

AUGA: Q2 Results Review

AUGA group (hereinafter referred to as the 'Company') published its Q2 2021 results on 31st August 2021, which were significantly lower than our expectations. In Q2 2021, the Company's revenues declined by 22.7% y-o-y to EUR 13.6m, primarily due to a significant decrease in the crop growing segment's revenue. However, the cost of sales declined at a higher rate of 27% y-o-y, which, partially offset by lower gains on the revaluation of biological assets, led to an improvement in the gross profit margin. The total gains on the revaluation of biological assets dropped 40% y-o-y to EUR 1.7m while total subsidies received increased 15% y-o-y to EUR 3.0m. The gross profit declined by 17.8% y-o-y to EUR 4.0m, leading to a gross margin of 29.2% (Q2 2020: 27.5%). The operating expenses grew by 12% y-o-y to EUR 2.6m while other income increased to EUR 0.15m (+46% y-o-y). The Company recorded an operating profit of EUR 1.5m (-41.8% y-o-y), resulting in an operating margin of 11.1% (Q2 2020: 14.8%). The finance cost remained broadly stable at EUR 1.4m (-3% y-o-y). The Company reported a substantial decline at the bottom line, with net profit attributable to shareholders reaching EUR 0.1m (-92.9% y-o-y), leading to a net margin of 0.6% (Q2 2020: 6.3%). The Company continued to keep focusing on achieving its goals mentioned in its strategy – a sustainable organic food value chain and agricultural efficiency through the implementation of 1) biogas cycle infrastructure and vehicles, 2) specialised feed technology, and 3) regenerative crop rotation. The Company invested EUR 6.2m in H1 2021 to achieve its goals, compared to EUR 2.2m in H1 2020.

Segment Results:

- Crop Growing

The crop growing segment's revenues declined by 64% y-o-y to EUR 1.9m, primarily due to much lower sales volume because the Company already sold a large part of its harvest in Q1 2021. The average organic wheat market price increased by 10% y-o-y in H1 2021. As of 31st August 2021, 69% of the expected 2021 harvest was contracted, while the average wheat price for these contracts was 16% higher compared to the average wheat sales price of the 2020 harvest. Overall, the sales declined in H1 due to uneven distribution of sales quantities between periods – 63% of 2019/20 season's harvest was sold in 2020, and 37% was sold in 2021, while 51% of 2018/19 season's harvest was sold in 2019 and 49% in 2020. The cost of sales declined by 57% y-o-y to EUR 2.7m, while the agricultural subsidies increased by 23% y-o-y to EUR 2.2m, mainly due to the increased amount of organic subsidies. The Company claimed that due to changes in subsidising programme, the Company would be entitled to receive subsidies for all organic crops, while in the previous year, the Company received organic subsidies only for part of its crops. The inventory write-offs declined by 22% y-o-y to EUR 0.4m. During Q2, the Company recognised a gain on revaluation of biological assets of EUR 2.9m, down 20% y-o-y. Due to the aforementioned factors, this segment's gross profit declined by 7% y-o-y to EUR 4.1m. The COVID-19 pandemic did not have an impact on this segment's results; however, the extreme heatwave recorded in the summer has forced the Company to adjust harvest forecasts, especially for summer cultures. The increase in crops' market prices and better quality of the harvest should partially offset the negative impact;

Key Numbers (EURm)	2017	2018	2019	2020	2021*	2022*
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	20.0	15.4
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 (2nd Sep 2021) of EUR 0.5001 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 (Bloomberg):	Consumer Staples
Sector (Bloomberg):	Food, Beverage and Tobacco
Website:	www.auga.lt

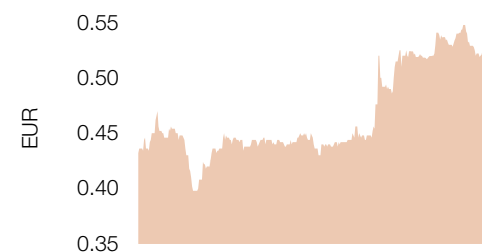
Share Data, as of 2nd Sep 2021

Current Share Price (EUR):	0.5001
Fair Value Range, EUR (FVR):	0.45-0.55
Downside, % (to mid-point of FVR):	0.02
52-week High/Low (EUR):	0.55/0.39
3m Avg. Daily Volume (th):	170.00
Market Cap (EURm):	113.73
Ordinary Shares (m):	227.42

