

AUGA: Q2 2022 Results Review

Despite inflationary pressures, the overall outlook remains positive

Auga Group ('AUGA' or the 'Group') published its Q2 results showing solid growth y-o-y and are broadly in line with our expectations. However, individual segments' performances are mixed. The sales growth and profitability drivers have been the crop growing and dairy segment, but Fast Moving Consumer Goods ('FMCG') and mushroom segments have had a more negative impact due to inflationary pressures on costs. The Group reported Q2 sales of EUR 16.43m (+20% y-o-y), but gross profits were EUR 6.78m (+70% y-o-y), reaching 41.3% gross margin (+12pp y-o-y). AUGA has maintained operating costs at a rather stable level considering the inflationary pressures by operating expenses amounting to EUR 2.84m and increasing 8.4% y-o-y in Q2. Accordingly, EBITDA reached EUR 8.34m (+54% y-o-y) leading to an EBITDA margin of 50.7% (+ 11.2pp y-o-y), but operating profits amounted to EUR 4.18m (+176% y-o-y) with operating margin of 25.5% (+ 14.3pp y-o-y). As a result of previous years' low harvest and other pandemic-related negative impacts on other segments' performance, in Q1 2022 the Group took upon additional debt financing of c.a. EUR 10m for working capital requirements and to develop its technological projects. Consequently, financing costs have increased by 21% y-o-y reaching EUR 1.74m in Q2. This certainly will make the Group's net profitability even more sensitive to negative impacts on business segments and costs. The Group maintains high leverage (D/E ratio at end of 6M: 1.3x) due to which financial stability remains fragile in low harvest seasons. Lastly, net profit in Q2 reached EUR 2.44m implying a net margin of 14.9% (+14.3pp y-o-y).

Crop growing segment

In terms of sales, the crop growing segment showed good improvement despite the low harvest yields last year, i.e. sales growth was driven by the increase in the market price of crops. Sales in Q2 reached EUR 3.76m (+92.7% y-o-y) and reported a gross profit of EUR 6.56m (+60.7% y-o-y). The gross profit has been mainly driven by the revaluation of biological assets at fair value as the market price for crops contracted so far has been considerably high and yields are expected to be much better y-o-y. So far, we expect the crop segment to show better results y-o-y, however, until the crops are not harvested the yield expectations are not set in stone. Furthermore, as the Ukrainian grain export through the Black Sea has somewhat opened the wheat price has come down considerably and reached closer to the pre-war level, thus the segment's profitability will also depend on how much AUGA has contracted of the expected harvest at peak prices and further wheat price movements.

Dairy segment

In Q2, as well as in Q1, the dairy segment's results have considerably improved y-o-y and have been mainly driven by the milk price increase. At end of 6M 2022, the average price of milk sold (per tonne) stood at c.a. EUR 497 (+20.5% y-o-y), at the same time average cost of milk sold (per tonne) has only increased by 2.7% y-o-y reaching

Key Numbers (EURm)	2018	2019	2020	2021	2022E*	2023E*
Sales (EURm)	54.7	71.1	83.1	71.8	88.3	96.0
Sales growth (%)	12.2	29.9	16.8	(13.6)	23.0	8.7
Net profit (EURm)	(6.0)	(3.2)	0.9	(14.8)	1.2	9.5
EPS (EUR)	(0.03)	(0.01)	(0.01)	(0.06)	0.01	0.04
P/E (x)	n.m.	n.m.	n.m.	n.m.	83.5	10.7
Payout per share (EUR)#	-	-	-	-	-	-
Payout yield (%)	-	-	-	-	-	-
P/B (x)	0.9	0.9	1.1	1.4	1.3	1.1
EV/Sales (x)	2.5	2.4	2.3	3.0	2.4	2.2
EV/EBITDA (x)	32.6	10.1	8.8	23.6	11.0	7.6
EV/EBIT (x)	n.m.	171.5	32.5	n.m.	25.1	14.1
ROE (%)	(7.0)	(3.6)	0.9	(17.1)	1.5	11.0

Source: AUGA, LHV *2021E-2023E multiples are based on the share price (2nd June 2022) of EUR 0.4435 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:	http://www.auga.lt

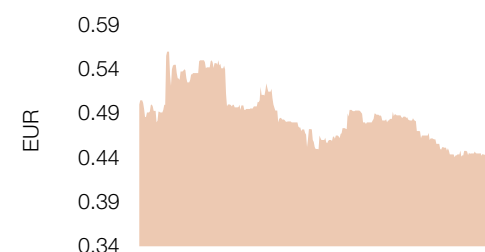
Share Data, as of 1st Sep 2022

Current Share Price (EUR):	0.4435
Fair Value Range, EUR (FVR):	0.61-0.71
Upside, % (to mid-point of FVR):	48.82
52-week High/Low (EUR):	0.56/0.40
3m Avg. Daily Volume (th):	18.40
Market Cap (EURm):	101.88
Ordinary Shares (m):	229.71

