

AUGA: Q2 2020 Results Review

Continued growth and efficiency gains

AUGA Group (hereinafter referred to as the 'Company') published another strong quarterly result. It stated that, despite the COVID-19 pandemic, the agricultural sector has gained this season due to the better weather conditions. The Company itself has benefited even further from improved efficiencies.

The Company's revenues increased by 26.5% y-o-y to EUR 17.7m, which was c.a. 17.2% higher than our estimated revenues. It also showed significant improvements in the consolidated gross and operating profits, increasing 43.5% y-o-y to EUR 4.9m and 121.3% y-o-y to EUR 2.6m, respectively. An increase in financial costs from EUR 1.0m to EUR 1.5m y-o-y, mostly on account of IFRS16 related interest expenses and nearly EUR 0.4m attributable to interest relating to the bond issue.

Nonetheless, the Company still managed to generate a net profit of EUR 1.1m, which was significantly higher than the Q2 2019 net profit of EUR 0.2m. This closely matched our EUR 1.1m net profit estimate, though the net margin was weaker at 4.7%. Overall, though, we are pleased with the outcome for the quarter. This would have been even higher if the EUR 1.5m fair value gain relating to the season had been attributed to the current financial year rather than the end of 2019.

The Company has set a limit of EUR 6m for its 2020 capital expenditure, with its focus being set on:

"securing its own organic combined feedstock production capacity, improving animal welfare and agricultural operations, allocating available resources to strategic development projects to follow a newly released five-year strategy that focuses on improving efficiency in existing business units, designing a sustainable organic food architecture ('SOFA') and reducing greenhouse gas emissions."

AUG1L LH : Results Review, EURm	Q2/20A	Q2/19A	% y-o-y	Q2/20E	Dev, abs	Dev, %
Revenue	17.7	14.0	26.5	15.1	2.6	17.2
Gross profit	4.9	3.4	43.5	n.a.	n.a.	n.a.
Operating profit	2.6	1.2	121.3	n.a.	n.a.	n.a.
Net profit	1.1	0.2	483.9	1.1	0.0	2.5
Gross margin, %	20.1	26.9		n.a.	n.a.	
Operating margin, %	10.8	9.4		n.a.	n.a.	
Net margin, %	4.7	1.5		8.3	(3.7)	

Source: AUGA Group, LHV

Key Numbers (EURm)	2017	2018	2019	2020*	2021*	2022*
Sales (EURm)	48.8	54.7	71.1	77.2	82.9	87.3
Sales growth (%)	23.1	12.2	29.9	8.6	7.4	5.3
Net profit (EURm)	4.9	(6.0)	(3.0)	2.2	5.7	7.4
EPS (EUR)	0.03	(0.03)	(0.01)	0.01	0.03	0.03
P/E (x)	20.5	n.m.	n.m.	44.7	17.4	13.4
Payout per share (EUR) [#]	-	-	-	-	-	-
Payout yield (%)	-	-	-	-	-	-
P/B (x)	1.3	0.9	0.9	1.1	1.0	0.9
EV/Sales (x)	3.0	2.5	2.4	2.3	2.2	2.1
EV/EBITDA (x)	10.7	32.6	10.1	8.3	7.6	7.4
EV/EBIT (x)	21.8	n.m.	152.9	20.5	15.4	13.9
ROE (%)	6.5	(7.0)	(3.3)	2.4	6.0	7.3

Source: AUGA Group, LHV *FY 2020E-2022E multiples are based on the share price (2nd Sep 2020) of EUR 0.436 per share. [#] Payout per share include dividends and share capital reduction.

Company Profile

Listing Market:	Baltic Main List
Bloomberg Ticker:	AUG1L LH
ISIN:	LT0000127466
Industry:	Consumer Goods
Sector:	Food & Beverage
No. of Employees:	1,314
Website:	www.auga.lt

Share Data, as of 2nd Sep 2020

Current Share Price (EUR):	0.436
Fair Value Range (FVR), EUR:	0.45-0.55
Upside, % (to mid-point of FVR):	14.68
52-week High/Low (EUR):	0.454/0.260
3m Avg. Daily Volume (th):	31.74
Market Cap (EURm):	99.15
Ordinary Shares (m):	227.42

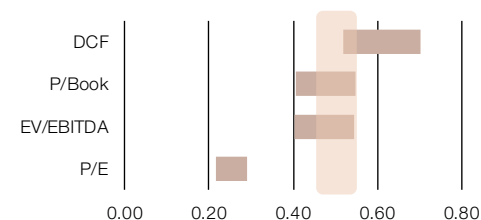
Key Shareholders, as of 31st Mar 2020

Baltic Champs Group UAB	55.04%
EBRD	8.71%
UAB "ME Investicija"	8.39%
Žilvinas Marcinkevičius	7.00%

