increase and I am just curious how you are managing to do that because we do hear about new entrants. I am



wondering if you're feeling that competition is intensifying at all or if you able to handle that as well? Thank you very much.

Iqbal Hamzah

Let me deal with the first question which is Al Bayan. As I mentioned, Al Bayan is a natural fit to our water category, to actually consolidate and strengthen our leading position in this category. In terms of how we funded this acquisition it is from internal sources. The profitability of this business when compared with ours – I am referring to the 5-Gallon business (AlAin 5-Gallon comparing with Al Bayan 5-Gallon), Al Bayan's profitability is better than ours – why? One main reason is they blow their own bottle, whereas we buy from the vendor, so there is a synergy here that we can now internally source the bottles from Al Bayan's bottle-blowing plant.

Then your question was on the numbers and I am not in a position yet to disclose the purchase price but what I can share with you is that we expect the turnover of this business in the next 5 years to cross AED 100 million. In terms of EBITDA, this year Al Bayan's EBITDA is expected to be around AED 22 million for 2015. Did I miss anything on Al Bayan, Andrew?

Andrew Howell

Only how much you paid for it, but I guess you're not going to tell us.

Iqbal Hamzah

You will come to know, but not at this stage – like I said, this is a perfect fit. Moving to bottled water, you are absolutely right that there is intense competition in the market. There are new players which have entered the market and we have increased the price but the thing is that we had to pass on, by way of some promotions, part of the price increase both to the trade and to the consumer, because of the reason we mentioned – you know, the intense competition going on – to capture share. We are defending our position, rather consolidating our position by improving our distribution and by securing additional shelf space, and by improving visibility and recently we launched the new positioning for our Al Ain brand which is called Essentials, meaning that Al Ain Water has all the essential minerals which are required by the body. This is the distribution we are taking now and you might have already seen some activities on this front.

Despite this, you have see the growth – the market is growing... on last reading the growth of the bottled water category is around 5 to 6% growth and this year we have grown Water by around 25%. Yes, there is some impact of last year because last year the base was a bit lower - last year we



did not have the volume - because the factory was running at full capacity there was no volume to sell, despite the demand and, because of that, we did lose some distribution which we have almost regained, the lost distribution and lost customers.

Andrew Howell

Thanks very much.

Operator

Our next question is from Vijay Sriram from Gulf Baader Capital Markets. Please go ahead.

Vijay Sriram

Hi, Mr Hamzah, good evening. I have a couple of questions. One is that in Q1 you said you got approval for a 3% price increase, except for Flour and Feed, across the board and I just want to know, if that has been the agreement during Q3 where you said for most of the products you'd be increasing the prices after Ramadaan, but looking at the Q3 numbers especially it does not look like the price hike has happened so can you throw some light on that?

Iqbal Hamzah

Actually, the price increase we got from the Ministry was on bottled water, Capri Sun juice, Frozen Veg and Tomato Paste – those four products. We implemented price increase April 1, only in retail – I repeat only in retail, which is around 46% of our total business, not any other channel because there is intense competition. There is a price war... I'll put it this way – and even in the retail we have to go for some tactical promotions to protect the volume, but there is an impact of price increase which is reflected in the improved margin. If you look at Q1 GP margin it was 41% which has increased to 44-45% so there is an impact of price increase as well as an impact (versus last year) of the efficiencies and lower PET usage, and lower PET cost as well. The PET prices have dropped.

Vijay Sriram

Okay and my second question is on the cost of sales. I see quarter-on-quarter that has increased by 3% as compared to the revenue which has declined by 2% - is there any specific reason for that?



Iqbal Hamzah

Can you please repeat your question?

Vijay Sriram

The cost of sales for Q3 has increased by 3%...

Iqbal Hamzah

... I can't hear you properly because there is some noise in the background.

Vijay Sriram

Sorry. The cost of sales during Q3 has increased by 3% on a quarter-on-quarter basis, as compared to the revenue which has declined by 2% - is there any specific reason for the increase during the quarter?

Iqbal Hamzah

Basically the increase is a reflection of mainly mix. You see, as Fatih mentioned regarding the Feed, the tender we were supposed to receive in Q2 we received in Q3 – we started shipping – it has a lower margin because it's tender business. It is a tender business so the cost of this is higher and that is why the GP margin is lower. If you look at the Flour and Feed business, you will see the lower margin versus quarter-on-quarter, so this is part of it – it's because of this tender business in Feed and the rest is the mix.

Vijay Sriram

Okay, thanks Mr Hamzah.

Operator

Our next question is from Danna Guneim from NCB Capital. Please go ahead.

