WOOD & COMPANY

AUGA Group

Buy

Maintained

Price: EUR 0.39
Price target: EUR 0.49
(from EUR 0.70)

Agtech direction clearly set

We keep our BUY rating on AUGA, with a new 12M price target (PT) of EUR 0.49/share, implying 27% upside. AUGA has managed to navigate the inflationary environment but, as opposed to our previous estimates, it is now facing lower commodity prices, leading to our downward revenue adjustments and lower PT. In May 2023, it presented its new strategy on how to become a fully sustainable and green agri producer, while sharing its knowhow with other farmers. It also announced the divestiture of its ready-to-eat soup company, Grybai LT, at a favourable price, as it does not see it as a core business. In our view, both events clearly set the company's direction and we see many triggers ahead that are likely to lead to a higher share price, should the company deliver them, including: 1) biomethane tractors and generation units; 2) specialised feed technology R&D; 3) testing the platform that should help other farmers to achieve more efficient, greener production; and 4) new financing planned; and all within the next few quarters. AUGA is trading currently at our IFRS-adjusted 2022-24E EV/EBITDAs of 6.8-9.7x, still well below its historical averages.

Agtech direction set more clearly. In May 2023, AUGA presented its vision to reach its strategy goals more effectively, i.e. to become a fully sustainable and organic agri producer. It has simplified its structure and set up a clear projects pipeline, from testing and sharing its platform, to news on its green tractor and financing needs in the future. We welcome the update and the clear path ahead, and will watch closely whether it is able to fulfil its goals in the coming quarters, as we believe there is only upside to be generated by the triggers, considering the muted share price reaction since the announcement.

Grybai LT sale. Announced in June 2023, the sale is aimed at strengthening the company's balance sheet, and allowing it to focus on its sustainable, green projects. AUGA does not see the business as being in line with its core strategy and the sales multiple also looks attractive. It has been built from scratch and the sale could contribute EUR 7-8m to AUGA's consolidated results this year.

Model update. We are yet to see the results of the harvest, but believe the company's 1Q23 estimates are conservative enough, despite our need to reduce our soft commodity price assumptions. We also remove Grybai LT from the future earnings, leading to a smaller FMCG segment. We still believe that it will take some time before AUGA is able to generate revenues from its new technologies (green tractors, specialised feed technology, the platform, etc.), but along with the power/gas sales potential from its three biogas units, we see only upside for our current 2024-25E numbers.

Valuation. AUGA trades at our IFRS 16-adjusted 2022-24E EV/EBITDAs of 6.8-9.7x, broadly in line with its peers, but below its historical averages. Our DCF yields 31% upside, above our peer valuation, and captures AUGA's long-term plans better, in our view. **Main risks.** Poor weather; execution; inflationary pressure; COVID-19; and regulatory changes, especially those affecting the subsidies' income. The negative effects of recession, in both the EU and globally, also present significant risks for the company's sales.

Expected events

2Q23 results	Aug/Sept 2023 (TBC)

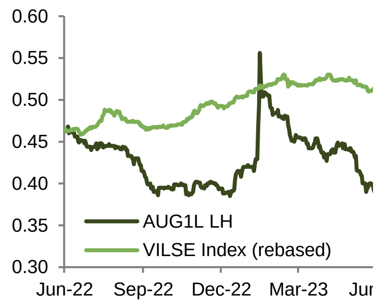
Key data

Market cap	EUR 90m
Free float	45%
3M ADTV	EUR 0.01m
Shares outstanding	229.7m
Major shareholder:	Baltic Champs Group, 55%
Bloomberg code	AUG1L LH
VILSE index	981

Price performance

52-w range	0.39-0.56
52-w performance	-17%
Relative performance	-27%

AUGA 12M share price performance



EURm	Sales	EBITDA	Net Profit	EPS (EUR)	P/E (x)	EV/EBITDA* (x)	P/BV (x)	Div. yield	DPS (EUR)
2020	83.1	20.8	1.8	0.01	56.4	10.3	1.1	0.0%	0.0
2021	71.7	9.1	-15.4	-0.07	n.m.	94.1	1.1	0.0%	0.0
2022	80.1	19.6	-5.4	-0.02	n.m.	12.6	1.1	0.0%	0.0
2023E	87.0	21.5	5.3	0.02	16.7	9.7	1.1	0.0%	0.0
2024E	84.6	24.7	-0.6	0.00	n.m.	7.5	1.1	0.0%	0.0
2025E	86.1	25.2	0.0	0.00	n.m.	6.8	1.1	0.0%	0.0