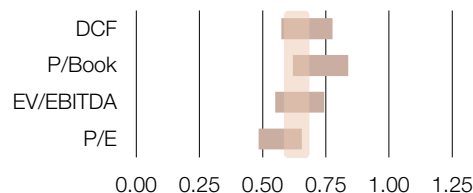
Key Shareholders, as of 30th June 2022

Baltic Champs Group, UAB	55.15%
EBRD	8.62%
Žilvinas Marcinkevičius	6.93%

12-Month Price Performance



LHV Fair Value Range: EUR 0.61-0.71*



* As of 23rd Dec 2021

AUG1L : Results Review, EURm	Q2/22A	Q2/21A	% y-o-y	Q2/22E	6M/22A	6M/21A	% y-o-y
Net sales	16.43	13.65	20.4	13 to 15.2	33.99	33.13	2.6
Crop Growing	3.76	1.95	92.8	0.6 to 1.3	8.85	9.48	(6.6)
Mushrooms	7.27	7.07	2.8	6.9 to 7.6	14.28	14.33	(0.3)
Dairy	4.09	3.45	18.6	3.9 to 4.3	8.14	6.73	21.0
End-Consumer Packaged Goods	1.31	1.17	11.7	1.6 to 2	2.72	2.59	5.0
Gross profit	6.78	3.99	70.0	5.3 to 7.7	12.43	8.50	46.4
EBITDA	8.34	5.40	54.4		15.05	11.14	35.1
Operating profit	4.18	1.52	175.6	2.4 to 4.8	7.07	3.62	95.3
Net profit	2.44	0.08	2,993.7	0.7 to 3	3.65	0.75	388.8
Gross margin, %	41.3	29.2			36.6	25.6	
EBITDA margin, %	50.7	39.6			44.3	33.6	
Operating margin, %	25.5	11.1			20.8	10.9	
Net margin, %	14.9	0.6			10.7	2.3	

Source: Auga Group, LHV

c.a. EUR 427 at end of 6M, despite the inflationary pressures. This is also reflected in the segment's gross profitability. In Q2, the dairy segment reported sales of EUR 4.1m (+18.7% y-o-y) and a gross profit of EUR 0.72m, compared to a gross loss of EUR 0.47m in Q2 2021. Although the Group has been able to increase its herd in H1 this year up to 3,582 cows (+2.1% y-o-y), the total tonnage of milk products sold decreased by 5.4% y-o-y. The average milk yield in the first half of 2022 remained stable compared to the same period last year. However, milk production in the Q2 of this year decreased by 4% y-o-y. This was due to last year's poor harvest and the consequent loss of this year's feed quality due to a lack of feed ingredients. It is expected that after the new 2022 year harvest, the feed composition of the crop will be updated and the milk yield will return to the previous level. However, we could expect that the yields will only come back at the very end of Q4 as the new harvest will be harvested in Q3 and after the new feed is applied, the yields return gradually in weeks or months. The reasoning for applying lower quality feed might be that the price of feed is significantly higher y-o-y and if the yields show a relatively low drop y-o-y, it might be better to stay with lower yields. Despite the drop in yield, we remain positive outlook going forward.

Mushroom segment

Segment sales in Q2 increased by 2.8% y-o-y reaching EUR 7.27m, however, the segment made a gross loss of EUR 0.20m, compared to a gross profit of EUR 0.09m in Q2 2021. Although production capacity is returning to normal output levels, the segment has been struggling with negotiating higher prices with clients and inflationary pressures on production costs. While the average price of sold mushrooms per tonne at the end of 6M has increased by c.a. 3% y-o-y reaching EUR 2,294, the average cost of sold mushrooms at the end of 6M increased by 9.5% reaching EUR 2,349, furthermore COGS in Q2 reached EUR 7.4m (+6.6% y-o-y). The cost of mushrooms has shifted upwards due to growing energy and transportation costs that showed an increase of 52% y-o-y (EUR 0.85m). Results are somewhat upsetting, considering that production capacity is returning to previous levels, however, AUGA is not able to reach the desired profitability due to inflationary pressures on costs. If AUGA will be successful in negotiating better prices with its clients, the segment's profitability should return as the production capacity has improved, however, further movements in the cost of

energy and transport will also play a significant role. Due to tight competition in the mushroom market, we might see the mushroom segment struggling to achieve much better prices and positive profitability in the coming quarters as well.

FMCG segment

Despite the improved sales growth y-o-y compared to Q1, the FMCG segment's profitability has suffered due to inflationary pressures on costs. Seasonality of sales has caused a delay in the revision of product pricing, therefore, results of the revision should only be seen in Q3. In Q2, FMCG sales amounted to EUR 1.31m (+11.7% y-o-y), however, the COGS increased by 56.9% y-o-y, reaching EUR 1.39m. Consequently, AUGA reported a gross loss of EUR (0.08)m, compared to a gross profit of EUR 0.28m in Q2 2021. As per the Group's comment that given the global surge in inflation and logistics disruptions that pose challenges for projects in Japan and US markets, it is expected that this year's growth plan for the segment will not be met. Although we should expect improvements in Q3 sales growth, profitability improvements are likely to depend on the extent of pricing revision. Overall, we still consider that the FMCG segment has good growth potential in long run, but in near future, it is most likely to report lower profitability as well as sales growth.

Overall consideration

Although the Group encounters some profitability struggles in FMCG and mushroom segments, we can expect improvements going forward when product prices are revised, although that is not a simple thing to do, considering the seasonal purchases for the FMCG segment and intense competition in the mushroom segment. Overall, we keep a positive outlook for this year as AUGA's main segment i.e. crop growing segment until now shows substantial improvements y-o-y in selling price and expected yields of crops, considering the favourable weather conditions and crop contract price which reflect in the growth of gain on revaluation of biological assets at fair value recognized in reporting period (+62% y-o-y for 6M 2022). Last but not least, although milk yields have decreased, increased herd and increase in milk prices are offsetting negative effects. The COGS has remained rather stable despite inflationary pressures, and we expect a good performance of this segment going forward.

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Date and time of sign-off: Friday 2nd Sep, 16:00**Disclaimer**

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