12-Month Price Performance



LHV Fair Value Range: EUR 0.45-0.55*



* As of 8th May 2020

AUG1L: Segment Results Review	H1/20A	H1/19A	% y-o-y
Crop Growing, EURm			
Total revenue of sold agricultural produce	11.9	8.8	35.4
Total cost of sold agricultural produce	12.5	9.5	31.0
Total inventory write-offs	0.7	0.5	38.8
Result of sales of agricultural produce	(1.3)	(1.3)	n.m.
Gain (loss) on revaluation of agricultural produce	4.9	3.3	49.8
Total subsidies	3.7	3.5	5.7
Gross profit of crop growing segment per period	7.4	5.5	32.7
Mushroom Segment, EURm			
Total revenues from mushroom sales	15.2	13.8	10.2
Total cost of mushrooms sold	13.2	11.7	13.2
Total revenues from sales of mushroom seedbed	1.0	1.2	(17.4)
Total cost from sales of mushroom seedbed	0.9	1.1	(14.0)
Gross profit of mushroom growing segment	1.1	1.0	1.9
Dairy Segment, EURm			
Total revenues of dairy segment	5.6	5.2	7.5
Total cost of dairy segment	5.2	5.1	1.6
Revaluation of biological assets	(1.6)	(1.5)	n.m.
Total subsidies	1.3	1.1	18.0
Gross profit of dairy segment	0.1	(0.3)	n.m.
End-Consumer Packaged Goods, EURm			
Total revenue from end-consumer packaged goods sales	2.0	1.1	89.5
Total cost of sales of end-consumer packaged goods	1.9	1.0	88.1
Total cost of sales of end-consumer packaged goods	0.1	0.0	98.0

Source: AUGA Group, LHV

Performance by segment

Crop Growing

The crop growing segment experienced a robust 35% annual increase in sales from EUR 8.8m in H1 2019 to EUR 11.9m in H1 2020, on the back of favourable weather conditions and improved efficiency. This was despite some crops being of lower quality and lower prices (especially of organic feed wheat which has experienced a decrease in price in Europe due to increased supply). To hedge against this situation, the Company has already secured sales contracts for 67% of its forecasted harvest.

However, with the cost of sales exceeding the value of sales, the gross loss remained relatively unchanged at c.a. EUR 1.3m. The Company explained that, by the end of H1 2020, the entire 2018/19 season's harvest had been sold. As the 2018/19 harvest was significantly better than 2017/18, the Company secured higher sales volumes and revenues. Additionally, there was a EUR 0.2m increase in subsidies received due to an increase in the number of hectares seeded and declared for the 2020 season.

AUG1L: Crop Growing Yields	2018	2019	2020E
Wheat, t/ha	2.8	4.2	4.3
Legumes, t/ha	1.4	1.7	3.0

Source: AUGA Group

Looking to Q3 2020, the Company anticipates a significant annual increase relative to Q3 2019, particularly given that Q3 2019 was a terrible period.

Mushroom Segment

The mushroom segment's H1 2020 sales increased to EUR 15.2m (+10% y-o-y). This was supported by the stronger harvest, a 10% increase in volumes sold to c.a. 6,579t, a further shift to organic mushrooms (7.6% of total volume), and an annual increase in the selling price of both organic (4%) and non-organic (3%) mushrooms.

It did experience, though, a decline in compost sales due to the pandemic and the loss of clients in Russia. However, looking ahead, the Company does not foresee any significant changes in this segment but has identified the potential for new organic products to be produced.

Dairy Segment

In H1 2020, the dairy segment's revenues increased by 7.5% y-o-y, and the Company managed to generate a small gross profit for the period. The Company stated that the price of its organic milk (which now accounts for 91% of total milk sold) had declined marginally by 0.8% in H1 2020 to EUR 403/t, whereas non-organic milk prices increased 5% y-o-y to EUR 397/t. However, the costs have increased by 2% y-o-y during the corresponding period as the 2018/19 drought adversely impacted the forage crop yields.

The Company has reiterated that it intends to increase its milk yields per cow, which would respectively reduce costs and increase production quantities. It is also incurring larger short-term losses on the revaluation of its biological assets due to its strategic decision to change its herd from being older individuals to younger ones.

Fast-Moving Consumer Goods ('FMCG')

The FMCG segment's revenues increased by 89% y-o-y to EUR 2.0m during H1 2020. The growth was prevalent across all markets, especially the US and Baltics, as the COVID-19 crisis drove the demand for long shelf-life products. Preserved mushrooms, vegeta-

bles, and soups represented 64% of the revenues generated from the segment.

There is also scope for potential improvements coming from the acquisition of Grybai LT (a producer of organic products), resulting in stronger consolidated profits. It also opens the doors for producing new products. Additionally, during Q2 2020, the Company made the strong move of entering the lucrative Australian organic market.

Our fair value range for the Company is EUR 0.45-0.55 (closing price as of 2nd September 2020 was EUR 0.436 per share).

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Date and time of sign-off: Thursday 3rd Sep, 17:00**Disclaimer**

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- Buy- Expected return of more than 10% within 12-18 months (including dividends)
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