*Adjusted for IFRS 16

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EQUITY RESEARCH

Contents

Closing Prices as of 26 June 2023

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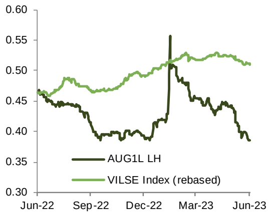
Company snapshot: BUY, PT EUR 0.49

BUY

Bloomberg ticker	AUG1L LH
Closing price (EUR)	0.39
Price target (EUR)	0.49
Upside to PT	27%
Shares outstanding (m)	229.7
Mcap (EUR m)	90
3M ADTV (EUR m)	0.01
Free float	45%
52 Week Range	0.39-0.56
52W performance	-17%
Relative performance	-27%



COMPANY DESCRIPTION

AUGA group is transforming agriculture and food industry for a net zero world. The group develops agricultural technologies, applies the sustainable farming model and standard, and produces more sustainable organic products. AUGA Group is devloping a farming model based on innovative technologies, specialising in crops, dairy cows and mushroom growing, and produces a line of more sustainable organic products for end-consumers using raw materials from farms that apply AUGA sustainable farming standards. The group's mission is "food with no cost to nature", and the group is pursuing this by implementing technological projects: the development of biogas-cycle infrastructure and biogas-powered vehicles; specialised feed technology; and regenerative crop rotation. Mr. Juscius' Baltic Champs controls the company, with a 55% stake. The other main shareholders include the EBRD (8.6%) and Zilvinas Marcinekevicus (6.93%).

RATIOS

PER SHARE RATIOS	2020	2021	2022	2023E	2024E	2025E
EPS	0.01	-0.07	-0.02	0.02	0.00	0.00
BVPS	0.40	0.34	0.34	0.36	0.36	0.36
DPS	0.00	0.00	0.00	0.00	0.00	0.00

FINANCIAL RATIOS	2020	2021	2022	2023E	2024E	2025E
EBITDA margin	25.1%	12.6%	24.4%	24.7%	29.2%	29.3%
EBIT margin	8.3%	-13.7%	3.9%	6.9%	10.7%	11.0%
Net margin	2.2%	-21.5%	-6.7%	6.1%	-0.7%	0.0%
ROE	1.9%	-19.5%	-6.9%	6.4%	-0.8%	0.0%
ROIC	4.0%	-5.1%	1.2%	3.4%	4.3%	4.8%
ROA	0.8%	-7.3%	-2.3%	2.2%	-0.3%	0.0%
Net debt/EBITDA	4.4x	11.1x	5.8x	4.9x	4.1x	3.8x
Net debt/EBITDA, IFRS 16 adjusted	3.3x	35.1x	5.3x	3.3x	2.3x	1.8x
Total debt/Equity	1.0x	1.3x	1.5x	1.4x	1.4x	1.4x

VALUATION RATIOS	2020	2021	2022	2023E	2024E	2025E
P/E	56.4x	n.m.	n.m.	16.7x	n.m.	n.m.
P/CF	n.m.	n.m.	n.m.	3.3x	5.0x	6.0x
P/BV	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x
EV/EBITDA, IFRS 16 adjusted	10.3x	94.1x	12.6x	9.7x	7.5x	6.8x
EV/EBITDA	9.3x	20.8x	10.3x	9.0x	7.7x	7.3x
EV/Sales	2.3x	2.6x	2.5x	2.2x	2.2x	2.1x
EV/EBIT	28.0x	n.m.	65.2x	32.3x	20.9x	19.5x
FCF, EUR m	18.3	-7.8	-3.7	19.6	9.4	5.5
FCF yield	18.1%	-8.8%	-4.2%	22.1%	10.7%	6.2%
Dividend yield	0%	0%	0%	0%	0%	0%
Payout ratio	0%	0%	0%	0%	0%	0%

