

AUGA: Q4 Results Review

Revenues declined, but profitability improved

AUGA group (hereinafter referred to as the 'Company') published Q4 2020 results on 26th February 2020, which were in line with our expectations. In Q4 2020, the Company's revenues declined by 13.8% y-o-y to EUR 20.8m, primarily due to a significant drop in the crop growing segment's revenue. However, the cost of sales declined at a higher rate of 15.0% y-o-y, which, coupled with much higher subsidies, led to a substantial improvement in the gross profit. The total gain/(loss) on revaluation fell 36% y-o-y to EUR 1.0m which total subsidies received increased more than 8x to EUR 2.5m. The gross profit more than doubled to EUR 3.9m, leading to a gross margin of 19.0% (Q4 2019: 7.7%). The operating expenses grew by 7.2% y-o-y to EUR 3.0m while other income plummeted to EUR 0.05m (-74% y-o-y). The Company recorded an operating profit of EUR 1.1m compared to an operating loss of EUR 0.7m in Q4 2019. The finance cost fell considerably to EUR 1.0m (-51% y-o-y), as the interest expenses related to IFRS 16 dropped by EUR 1.0m on a y-o-y basis. The Company reported a substantial improvement at the bottom line, with total net profit reaching EUR 0.5m, compared to a net loss of EUR 1.9m in Q4 2019.

Segment Results

- Crop Growing

The crop growing segment's revenues declined by 27% y-o-y to EUR 9.5m, probably due to the early harvesting of sugar beets. The sales of sugar beets were recognised in September instead of October as in the previous year. As of 31st December 2020, the current conditions of crops remained good, and the Company has already signed sales contracts for 95% of its forecasted harvest, out of which 63% was sold and delivered to its clients. Due to much higher subsidies received in the latest quarter, this segment's gross profit more than tripled to EUR 2.7m, with a gross margin of 19% (Q4 2019: 7.7%).

- Mushroom Segment

Despite stable sales volume, on a y-o-y basis, the mushroom segment's revenues declined 6.6% y-o-y to EUR 7.1m, while the cost of sales increased by 1.5% y-o-y, leading to a 61% y-o-y decline in gross profit to EUR 0.4m. The revenue from mushroom sales fell 2.8% y-o-y to EUR 6.9m, while the compost sales revenue declined to EUR 0.2m (-56.6% y-o-y). The Company explained that the segment suffered in 2020 due to a decline in demand from the catering sector and compost export market. Additionally, an exceptionally strong forest mushroom season resulted in a decline in the demand for grown mushrooms.

- Dairy Segment

In Q4 2020, the dairy segment exhibited decent revenue growth of 5.2% y-o-y, with revenues reaching EUR 2.7m, driven by growth in revenues from milk sales. The revenue from milk sales increased 3.8% y-o-y to EUR 2.5m, supported by stable milk prices

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	18.0	13.8
Payout per share (EUR)#	-	-	-	-	-	-
Payout yield (%)	-	-	-	-	-	-
P/B (x)	1.3	0.9	0.9	1.1	1.0	1.0
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 (1st March 2021) of EUR 0.45 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

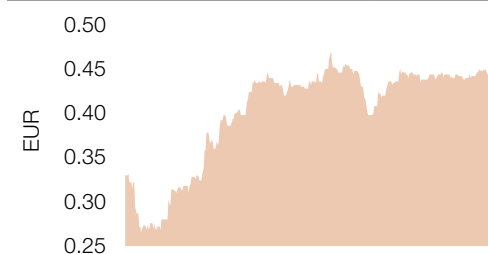
Share Data, as of 1st March 2021

Current Share Price (EUR):	0.45
Fair Value Range (FVR), EUR:	0.45-0.55
Upside, % (to mid-point of FVR):	11.11
52-week High/Low (EUR):	0.478/0.260
3m Avg. Daily Volume (th):	27.57
Market Cap (EURm):	102.34
Ordinary Shares (m):	227.42