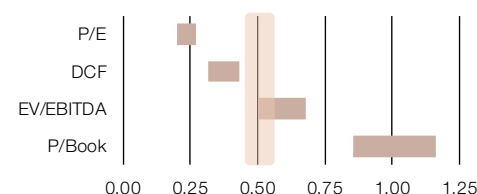
Key Shareholders, as of 30th June 2021

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 Sep 2019

AUG1L : Results Review, EURm	Q2/21A	Q2/20A	% y-o-y	Q2/20E	6M 21A	6M 20A	% y-o-y
Net sales	13.6	17.7	(23)	20.0 to 25.0	33.1	34.7	(5)
Mushrooms	7.1	7.9	(11)		14.3	15.2	(6)
Dairy	3.5	3.2	9		6.7	6.7	1
Crop Growing	1.9	5.5	(64)		9.5	10.8	(12)
FMCG	1.2	1.1	8		2.6	2.0	30
Gross profit	4.0	4.9	(18)		8.5	8.6	(1)
EBITDA	5.4	6.6	(18)		11.1	11.5	(3)
Operating profit	1.5	2.6	(42)		3.6	4.2	(14)
Net profit	0.1	1.1	(93)	0.5 to 1.5	0.8	1.3	(42)
Gross margin, %	29.2	27.5			25.6	24.7	
EBITDA margin, %	39.6	37.3			33.6	33.2	
Operating margin, %	11.1	14.8			10.9	12.2	
Net margin, %	0.6	6.3			2.3	3.8	

Source: Auga Group, LHV

however, post confirmation of the forecast for lower yields, the profit on recognition of biological assets at fair value in the next six months would be lower.

- Mushroom Segment

The revenues from mushroom sales decreased by 8% y-o-y to EUR 6.9m, while the sales of mushroom seedbed contributed EUR 0.1m (-67% y-o-y). The mushroom sales volume declined by 4% y-o-y to 3.2k tonnes, negatively impacted by the COVID-19 pandemic and hot weather. The production and sales volumes were negatively impacted due to an increase in the number of workers in production units suffering from COVID-19. During H1 2021, the share of organic mushrooms declined to 6.3% (H1 2020: 7.6%) of total mushrooms volume sold. During H1 2021, the average non-organic and organic mushrooms sales price increased by c.a. 2% y-o-y due to larger sales of packaged mushrooms. The average price of one tonne of mushrooms sold was EUR 2,221 per tonne, compared to EUR 2,168 per tonne in H1 2020. The revenues from mushroom seedbed sales declined because the sales channel to Russia was closed due to the COVID-19 pandemic. The cost of sales declined by 7% y-o-y to EUR 7.0m, leading to an 80% y-o-y decline in gross profit to EUR 0.1m. 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 Q2 2021, the dairy segment's revenues increased by 9% y-o-y to EUR 3.5m, primarily due to a recovery in milk prices. The volume of milk sold remained stable y-o-y at 6.6k tonnes, while dairy commodities sales volume increased by 19% y-o-y to c.a. 145 tonnes. The Company did not experience the expected impact of changes in feed structure during Jan-May 2021; however, it has witnessed some improvement in yields in June 2021, due to which the full impact of improvement in yields is not reflected in Q2. The average milk yield in H1 2021 was 21.87 kg/cow/day compared to 21.84 kg/cow/day in 2020. 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 H1 2021, the average price of milk sold was around EUR 413 per tonne (+4% y-o-y) due to the larger share of

organic milk sold and sales to new markets. The share of milk sold at organic production prices reached 98% in H1 2021, compared to 91% in H1 2020. The cost of sales increased by 5% y-o-y to EUR 10.0m, while the loss on revaluation of biological assets increased to EUR 1.3m with stable (y-o-y) subsidies at EUR 0.8m, which led to a decline in the profitability. The Company recorded a loss of EUR 0.5m at the gross level in Q2 2021, while this segment was at break-even in Q2 2020. 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 FMCG segment's revenues jumped to EUR 1.2m (+8% y-o-y). The revenue growth in Q2 was lower compared to Q1, primarily due to transport challenges – capacity shortage in logistics and higher transportation costs, leading to customers reducing the frequency of orders but increasing the order size, due to which a large portion of orders was moved to Q3 2021. At the end of Q2, the Company had open orders of EUR 1.6m. Sales in July 2021 increased by 69% y-o-y. The Company expanded its assortment of consumer goods in Q2 and Q3 – 3 new soups launched in the market. During H1 2021, the Company exported its products to 33 countries compared to 27 countries in H1 2020. The Company's expansion in foreign markets is driving the growth of this segment, especially in the USA and Japan. 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 H1 2021, preserved mushrooms, vegetables, and soups represented 69% 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. The cost of sales declined by 15% y-o-y to EUR 0.9m, leading to a gross profit of EUR 0.3m, compared to EUR 0.03m in Q2 2020.