COMPANY FINANCIALS

INCOME STATEMENT, EUR m	2020	2021	2022	2023E	2024E	2025E
Revenues	83.1	71.7	80.1	87.0	84.6	86.1
Revaluation	5.2	-5.9	2.7	1.0	4.2	4.1
Cost of Goods Sold	-72.5	-61.8	-67.5	-71.1	-68.6	-69.2
Gross profit	15.8	4.0	15.3	17.0	20.2	21.0
Operating expenses	-10.2	-14.4	-12.8	-11.6	-11.8	-12.2
Other income	1.4	0.6	0.6	0.6	0.6	0.6
EBIT	6.9	-9.8	3.1	6.0	9.1	9.5
EBITDA	20.8	9.1	19.6	21.5	24.7	25.2
Finance cost	-5.5	-6.5	-7.5	-8.2	-7.9	-7.8
Share of net profit of associates	0.0	0.0	0.0	7.5	0.0	0.0
Profit (loss) before income tax	1.3	-16.3	-4.4	5.3	1.1	1.6
Income tax	0.4	0.8	-0.9	0.0	-1.7	-1.7
Net Income	1.8	-15.4	-5.4	5.3	-0.6	0.0

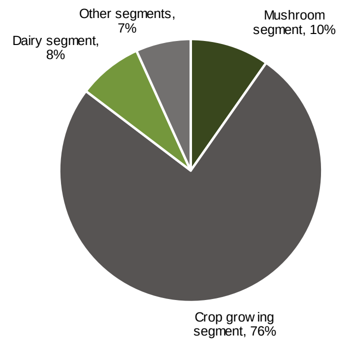
CASH FLOW, EUR m	2020	2021	2022	2023E	2024E	2025E
CF from Operations	-1.5	-3.0	-7.8	26.8	17.6	14.7
Thereof D&A	13.3	14.9	15.3	15.5	15.6	15.8
Thereof changes in WC	10.3	0.6	-7.4	6.7	3.3	-0.3
CF from Investments	-7.2	-5.9	-5.4	-6.1	-7.1	-8.1
Thereof CAPEX	-6.6	-7.0	-7.2	-7.9	-8.9	-9.9
CF from Financing	-7.3	-5.1	5.6	-12.0	-9.5	-3.5
Thereof Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0
Thereof Proceeds From Loans	0.7	4.1	12.0	-0.1	2.5	8.5
Net debt, IFRS 16 adjusted	48.2	52.6	63.1	45.8	40.2	32.6

BALANCE SHEET, EUR m	2020	2021	2022	2023E	2024E	2025E
LT Assets	147.6	155.3	161.3	168.4	166.6	161.6
Long-term receivables	0.4	0.4	0.5	0.5	0.5	0.5
Property, plant and equipment	97.0	99.9	93.7	94.9	97.0	100.1
Biological assets	9.7	10.0	10.5	10.8	11.2	11.5
Other	40.4	45.0	56.5	62.2	57.9	49.5
Current Assets	66.1	56.8	66.3	70.1	66.9	70.6
Inventories	30.4	24.1	35.2	25.3	24.4	24.7
Trade receivables	16.1	10.9	7.8	11.9	9.3	9.4
Cash and cash equivalents	2.5	2.4	3.3	12.0	13.0	16.1
Other	17.1	19.4	19.9	20.9	20.2	20.4
Total assets	213.7	212.5	231.4	238.6	233.5	232.1
Current Liabilities	42.0	45.1	70.6	72.6	71.6	71.9
Short Term Borrowing	20.4	19.2	40.1	40.1	40.1	40.1
Payables	16.3	19.5	25.4	27.3	26.3	26.6
Other	5.3	6.4	5.2	5.2	5.2	5.2
LT Liabilities	78.9	88.4	83.2	83.2	79.6	78.1
LT Loans	40.5	46.1	37.2	37.1	33.6	32.0
Other LT liabilities	38.4	42.3	46.1	46.1	46.1	46.1
Total Liabilities	120.9	133.5	153.9	155.7	151.3	150.0
Minority Interest	0.4	0.4	0.4	0.4	0.4	0.4
Shareholders' Equity	92.5	78.6	77.1	82.4	81.8	81.7
Total Liabilities and Equity	213.7	212.5	231.4	238.6	233.5	232.1
Net debt	92.0	100.5	113.7	105.0	100.4	95.8

OPERATING DATA

	2020	2021	2022	2023E	2024E	2025E
Total mushrooms sold, kt	12.9	12.0	11.6	11.6	11.3	11.5
Non-organic mushrooms, kt	11.9	11.3	10.7	10.7	10.2	10.2
Organic mushrooms, kt	1.0	0.7	0.9	0.9	1.1	1.4
Total cultivated land, ths ha	39.6	39.1	38.5	38.5	38.5	38.5
Production volume, kt	227.5	165.2	160.0	172.8	180.2	187.4
Wheat	48.9	34.1	39.9	43.1	45.2	47.0
Pulses	24.4	8.8	15.7	17.0	17.7	18.4
Other cash crops	93.9	70.8	52.0	56.1	58.4	60.7
Forage Crops	60.4	51.5	52.4	56.6	58.9	61.2
Total milk sold, tons	26.8	27.1	26.6	27.5	28.7	30.0
Non-organic milk, tons	1.5	0.6	0.6	0.2	0.1	0.0
Organic milk, tons	23.9	25.1	24.7	26.0	27.3	28.6
Cattle, kt	0.7	0.7	0.8	0.8	0.8	0.9