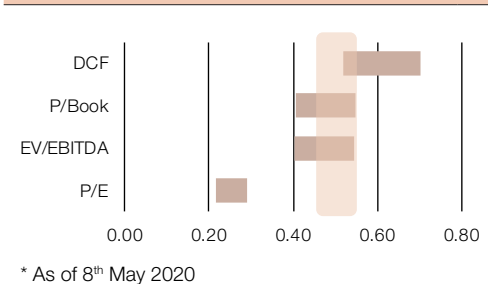
Key Shareholders, as of 31st Dec 2020

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 : Results Review, EURm	Q4/20A	Q4/19A	Y-o-Y Change (%)	Q4/20E	FY/20A	FY/19A	Y-o-Y Change (%)
Net sales	20.8	24.1	(14)	20 to 25	83.1	71.1	17
Mushrooms	7.1	7.6	(7)		30.0	28.7	4
Dairy	2.6	2.5	5		10.8	10.1	7
Crop Growing	9.5	13.0	(27)		37.4	29.5	27
End-Consumer Packaged Goods	1.6	1.0	61		4.9	2.8	76
Gross profit	3.9	1.8	114		15.8	9.8	61
EBITDA	5.1	4.7	9		21.1	17.1	23
Operating profit	1.1	(0.7)	(252)		6.0	1.0	497
Net profit	0.5	(1.9)	(127)	0.0 to 1.5	0.9	(3.2)	n.m.
Gross margin, %	19.0	7.7			19.0	13.8	
EBITDA margin, %	24.7	19.5			25.4	24.1	
Operating margin, %	5.1	(2.9)			7.2	1.4	
Net margin, %	2.5	(8.0)			1.1	(4.5)	

Source: Auga Group, LHV

AUG1L: Segment Results Review	Q4/20A	Q4/19A	Y-o-Y Change (%)	FY/20A	FY/19A	Y-o-Y Change (%)
Crop Growing, EURm						
Sales revenue	9.5	13.0	(27)	37.4	29.5	27
Cost of sales	(9.4)	(12.7)	(26)	(38.2)	(30.5)	25
Inventory write-offs	(0.5)	(0.8)	(43)	(1.4)	(1.5)	(7)
Result of sales of agricultural produce	(0.4)	(0.5)	(27)	(2.3)	(2.5)	(10)
Gain (loss) on revaluation of agricultural produce	1.2	1.4	(15)	7.7	5.3	45
Subsidies	1.9	(0.1)	n.m.	7.5	5.2	44
Gross profit of crop growing segment	2.7	0.8	224	12.9	8.0	62
Dairy Segment, EURm						
Total quantity of products sold, thousand tonnes	6.3	6.1	3	26.1	25.2	3
Milk	6.1	5.9	3	25.4	24.5	4
Cattle	0.2	0.2	(6)	0.7	0.7	(4)
Revenue	2.7	2.5	5	10.8	10.1	7
Milk	2.5	2.4	4	10.1	9.4	7
Cattle	0.2	0.2	25	0.8	0.7	4
Cost of sales	(2.7)	(3.0)	(12)	(10.4)	(10.7)	(2)
Milk	(2.5)	(2.9)	(14)	(9.7)	(9.9)	(2)
Cattle	(0.2)	(0.2)	25	(0.8)	(0.7)	4
Revaluation of biological assets	(0.2)	0.1	n.m.	(2.5)	(2.2)	15
Total subsidies	0.6	0.4	50	2.5	2.0	24
Gross profit of dairy segment	0.4	0.0	n.m.	0.4	(0.7)	(158)
Mushroom Segment, EURm						
Mushrooms sold, thousand tonnes	3.3	3.2	0	12.9	12.3	5
Revenue	7.1	7.6	(7)	30.0	28.7	4
Mushroom sales revenue	6.9	7.1	(3)	28.4	26.3	8
Compost sales revenue	0.2	0.5	(57)	1.6	2.4	(32)
Cost of sales	(6.7)	(6.6)	2	(28.3)	(26.2)	8
Cost of mushrooms sold	(6.6)	(5.9)	12	(26.9)	(23.7)	13
Cost of compost sold	(0.1)	(0.7)	(85)	(1.4)	(2.5)	(45)
Gross profit of mushroom growing segment	0.4	1.0	(61)	1.8	2.5	(30)
Fast Moving Consumer Goods (FMCG), EURm						
Revenue	1.6	1.0	61	4.9	2.8	76
Cost of goods sold	(1.1)	(0.9)	13	(4.1)	(2.8)	50
Gross profit of FMCG segment	0.5	0.0	n.m.	0.8	0.0	n.a.