Our fair value range for the Company is EUR 0.45-0.55 (closing price as of 2nd September 2021 was EUR 0.5001 per share).

AUG1L: Segment Results Review	Q2/21A	Q2/20A	% y-o-y	H1/21A	H1/20A	% y-o-y
Crop Growing, EURm						
Sales revenue	2.0	5.5	(64)	9.5	10.8	(12)
Cost of sales	(2.7)	(6.1)	(57)	(10.7)	(11.4)	(7)
Inventory write-offs	(0.4)	(0.5)	(22)	(0.4)	(0.7)	(38)
Result of sales of agricultural produce	(1.1)	(1.1)	(3)	(1.6)	(1.3)	24
Gain (loss) on revaluation of agricultural produce	2.9	3.7	(20)	4.5	4.9	(9)
Subsidies	2.2	1.8	23	4.6	3.7	25
Gross profit of crop growing segment per period	4.1	4.4	(7)	7.5	7.3	2
Dairy Segment, EURm						
Total quantity of products sold, thousand tonnes	7.0	6.9	0	13.5	13.9	(3)
Milk	6.6	6.6	0	12.8	13.2	(3)
Dairy commodities	0.1	0.1	19	0.3	0.4	(6)
Cattle	0.2	0.2	(1)	0.4	0.4	1
Revenue	3.5	3.2	9	6.7	6.7	1
Milk	2.8	2.6	6	5.3	5.2	1
Dairy commodities	0.4	0.4	20	1.0	1.1	(7)
Cattle	0.3	0.2	32	0.4	0.4	19
Cost of sales	10.0	9.5	5	6.7	6.3	7
Milk	7.8	7.2	9	5.3	4.9	10
Dairy commodities	1.5	1.8	(15)	0.9	1.1	(12)
Cattle	0.6	0.6	15	0.4	0.4	19
Revaluation of biological assets	(1.3)	(0.9)	38	(1.8)	(1.6)	12
Total subsidies	0.8	0.8	(4)	1.5	1.3	15
Gross profit of dairy segment	(0.5)	-	n.m.	(0.3)	0.1	n.m.
Mushroom Segment, EURm						
Mushrooms sold, thousand tonnes	3.2	3.3	(4)	6.3	6.6	(4)
Revenue	7.1	7.9	(11)	14.3	15.2	(6)
Mushroom sales revenue	6.9	7.5	(8)	14.1	14.3	(1)
Compost sales revenue	0.1	0.4	(67)	0.3	1.0	(74)
Cost of sales	7.0	7.5	(7)	13.7	14.2	(3)
Cost of mushrooms sold	6.9	7.1	(2)	13.6	13.2	3
Cost of compost sold	0.1	0.4	(84)	0.2	0.9	(84)
Gross profit of mushroom growing segment	0.1	0.5	(80)	0.6	1.1	(45)
Fast Moving Consumer Goods (FMCG), EURm						
Revenue	1.2	1.1	8	2.6	2.0	30
Cost of goods sold	(0.9)	(1.1)	(15)	(1.9)	(1.9)	2
Total cost of sales of end-consumer packaged goods	0.3	0.0	n.m.	0.7	0.1	633

Source: AUGA Group, LHV

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

Valters Smiltāns

Analyst

valters.smiltans@lhv.ee

Images:

Front cover © istockphoto.com

Date and time of sign-off: Friday 3rd Sep, 18:00**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 an agreement with EFTEN Real Estate Fund III on commercial terms whereby LHV's research analysts independently produce research reports on EFTEN Real Estate Fund III. 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. In addition to being the certified adviser for MADARA, LHV is also the certified adviser for Linda Nektar ('LINDA') on NASDAQ Baltic First North on an ongoing fee-based arrangement

LHV's Group acts as a market maker /and/ liquidity provider for TKM1T, 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-authorized 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.