GROSS PROFIT BY SEGMENT, 2023E



Source: Company data, Bloomberg, WOOD Research

Investment case: Agtech direction clearly set

On 25 May 2023, AUGA presented the key principles of its new business model, and detailed the steps it intends to take to achieve its strategy goals more effectively. In line with its previous vision, AUGA plans to become a fully-sustainable, organic agri producer, which is willing to share its knowhow with other farmers, globally. A new company, AUGA Community, has been formed, comprised of three business units: AUGA Tech, AUGA SOFA, and AUGA Trade. This consolidates all its activities focused on developing, sharing and monetising the company's products and services, based on the idea of sustainable, organic food production and a healthy lifestyle. The new business model should be introduced and tested first in Lithuania, this year. It should then be expanded abroad, to developed markets worldwide. In short, AUGA now aims to generate new income streams by sharing its knowhow, and also through capturing a higher margin by selling the final product, rather than raw commodities.

As well as new details on the development pipeline, AUGA announced that it plans to raise funds, starting in 4Q23E, most likely from a mix of equity, Green Deal funds and bank financing. It is targeting up to EUR 200m, in total, within the next two years: a significant amount, given the current market cap of EUR 90m and the EV of around EUR 200m.

We welcome the company's improved communication on how its strategy could be fulfilled and the steps it is taking, going forward, to monetise its own sustainable technologies on a larger scale. It is yet to be seen whether AUGA can deliver, but we believe that its vision and goals are set clearly now and any potential upside from this business model change is not yet priced in, offering only upside to our estimates and valuation. One step it has already taken to move away from those businesses that it does not see part of its strategy, is the announcement of the sale of Grybai LT, the FMCG line exporting goods globally. From now on, AUGA aims to focus on local food for local communities domestically, and also on sharing its knowhow with other parties willing to replicate the company's model globally.

During the presentation (**click here** for details), CEO and founder Kestutis Juscius reiterated one of the company's main goals: to provide opportunities to all farmers to use more sustainable technologies developed by the company, and help them to operate more efficiently and achieve higher profitability, by joining the new community led by the company. For consumers, AUGA presents an opportunity to choose affordable food with no cost to nature; and for investors, the chance to earn a financial return, with a positive impact on nature. We note that there is significant potential value to be generated by AUGA as a hub, e.g., connecting small farmers and large institutions.

AUGA plans to introduce and test its new business model within Lithuania first, before inviting local farmers to join the initiative. Then it intends to expand abroad through the technology branch, the supply of climate-neutral raw materials, and branding. This strategy is based on three main pillars:

- ✓ The development and production of sustainable agricultural technologies (AUGA Tech).
- ✓ The organisation of agricultural activities through cooperatives, applying AUGA's sustainable farming standard (AUGA Sustainable Organic Farming Architecture (AUGA SOFA)).
- ✓ Delivering more sustainable food to consumers (AUGA Trade).

AUGA Tech's key targets are:

- ✓ Identifying emissions problems in agriculture.
- ✓ Creating solutions that lead to more sustainable agriculture.
- ✓ Scaling technology that can be commercialised.

AUGA started developing agricultural technologies three years ago and has generated encouraging results, so far. Its biomethane tractor, presented last year and currently in field-testing, is expected to be ready for mass production by the year end. AUGA's manure-driven biomethane units are already operating, charging the tractors and selling extra power to the grid (currently in negotiations). The full utilisation of the units is expected in 4Q23E and, as the tractor fleet is not yet large enough, the excess gas could be sold to third parties, offering more revenue potential which is not reflected in our forecasts.

The specialised feed technology, which reduces overall methane emissions from cattle, is showing promising results, according to the company, while sustainably-powered agricultural machinery is also under development. AUGA plans to monetise these products through sales and leases.