Source: AUGA Group, LHV

and an improvement in milk yields. The average milk yield in Q4 2020 was 20.2 kg/cow/day (+5.1% y-o-y). The Company's average price of milk sold was c.a. EUR 400/t. The revenue from cattle increased by 25% y-o-y to EUR 0.20 in Q4 2020. The cost of sales dropped 12.3% y-o-y to EUR 2.7m, which, along with a EUR 0.2m increase in subsidies, led to a gross profit of EUR 0.4m compared to nil gross profit in Q4 2019. The drop in cost of sales was driven by a decline of EUR 0.4m in milk-related cost of sales.

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 individuals to younger ones.

- Fast-Moving Consumer Goods ('FMCG')

The fast-moving consumer goods segment's revenues jumped to EUR 1.6m (+60.8% y-o-y). The growth came from all markets, especially from the US, Japan, Sweden, and the Baltics, with the COVID-19 pandemic driving the demand for organic and long shelf-life products. During 2020, preserved mushrooms, vegetables, and soups represented 56% 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 1st March 2021 was EUR 0.45 per share).

Contacts:**Ivars Bergmanis**

Head of Institutional Markets

Tel: +372 680 2720

Mob: +372 534 11114

ivars.bergmanis@lhv.ee

Sander Danil

Senior Analyst

Tel: +372 680 2793

sander.danil@lhv.ee

Date and time of sign-off: Tuesday 2nd March, 08:00**Disclaimer**

The copyright in this report belongs to AS LHV Pank (hereinafter 'LHV'). LHV is a full service bank with a focus on the Baltic region. LHV is a member of the Tallinn, Riga, and Vilnius stock exchanges. LHV is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspeksioon; see also www.fi.ee).

Readers of this report should be aware of that LHV and LHV affiliated companies (hereinafter 'LHV's Group') are constantly seeking to offer investment banking services to companies (hereinafter, 'Company' or 'Companies') mentioned in research reports or may have other financial interests in those Companies.

AS LHV Pank has made an arrangement with AUGA group ('AUGA'), AB whereby LHV's research analysts independently produce research reports on AUGA group and provide them to AUGA for the purposes of providing more information about AUGA to investors who are not customers of LHV. In October 2019, AUGA group selected AS LHV Pank as an advisor as well as arranger and manager for a bond programme. The first tranche of such bonds were issued at the end of 2019.

AS LHV Pank has made agreements with EFTEN Real Estate Fund III and AB Linas Agro Group on commercial terms whereby LHV's research analysts independently produce research reports on EFTEN Real Estate Fund III and AB Linas Agro Group, respectively. In turn, LHV is paid a fixed fee for a certain number of reports on an annual basis.

AS LHV Pank has made an arrangement with MADARA Cosmetics ('MADARA'), whereby LHV's research analysts independently produce research reports on MADARA and provide them to MADARA for the purposes of providing more information about MADARA to investors who are not customers of LHV. MADARA is listed on the NASDAQ Baltic First North List. LHV is also the certified adviser for LINDA on NASDAQ Baltic First North on an ongoing fee-based arrangement. LHV was engaged as co-manager for the private placement of new units for Baltic Horizon Fund, announced in February 2019. LHV has also been engaged to explore capital raising possibilities for Valmieras Stikla Skiedra. LHV was the global coordinator for the Coop IPO in December 2019.

LHV's Group acts as a market maker /and/ liquidity provider for TKMIT, APG1L, TVEAT, OLF1R, HMX1R, LINDA, and MDARA.

All reports are produced by LHV's research department. In order to proactively prevent conflicts of interest, LHV has established several procedural and physical measures. Such measures include, among other things, confidentiality measures through separation, or so-called "Chinese walls", virtual and physical barriers to limit the exchange of information between different departments, groups or individuals within LHV Group. These measures are monitored by the compliance department of LHV. LHV does everything possible to avoid the conflict of interests but it cannot guarantee that conflict of interests situations do not arise at all.

LHV provides coverage on this company on a regular basis, therefore this report may include assumptions and findings laid out in greater detail elsewhere. If interested, clients may approach LHV for these previous reports.