Danna Guneim

Good afternoon, gentlemen. My question is about the 5-Gallon segment. If we calculated the market share backwards... Hello ?



Iqbal Hamzah

Yes, I'm with you.

Danna Guneim

If we backward-calculated the market share, should we assume Al Bayan will add 30 million bottles of capacity?

Iqbal Hamzah

In terms of bottles, yes.

Danna Guneim

Roughly about 30 million?

Iqbal Hamzah

Yes.

Danna Guneim

And this should come in 2016 fully, right?

Iqbal Hamzah

Correct, the full-year impact will come in '16 and this year will be only 4 months.

Danna Guneim

Okay, perfect, and my next question is about Capri Sun – you mentioned the price increase – how does the contract with the Ministry of Education look? Did you manage to solve the ingredients issue?

Iqbal Hamzah

Yes. We have got the approval from the Ministry and we have already started selling to schools and that is reflected in the 12% growth. One of the reasons for this growth in sales is that we are back in the schools and we are also in the process of launching higher content juice which is planned to be launched in February next year.



Danna Guneim

Can you also please share the plan of entering the Saudi market for the Flour segment?

Iqbal Hamzah

Yes. We have almost agreed the terms and conditions with our potential distributor in Saudi and the plan is to start shipping in December. As you may know, Saudi is a big market for retail flour. The market size is around 250,000 tons, the retail market, and there are established players already in that market but we believe that with our brand, with our quality, we would be able to get some space.

Danna Guneim

Okay, perfect, thank you – no further questions.

Operator

Our next question is from Sandeep Srinivas from Duet. Please go ahead.

Sandeep Srinivas

Hi, Hamza, and thanks for hosting the call. I have a list of questions. The first one pertaining to your Saudi strategy – recently there was the news saying that the Saudi government itself is actually forming a flour company in Saudi Arabia and I just want to know your feedback on it – how will this change your strategy in that country?

Iqbal Hamzah

The straightforward answer is that it will not change the strategy, the strategy remains, and what the Saudi government is doing – I doubt that they are establishing any new flour mill – what they are doing is they are privatising the state-owned flour mills. They are not installing additional capacity, as far as I know, so we have decided to enter the retail market and especially the modern trades to start with. The strategy remains and we are moving ahead.

Sandeep Srinivas

When you say they are privatising, are they looking to sell their stake in these companies?



Iqbal Hamzah

That is what we understand.

Sandeep Srinivas

Okay. My second question is on the new land plot which you want to acquire for your Feed stock business – where do you stand with that?

Iqbal Hamzah

Which business?

Sandeep Srinivas

You wanted to acquire a new land plot to expand your Feed stock business.

Iqbal Hamzah

Yes, actually it is moving – it is progressing and only last week we had a good discussion with them and it is positive. I will be in a position to share something with you probably in December/January but it is going well. We will not be acquiring the land. We will be leasing the land from the government, long-term lease.

Sandeep Srinivas

Okay. In terms of current position in your Flour Mill and Animal Feed Stock, what is the utilisation rate?

Iqbal Hamzah

In Flour, capacity utilisation is 85% and Feed would be over 90 – I repeat, Flour 85% and Feed over 90% utilisation - over 90%.

Sandeep Srinivas

Okay. That is clear. I just want to have an update on the Northern Emirate flour prices because earlier this year you were expecting a decrease in Northern Emirate prices – are you seeing that?

Fatih Yeldan



Hi, this is Fatih. Actually, in July, the Northern Emirate flour prices went down by 6% so 50kg flour was AED 118 per bag and in July it went down to AED 111, so basically a 6% price cut already happened in July.

Sandeep Srinivas

Are you expecting this to reflect in your subsidies?

Fatih Yeldan

No. Actually, the thing is it is already reflected because since late 2014 we were reflecting that and reducing our subsidy claims, so that is why it did not impact us at all.

Sandeep Srinivas

Okay, fair enough. That's it from me, thank you.

Fatih Yeldan

Thank you.

Operator

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

Asjad Yahya

Hi, Hamzah, how are you?

Iqbal Hamzah

I am very well. How are you doing?

Asjad Yahya

Good. Just a couple of quick questions, one on the gross margins, as you mentioned – two things I wanted to ask – one is the QoQ drop; you mentioned that it is in part because of the tender that you had and it is a fairly big drop QoQ so can I get a sense of how much is because of this tender and how much is because of the product mix?