AUGA SOFA is developing a platform through which AUGA plans to share its sustainable and cost-reducing agri technologies, digital farm management tools and capital market access with other farmers who do not have the scale, budget or even the motivation to focus on more sustainable production at present. It plans to develop and monitor sustainable farming standards and provide certification. AUGA has already established 11 regional cooperatives (AUGA's farms), that operate under a franchise-based community model, and created 21 technology hubs that can serve farmers across 25% of Lithuania (20x the size of AUGA). In 2H23E, AUGA plans to offer the product to other farms in the country. It also plans to offer its centralised system for buying raw materials and selling products to new markets to its partners. Overall, this business model should provide benefits to both AUGA and the farmers, by sharing economies at a larger scale.

AUGA Trade is in charge of the development, production, marketing and sale of AUGA's brand. The products come exclusively from the organic raw materials produced on the farms that apply AUGA's sustainable farming standards, and are already being sold by major retail chains in Lithuania. A new product line was launched in June 2023, comprising milk, kefir, cottage cheese, sour cream, eggs and oat flakes. Expansion of product lines in dairy and other categories is foreseen for the future. The aim is to achieve a 10% market share in the relevant categories, by providing consumers with products that are familiar and affordable, and which enable more sustainable choices. AUGA sees the largest potential in the developed markets in Europe and North America, generating revenues from the sales of end-user products and co-branding fees. Based on data from AUGA and other companies, sourcing ingredients accounts for the largest share of emissions (e.g., 71% in Nestlé's case) in the final food products. AUGA's goal is to cooperate with other brands, offering its knowhow to food processors.

Mr. Juscius noted that small farms occupy 47% of the total farmland in the EU, 33% of which are more than 65 years old. Having limited access to technology and financing, the Green Deal is a threat to them, he added. Joining the company's SOFA platform, which is open to both organic and conventional farmers, could be one of the ways to improve returns, while reducing carbon footprints.

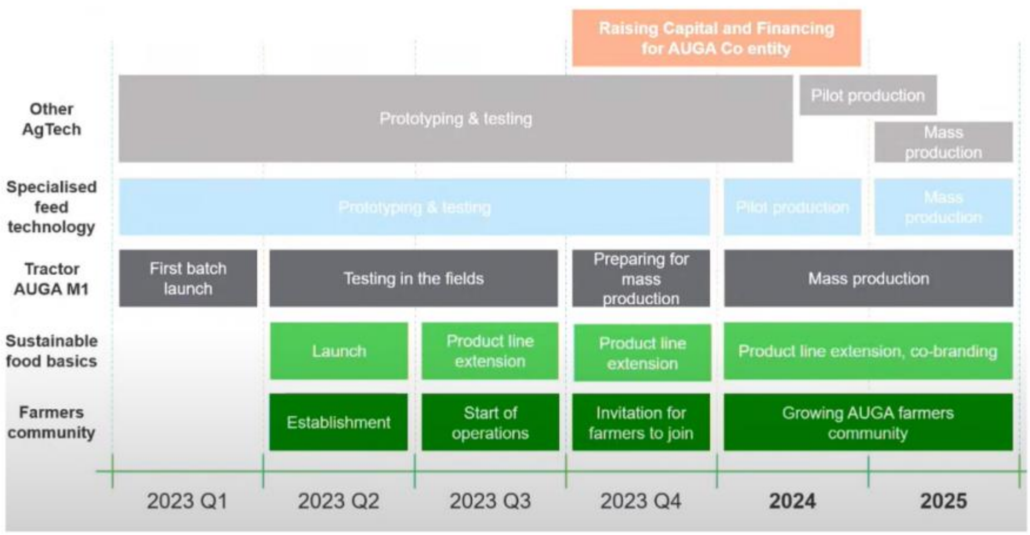
Considering the consumer demand for its products, AUGA noted that 69% of Europeans would choose a climate-friendlier food vs. a cheaper option. The company does not believe that people will change their eating habits significantly in the future, and carbon-neutral agriculture is, therefore, a question of technologies that allow carbon-neutral food production, rather than new products (e.g., vegan "meat") that often do not solve the pollution issue fully. We note that AUGA is committed to carbon neutrality by 2030E, long ahead of its competition or the EU's strategy goals. Today, the agri sector produces around 22% of total carbon gases. Compared to other polluters, e.g., transportation, industry, construction, or power generation, attempts to reduce pollution by the agri segment are lagging behind, but are expected to be addressed in the foreseeable future, with AUGA being prepared, in terms of compliance with expected future regulations, but also revenue potential.