This report is based upon information available to the general public. The information contained within has been compiled from sources deemed to be suitably reliable. However, no guarantee to that effect is given and henceforth neither the accuracy, completeness, nor the timeliness of this information should be relied upon. Any opinions expressed herein reflect a professional judgment of market conditions as at the date of publication of this document and are therefore subject to change without prior notice.

LHV reviews its estimates at least once during financial reporting period and upon most major financial events.

The report is not intended for public distribution and may not be reproduced, redistributed or published in any form whatsoever (in whole or in part) without prior written permission of LHV. The user shall be liable for any non-authorised reproduction or use of this report, whether in whole or in part, and such reproduction may lead to legal proceedings. LHV does not accept any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices.

Neither LHV nor its directors nor its representatives nor its employees will accept liability for any injuries, losses or damages, direct or consequential caused to the reader that may result from the reader's acting upon or using the content contained in the publication.

The analyst(s) of this report hereby confirm that the views expressed in this report accurately reflect their personal views about the Companies and securities covered at the time of publication. The authors further confirm that they have not been, nor are nor will be receiving direct or indirect compensation in exchange for expressing any of the views contained in the report.

The analysts receive remuneration based on among others, the overall group revenues of LHV, including investment banking revenues. However, no compensation is based on a specific investment banking transaction. Trading with securities which are covered by a report is subject to strict compliance with internal rules governing own-account trading by staff members and third parties acting for the account of such staff members.

This research report is produced for the private information of recipients and LHV is not advising nor soliciting any action based upon it. If you are not a client of LHV, you are not entitled to this research report.

This report does not by any means constitute an offer or a solicitation, nor a recommendation to purchase or sell securities, commodities, currencies or other investments referred to herein.

This report does not constitute independent investment advice. LHV does not assume any fiduciary responsibility or liability for any consequence, financial or otherwise, arising from any investment or disinvestment decision taken on the basis of this report. It has been prepared without regard to the individual financial circumstances and objectives of those who receive this report. The securities referred to in this report may not be suitable for all investors.

Investors should independently and carefully evaluate every particular investment and seek the advice of a financial adviser if needed.

The analysis contained in this research report is based on numerous assumptions; different assumptions could result in materially different results. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. The inclusion of any such valuations, projections and forecasts in this report should not be regarded as a representation or warranty by or on behalf of LHV or any person within LHV that such valuations, projections and forecasts or their underlying assumptions and estimates will be met or realised.

Past performance is not a reliable indicator of future returns.

Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate due to currency exchange rate moves and taxation considerations specific to that investor.

The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision.

The fair value range has been issued for a 12-18 month period and has been derived from a weighted approach combining both DCF valuation and relative multiple comparisons. The relative multiple comparisons further incorporate additional weighting considerations relating to the underlying metrics and time forecast periods. Company specific inputs have been forecast and a list of peer companies has been compiled by the LHV analyst(s) writing this research commentary, whereas the consensus peer data has been obtained from Bloomberg. For more detailed information about the valuation methods please contact the analyst(s) using the contact details provided above.

For a useful summary of our coverage of this company, including the current sensitivity analysis, please refer to our latest monthly product: The Baltic Equity Companion. Alternatively you can also contact the analyst(s) using the contact details provided above.

Although we do not issue explicit recommendations, for regulation compliance purposes we adhere to the following synthetic structure:

- Buy- Expected return of more than 10% within 12-18 months (including dividends)
- Neutral- Expected return from -5% to 10% within 12-18 months (including dividends)
- Sell- Expected return less than -5% within 12-18 months (including dividends)

In the 12-month period preceding 01.04.2020 LHV has issued recommendations, of which 39.3% have been 'Buy' recommendations, 44.0% as 'Neutral', 4.8% as 'Sell' and 11.9% as 'under review'. Of all the 'Buy' recommendations issued, 15.2% have been for companies for which LHV has provided investment banking services in the preceding 12-month period. Of all the 'Neutral' recommendations issued, 13.5% have been issued to companies for which LHV has provided investment banking services in the preceding 12-month period. The classification is based on the above structure.

For a list of recommendations that were disseminated during the preceding 12-month period, including the date of dissemination, the identity of the person(s) who produced the recommendation, the price target and the relevant market price at the time of dissemination, the direction of the recommendation and the validity time period of the price target, please contact the analyst(s) using the contact details provided above.