Iqbal Hamzah

The margin contraction is basically happening in Feed and one is coming from Water, quarter-on-quarter, these two businesses mainly. Let's take Feed – in Feed I mentioned that one of the reasons is this tender business which is at a lower margin, high single-digit margin compared to a double-digit margin which we sell in the marketplace, and the other thing is because of the high competition happening in our three categories (which I would like to share with you) which is Feed, Flour and Water – a lot of competitive activities are going on, I would say, so the competition there started all discounting the price in Feed, offering discounts. We had to react and we also offered tactical discount; we did not go for open discount but we went for tactical discount, promotions rather, so these were the two reasons for the drop in Feed.

In Water one is the competition, again going back to a similar thing on pricing, and in Q3 our stock level was low compared to Q2. What does that mean? It means that there is under-absorption of overheads – the stock level dropped... meaning that the overhead absorption is less...

Fatih Yeldan

... from inventory to the P&L basically it moved from overheads in Q3 because of that.

Asjad Yahya

So would it be fair to assume that this is more of a depressed margin and we can see it going back up again, going forward?

Iqbal Hamzah

I would expect this margin in Feed may go up slightly and in Water also slightly, not a big swing.

Asjad Yahya

Okay, and just one last question ...

Iqbal Hamzah

... there is a significant improvement versus last year.

Asjad Yahya



Yes that's true, and just one last question on Al Bayan – what kind of capacity utilisation are we looking at for them, at this point?

Iqbal Hamzah

Please repeat?

Asjad Yahya

For Al Bayan – you mentioned the capacity that they have, roughly the 30 million additional bottles, and I just wanted to get a sense of what kind of capacity utilisation they have right now?

Iqbal Hamzah

Around 30 million is the shipment number, not the capacity, so they have the free capacity ...

Asjad Yahya

... okay...

Iqbal Hamzah

In the bottle-blowing the capacity utilisation is around 40-45% capacity utilisation, so there is a lot of free capacity to blow Al Ain bottles and also there is free capacity in the bottling line to cool-pack for Al Ain...

Asjad Yahya

... okay...

Iqbal Hamzah

Also, there are synergies in warehousing and synergies when it comes to distribution. Today we outsource the water production for 5-Gallon...

Asjad Yahya

... okay...

Iqbal Hamzah

... one company in Dubai will move out and it will move to Al Bayan.



Asjad Yahya

Thank you. That's it from my side.

Operator

Our next question is from Fatema Al Doseri from Sico. Please go ahead.

Fatema Al Doseri

Hi, Iqbal. How are you?

Iqbal Hamzah

I am very well, thank you.

Fatema Al Doseri

Good. I have a question regarding your subsidies. Now with the UAE removing fuel subsidies, do you see that happening with Flour and Feed? Is there any talk?

Iqbal Hamzah

As you know, the government is looking at the subsidies – like if you look at electricity it happened, water it happened and with the gas it happened, but on our Flour and Feed so far we have not heard anything from the government. At the moment it is continuing but you never know...

Fatema Al Doseri

... okay, and do you guys have any measures in place in case the subsidy is removed? How will you basically protect your market share?

Iqbal Hamzah

Yes, we have a plan in place which we call our Defence Plan but initially, yes, we do expect to lose market share but there is a plan to regain the lost share. We are very aggressive in Flour. If you go to the modern trade you will see we are almost dominating the category particularly in Abu Dhabi...

Fatema Al Doseri

... okay...



Iqbal Hamzah

... Emirates. As part of the strategy which we are following to protect the volume, there are initiatives which are in the process of being implemented to protect volume in case there is the decision either to withdraw subsidy or to gradually withdraw subsidy, we don't know – no idea but yes, to answer your question, initially there could be impact and we may lose but we will regain the volume and there is a play already defining how to do it.

Fatema Al Doseri

Okay. The next thing is about your Turkish operations. You mentioned that you had Forex losses because of that – could you give us the amount, please, for the third quarter?

Fatih Yeldan

Hi. Turkish loss – yes, most of it comes from the foreign exchange devaluation, the Turkish Lira devaluation – year-to-date it's about AED 5 million because, since the beginning of the year in Turkey, devaluation is over 20% so it has impacted obviously our P&L as well and year-to-date we are having about AED 5 million.

Fatema Al Doseri

Okay. My next question is regarding your Water business. You mentioned that you guys are doing promotions to protect your market share. Do you see that happening in the fourth quarter as well as the first quarter 2016, because right now it seems like all your growth is from volume instead of price increases?

Iqbal Hamzah

Yes. I do expect this to continue in Q4 and even Q1 this will continue because, of course, everyone is trying to gain share – everyone is trying to gain lost share and we are the one who is gaining share – of course there is intense competition, I would say, and activities going on; it's a share fight.