Regarding the financial targets, Mr. Juscius did not provide any specific goals, but presented the peer group gross profit margins in the respective businesses: 1) 22-25% gross profit for agricultural machinery; 2) 40% gross value added in the case of farming operations; and 3) 50% gross profit for its branded food peers. All three are higher than the company's past average gross margins. If executed well, this could lead to significant earnings and profitability growth in the future, in our view; although we note that the company's 2023E EBITDA goal of EUR 45.5m (in the 2020 strategy) is unlikely to be met. We expect new revenue streams to be limited this year. In our view, the expected EBITDA guidance miss is priced in and the market should now appreciate the plans presented in May.

AUGA also presented a timeline of expected developments. It intends to continue testing its technology and prepare for the platform launch in Lithuania this year. In 2024E, it targets: 1) the mass production of its green tractors; 2) the pilot production of specialised feed technology; 3) extending the production of sustainable food basics; and 4) growing the farmers' community.

In 4Q23E, AUGA plans to start raising funds to achieve the above goals. For the initial transformation technologies and brand building, it could look for new equity (venture and private). For the technology development and scaling, AUGA expects funds to be allocated from the EU Green Deal (quasi-equity, from EUR 1bn of green funds planned in Lithuania alone, which should become available by the end of this year). Finally, for the ready-to-use machinery, AUGA sees large potential in bank financing, with institutions expanding their ESG portfolios. Mr. Juscius could not specify the amount that AUGA plans to raise or borrow, or how it would be allocated within the three units, but he added that to achieve its goals smoothly, up to EUR 200m could be needed in the next two years.

AUGA: 2022 green agri pipeline



Source: Company data, WOOD Research

Grybai LT divestiture

On 14 June, AUGA announced the divestiture of Grybai LT, its ready-to-eat soups business, to AB Linas Agro Group. AUGA has grown the unit's sales from zero to EUR 7.1m, EBITDA to EUR 1.3m and net profit to EUR 0.8m last year, with no previous experience in food production. Grybai LT is now exporting to 30 countries, but it is the exports that AUGA aims to avoid in the future, by focusing on local consumers being served local food. The competition authority and banks approval are pending, but the transaction is expected to close by 3Q23E.

While AUGA is losing a profitable unit, which is also likely to grow in the future, the group's balance sheet will strengthen and the company is now well set to pursue its goals of sustainability in agriculture. In contrast, with Grybai's products being exported globally, they inevitably generate carbon emissions indirectly, during transportation and after being sold on to their customers.

The sale price was set at EUR 17m, minus the company's net debt, plus working capital adjustments at the time of the sale. AUGA estimates the impact on its consolidated P&L results at around EUR 7-8m this year. A more detailed disclosure on the use of the proceeds is expected to follow in the near future, after the results of this year's harvest is known. In general, however the company plans to use the proceeds for:

- ✓ General corporate purposes of the AUGA Group, AB and its subsidiaries.
- ✓ Partial coverage of obligations of AUGA Group, AB and its subsidiaries.
- ✓ The augmentation of the working capital of AUGA Group, AB and its subsidiaries.
- ✓ Financing approved projects under the strategy of AUGA group, AB and its subsidiaries.

We note that AUGA is losing high-single-digit EURm in revenues next year, after the sale, but it sees vast potential in its new revenue streams. The sustainable dairy products range began being marketed this June, for example. For us, it is currently difficult to forecast how successful AUGA's execution will be, but we agree that the new direction offers much higher revenue potential than Grybai LT's soups business would have provided.

Model adjustments

We have adjusted our 2023E numbers downwards, due mainly to the lower commodity prices (crops, milk) expected this year, while our 2023E revenues and EBITDA have been hit already by the Grybai LT divestiture, expected from 3Q23E, which will also affect the coming years. We now assume more expenses related to AUGA growing its platform to a larger scale, affecting mainly the FMCG segment. The revenue potential comes from: 1) tractor sales; 2) platform services revenues; 3) surplus gas sales; and/or 4) the new FMCG product lines. We believe these all offer only upside for our numbers.

In crops, we reflect the falling prices this year, which reduces our revenues vs. previous expectations. With yields expected at normal levels, higher yoy, and cost pressures slowing, we still believe that AUGA can achieve a slightly better gross profit than last year. In our view, we believe the company has been conservative on its fair value gain in 1Q23 of only EUR 0.1m, in an attempt not to repeat the surprises from last year, and that the downside, in the case of a poorer harvest, is now limited. For the full year, we see the value gain reaching EUR 3.0m. With roughly flat subsidies, the segment should generate gross profit of EUR 12.4m (+3% yoy), on our estimates, despite prices falling roughly 20% yoy.

