

AUGA: Q1 Results Review

A strong set of results

AUGA group (hereinafter referred to as the 'Company') published its Q1 2021 results on 31st May 2021, which were broadly in line with our expectations. In Q1 2021, the Company's revenues increased by 14.4% y-o-y to EUR 19.5m, primarily due to a significant increase in the crop growing segment's revenue. However, the net cost of sales (adjusted for subsidies) declined at a lower rate of 12.6% y-o-y, which, coupled with higher gains on the revaluation of biological assets, led to a substantial improvement in the gross profit. The total gains on revaluation jumped 82.7% y-o-y to EUR 1.0m while total subsidies received increased 30.4% y-o-y to EUR 3.1m. The gross profit advanced by 20.7% y-o-y to EUR 4.5m, leading to a gross margin of 23.1% (Q1 2020: 21.9%). The operating expenses grew by 12.5% y-o-y to EUR 2.5m while other income fell to EUR 0.1m (-4.0% y-o-y). The Company recorded an operating profit of EUR 2.1m (+30.2% y-o-y), resulting in an operating margin of 10.8% (Q1 2020: 9.5%). The finance cost remained stable at EUR 1.4m (-0.3% y-o-y). The Company reported a substantial improvement at the bottom line, with total net profit reaching EUR 0.7m (+259% y-o-y), leading to a net margin of 3.5% (Q1 2020: 1.1%).

Segment Results:

- Crop Growing

The crop growing segment's revenues increased by 40.6% y-o-y to EUR 7.5m, primarily due to a higher sales volume as the harvest quantities are increasing on a y-o-y basis. The cost of sales increased by 50.4% y-o-y to EUR 8.0m, impacted by the additional drying and cleaning cost of clover seeds (EUR 0.4m). If we eliminate this one-off cost, then the increase in cost of sales would be quite similar to growth in revenues. The agricultural subsidies increased by 25.9% y-o-y to EUR 2.8m, while the inventory write-offs declined by 67.6% y-o-y to EUR 0.08m. During Q1, the Company recognised a gain on revaluation of biological assets of EUR 1.6m, supported by the increased area of winter crops and rising market prices. Due to the aforementioned factors, this segment's gross profit increased by 15.7% y-o-y to EUR 3.4m, with a gross margin of 19% (Q4 2019: 7.7%). As of 31st March 2021, c.a. 99% of the 2019/2020 season harvest was contracted, out of which 93% were sold and delivered to the clients.

- Mushroom Segment

Despite a decline in sales volume, on a y-o-y basis, the mushroom segment's revenues remained stable at EUR 7.3m (-0.3% y-o-y), out of which the revenues from mushroom sales were EUR 7.2m (+6.2% y-o-y), while the sales of mushroom seedbed contributed EUR 0.1m (-78% y-o-y). The sales volume declined by 3.4% y-o-y to 3.2k tonnes, negatively impacted by the COVID-19 pandemic. During Q1 2021, the share of organic mushrooms declined to 6.3% (Q1 2020: 7.9%) of total mushrooms volume sold. During Q1 2021, the average non-organic and organic mushrooms sales price increased by c.a.

Key Numbers (EURm)	2017	2018	2019	2020	2021E*	2022E*
Sales (EURm)	48.8	54.7	71.1	83.1	82.9	87.3
Sales growth (%)	23.1	12.2	29.9	16.8	(0.2)	5.3
Net profit (EURm)	4.9	(6.0)	(3.2)	0.9	5.7	7.4
EPS (EUR)	0.03	(0.03)	(0.01)	0.00	0.03	0.03
P/E (x)	20.5	n.m.	n.m.	110.0	20.8	16.0
Payout per share (EUR)#	-	-	-	-	-	-
Payout yield (%)	-	-	-	-	-	-
P/B (x)	1.3	0.9	0.9	1.1	1.2	1.1
EV/Sales (x)	3.0	2.5	2.4	2.3	2.3	2.2
EV/EBITDA (x)	10.7	32.6	10.1	9.2	8.1	7.9
EV/EBIT (x)	21.8	n.m.	171.5	32.1	16.4	14.9
ROE (%)	6.5	(7.0)	(3.6)	1.0	6.0	7.3

Source: AUGA Group, LHV *FY 2021E-2022E multiples are based on the share price (31st May 2021) of EUR 0.52 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 Staples
Sector:	Food, Beverage and Tobacco
No. of Employees:	1,236
Website:	www.auga.lt