Fatema Al Doseri

Okay. My last question is regarding your inventory. How much of lower PET inventory do you have and low commodity Flour and Feed as well?



Iqbal Hamzah

For PET we're covered until the end of this year and we already have placed the order for coverage until mid-next year at the current prices, so we are covered until next June, and Flour and Feed is more-or-less the same – our coverage now, as we speak, is up until mid-next year.

Fatema Al Doseri

Okay. Thank you.

Operator

Our next question is from Hitam Ashalan from Jadwa Investment. Please go ahead.

Hitam Ashalan

Hi. Most of my questions have actually already been addressed. However, in terms of the gross margins, we have seen them improving; should we expect these margins to be stable going forward or should we expect more improvement as we move on?

Iqbal Hamzah

As we move on, you should expect the margin to improve and why I say that is we expect our non-performing business, e.g. our margin in Turkey is low – I expect the margin, moving forward next year, to improve. In the Dairy business I expect the margin to improve and in Frozen Bake, which is negative margin at this point in time, should improve. All these businesses, when they start turning around, will contribute to improvement in overall GP margin.

Hitam Ashalan

Great, thank you so much.

Operator

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

Raed Al Momani

Hello everybody. Thanks for the call. Actually, most of my questions have already been answered. I have just a quick few questions. The first one is,



following up on Al Bayan, when should we expect the impact of Al Bayan acquisition to materialise on the financials? The second question is about your Turkey operation. I do believe you are in the process or you already made a hedging contract earlier, so could you please just shed some light on this matter?

Iqbal Hamzah

The Al Bayan business we'll start consolidating in Q4 this year, so for this year it will be 4 months' consolidation and of course next year you will see the full year – was that the question?

Raed Al Momani

The question's about – I do believe you are in the process to make the contract to hedge your position on Turkey operation?

Iqbal Hamzah

No – my question is whether I answered your first question so we can move to the second...

Raed Al Momani

Yes, definitely.

Iqbal Hamzah

Okay. On the Turkish Lire, yes we have hedged Turkish Lire for the next 18 months...

Raed Al Momani

... for the next 18 months, starting from the next year or right now?

Iqbal Hamzah

Starting now... starting from September...

Raed Al Momani

September...



Iqbal Hamzah

... for September...

Raed Al Momani

September... so basically the impact of the devaluation of the Lire, we should not expect that to happen in the fourth quarter?

Iqbal Hamzah

You will not see that impact but you will see the hedging costs; the hedging costs will be there.

Raed Al Momani

I see – so do you expect the impact to be net positive like the losses to narrow down...

Iqbal Hamzah

Yes, correct.

Raed Al Momani

Thanks.

Operator

Our next question is from Sandeep Srinivas from Duet. Please go ahead.

Sandeep Srinivas

Hi, again. Hamza, the thing is, I could not hear well when you actually gave more details about the Al Bayan acquisition in the initial part of the call. I just wanted to know the product profile for Al Bayan and would you be using that 50% of extra capacity which is available in this plant to produce Al Ain small bottles?

Iqbal Hamzah

Al Bayan – they don't have the facility of capability to produce small bottles, the PET bottles – this is a 5-Gallon business. What they do also – they do distribute (small format with Al Bayan) to the [AT] channel where it is co-packed... they get it done from some other bottling company. When I mentioned about the free capacity for the bottling, I was referring to 5-



Gallon, because we also have our brand (Al Ain) is 5-Gallon, Ice Crystal 5-Gallon, and today we buy these bottles from a third party... with Al Bayan they have their own blowing, or call it bottle manufacturing facility so we'll be getting the bottles in-house.

Sandeep Srinivas

Okay, and you mentioned something about 5 years – is it a pay-back period? I could not hear you well...

Iqbal Hamzah

... not pay-back – I was saying that by year 5 we expect this business to be over 100 – Al Bayan – over AED 100 million.

Sandeep Srinivas

AED 100 million?

Iqbal Hamzah

Yes.

Sandeep Srinivas

Hamzah, this is Ali, Sandeep's colleague – what is the current run rate in terms of top line?

Iqbal Hamzah

The current top line is 75 million and the bottom line EBITDA is around 22 million.

Sandeep Srinivas

Great, thank you. That's it, Hamzah, thanks.

Iqbal Hamzah

A pleasure.

Operator

We have no further questions. Back to you, Ozgur Serin, for the conclusion.



Ozgur Serin

Thank you very much, Ayan. Thank you very much, folks, and if you have any further questions then please let me know and we will obviously try our best to get back to you as soon as possible. Thank you very much, once again, for joining in.

Operator

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