In dairy, 1Q23 was hit by falling raw milk prices, resulting in a gross loss. Milk yields remained at similar levels yoy, however. We assume that AUGA's realised prices should pick up in the coming quarters, but will not return to last year's levels. This generates a gross profit of EUR 1.3m (-46% yoy).

In the **mushroom segment,** the company has managed to increase prices gradually over the past year. This year, with energy costs falling by perhaps 50% and still operating under spot contracts, we see a visible improvement, driven also by more efficiency improvements this year. In 1Q23, alone, AUGA generated a gross profit of EUR 0.6m, and with power prices falling even more in 2Q23E, we believe it could achieve a gross profit EUR 1.7m, compared to the EUR 1.4m gross loss last year.

In FMCG, we assume that Grybai LT continues contributing to the P&L in 3Q23E, with some EUR 5m of revenues this year in total, and the segment generating EUR 1.1m (-31% yoy) of gross profit, before falling into loss, driven by expenses related to the new strategy expansion. We are conservative on the revenues ahead, but note that the upside and margins could be quite sizable, depending on AUGA's successful implementation of its strategy. We assume that the FMCG segment would be the one to consolidate the revenues generated by its platform.

Model changes

EURm	Revenues			EBITDA			Net profit		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
New	87.0	84.6	86.1	21.5	24.7	25.2	5.3	-0.6	0.0
Old	105.3	113.8	n.a.	27.6	30.6	n.a.	7.0	9.6	n.a.
% Difference	**-17.4%**	**-25.7%**	**n.a.**	**-22.2%**	**-19.3%**	**n.a.**	**-24.3%**	**-106.5%**	**n.a.**

Source: WOOD Research

Valuation: BUY, with a new PT of EUR 0.49

We reiterate our BUY rating on AUGA, with a revised 12M PT of EUR 0.49/share (vs. EUR 0.70/share previously), implying 27% upside potential. We now use a DCF analysis, and only the peer group EV/EBITDA multiple, as we expect the company to start investing larger amounts into its new products and the platform, leading to higher revenues in the future, but limited net earnings for the time being.

We derive our PT primarily from our DCF analysis (80% weight), as we believe it captures AUGA's long-term growth potential better. We also include our EV/EBITDA peer valuation (20% weight), as a sanity check. We do not use a DDM, as we believe that AUGA is unlikely to start distributing dividends in the foreseeable future, but instead focus on growth. Our DCF yields upside of 31%. AUGA trades at our EV/EBITDAs, adjusted for the IFRS 16 effect, of 6.8-9.7x, implying only 13% upside to the current price. We believe the market is still treating AUGA as an average agri producer, rather than pricing in the Agtech direction the company has taken.

We note that our forecast period covers 2021-26E and does not include any value generated from AUGA's ongoing R&D activities, such as green tractors, biomethane units sales or specialised feed technology, as it refocuses on becoming a sustainable agritech company and then sharing its innovations with other, smaller organic farmers. The ongoing R&D programme could, therefore, offer more upside for our valuation, as could the new FMCG product line.

Valuation summary

	EUR/share	Upside
DCF	0.50	31%
EV/EBITDA	0.43	13%
Weighted average (80:20)	**0.49**	**27%**

Source: Bloomberg, WOOD Research

DCF valuation

We use a five-year FCFE model, arriving at a 12M PT of EUR 0.50/share, implying 31% upside. We base our DCF valuation model on the following assumptions:

- ✓ A risk free rate of 5% (up from 4% previously);
- ✓ A leveraged Beta of 0.95x, derived from the Damodaran database;
- ✓ An equity risk premium of 9%, adjusted upwards due to the low liquidity.
- ✓ This produces a cost of equity of 13.6% for our entire forecast period.
- ✓ We also use a cost of debt of 7% (up from 6.5%, previously) and a tax rate of 15% (unchanged).

This results in a WACC of 9.1-9.5% (vs. 8.5-9.3% previously) in 2023-27E. We assume a 2% TGR.