Share Data, as of 31st May 2021

Current Share Price (EUR):	0.52
Fair Value Range (FVR), EUR:	0.45-0.55
Downside, % (to mid-point of FVR):	3.85
52-week High/Low (EUR):	0.530/0.358
3m Avg. Daily Volume (th):	44.07
Market Cap (EURm):	118.26
Ordinary Shares (m):	227.42

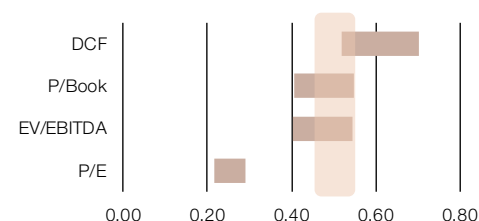
Key Shareholders, as of 31st March 2021

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 : Results Review, EURm	Q1/21A	Q1/20A	% y-o-y	Q1/21E
Net sales	19.5	17.0	14.4	20 to 25
Mushrooms	7.3	7.3	(0.3)	
Dairy	3.3	3.5	(6.0)	
Crop Growing	7.5	5.4	40.6	
End-Consumer Packaged Goods	1.4	0.9	56.3	
Gross profit	4.5	3.7	20.7	
EBITDA	5.7	5.0	16.0	
Operating profit	2.1	1.6	30.2	
Net profit	0.7	0.2	259.3	0.4 to 1.3
Gross margin, %	23.1	21.9		
EBITDA margin, %	29.5	29.1		
Operating margin, %	10.8	9.5		
Net margin, %	3.5	1.1		

Source: AUGA group, LHV

10% y-o-y due to larger sales of packaged mushrooms. The average price of one tonne of mushrooms sold was EUR 2,246 per tonne, compared to EUR 2,043 per tonne in Q1 2020. The cost of sales increased by 1.5% y-o-y to EUR 6.8m, primarily due to higher sales of packaged mushrooms, leading to a 20% y-o-y decline in gross profit to EUR 0.5m. The Company explained that the decline in gross profit is mainly related to market volatility and increased costs in the current environment due to the COVID-19 pandemic.

- Dairy Segment

In Q1 2021, the dairy segment's revenues declined by 6.0% y-o-y to EUR 3.3m, primarily due to a decline in sales volume as a result of decreased milk yields per cow. The volume of milk sold declined by 5% y-o-y to 6.2k tonnes, while dairy commodities sales volume dropped by 19% y-o-y to 190 tonnes. The Company mentioned that the expected impact of changes in feeds structure was not achieved in Q1, which hurt the segment's results. The Company will continue to pursue its planned agenda to increase efficiency as well as increase the number of cows to reach 3.6k in 2021. During Q1 2021, the average price of milk sold was around EUR 406 per tonne (+2.2% y-o-y) due to the larger share of organic milk sold. The share of milk sold at organic production prices reached 98% in Q1 2021, compared to 86% in Q1 2020. The cost of sales increased by 2% y-o-y to EUR 3.3m; however, a lower loss on revaluation of biological assets and higher subsidies led to a gross profit of EUR 0.2m (+126% y-o-y). During Q1 2021, the loss on revaluation of biological assets was EUR 0.55m (Q1

2020: EUR 0.70m), while subsidies increased to EUR 0.7m (+48% y-o-y).

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

- Fast-Moving Consumer Goods ('FMCG')

The fast-moving consumer goods segment's revenues jumped to EUR 1.4m (+56.3% y-o-y). During Q1 2021, the Company exported its products to 28 countries compared to 20 countries in Q1 2020, which led to a decline in the share of local sales. The Company's expansion in foreign markets is driving the growth of this segment, especially to the USA and Japan, which constituted 30% (Q1 2020: 5%) of total sales. Given the COVID-19 pandemic driving the demand for organic and long shelf-life products, we expect this segment to grow further in the coming quarters. During Q1 2021, preserved mushrooms, vegetables, and soups represented 67% of revenues generated by this segment. This segment's performance may improve further as a result of the acquisition of Grybai LT, as this acquisition will open the doors for producing new products.

Our fair value range for the Company is EUR 0.45-0.55 (closing price as of 31st May 2021 was EUR 0.52 per share).

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Date and time of sign-off: Monday 31st May 18:00**Disclaimer**

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