DCF analysis

EUR000	2023E	2024E	2025E	2026E	2027E
Net income	**5,298**	**-627**	**-41**	**5,562**	**7,504**
Net borrowings	57	3,530	1,530	1,000	1,000
Depreciation	15,481	15,636	15,792	15,950	16,110
Change in net working capital	6,702	3,307	-335	719	-2,317
Capex	-7,929	-8,880	-9,946	-11,139	-12,476
FCFE	**19,610**	**12,966**	**7,001**	**12,091**	**9,821**
Discount factor	0.96	0.80	0.74	0.67	0.61
PV of FCFE	**18,823**	**10,410**	**5,146**	**8,096**	**5,964**
Sum of NPV of FCFE	**48,439**				
Terminal growth rate	2%				
Terminal value	**52,671**				
Equity value	**101,110**				
Fair value of equity per share	0.44				
12M PT, EUR/share	**0.50**				
Upside potential	*31.1%*				

Source: Bloomberg, WOOD Research

WACC calculation

	2023E	2024E	2025E	2026E	2027E
Risk-free rate	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	0.95	0.95	0.95	0.95	0.95
Equity risk premium	9.0%	9.0%	9.0%	9.0%	9.0%
Cost of equity	**13.6%**	**13.6%**	**13.6%**	**13.6%**	**13.6%**
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%
Effective cost of debt	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Weight of debt	58.7%	58.1%	57.8%	56.0%	53.7%
Weight of equity	41.3%	41.9%	42.2%	44.0%	46.3%
WACC	**9.1%**	**9.1%**	**9.2%**	**9.3%**	**9.5%**

Source: WOOD Research

Peers

Selecting AUGA's peers has proven quite difficult. Geographically, AUGA is closest to Kernel and Astarta, but its business models and product portfolios are very different, and a comparison today is out of the question, due to the conflict in Ukraine. We have selected companies with a presence in the organic food sector, but note that, as a future agritech company, AUGA could approach higher multiples, in our view.

AUGA trades at our IFRS 16-adjusted EV/EBITDAs of 6.8-9.7x. We have removed our P/E peer valuation, due to AUGA's expected limited net earnings in the coming years, given its ongoing focus on new revenue streams. Our peer multiples valuation implies a 12M PT of EUR 0.43/share, or 13% upside, well below our DCF. Once we see sales coming through from any of the new revenue streams that AUGA plans to unlock, we might value those separately, at higher (tech) multiples.

EV/EBITDA

EUR000	2023E	2024E	2025E
Peer multiple	7.6	7.5	6.7
EBITDA*	16,905	20,127	20,686
Net debt	45,822	40,225	32,560
Equity value	**82,611**	**109,884**	**106,051**
Average	99,515		
EUR/share	**0.43**		
Upside	*13%*		

*Source: Bloomberg, WOOD Research; *adjusted for the IFRS 16 effect*

Selected peers

Company	Ticker	Mcap	AVTD 3M	P/E			EV/EBITDA*		
		(EURm)	(EURm)	2023E	2024E	2025E	2023E	2024E	2025E
Adecoagro	AGRO US	971	4.9	15.0	9.6	11.6	4.2	3.4	3.8
BF Spa	BFF IM	1,786	4.4	9.3	7.9	7.1	n.a.	n.a.	n.a.
Costa Group	CGC AU	798	2.8	20.8	18.6	15.1	6.2	6.2	5.6
Fodelia	FODELIA FH	34	0.0	20.8	14.1	11.4	8.7	7.1	n.a.
Hain Celestial	HAIN US	982	13.1	23.1	17.0	15.4	11.4	10.7	9.8
Ichitan Group	ICHI TB	476	3.7	22.8	20.6	19.0	11.4	10.4	9.6
Kernel	KER PW	283	0.5	4.7	7.9	6.7	2.4	2.4	2.2
Orior AG	ORON SW	501	0.6	15.9	14.7	13.8	9.1	8.5	8.0
Select Harvest	SHV AU	321	1.1	n.m.	26.5	14.7	n.a.	11.1	9.0
SunOpta	STKL US	743	6.3	n.m.	48.6	18.8	n.a.	n.a.	n.a.
Sprouts Farmers Market	SFM US	3,139	53.8	12.5	12.4	11.8	7.5	7.3	5.7
Vital Farm	VITL US	483	2.9	35.3	22.3	14.7	14.4	10.3	7.2
Median				**15.9**	**15.9**	**14.2**	**8.1**	**7.3**	**6.8**
Average				**15.8**	**18.0**	**13.2**	**7.6**	**7.5**	**6.7**
AUGA Group	**AUG1L LH**	**90**	**0.01**	**16.7**	**n.m.**	**n.m.**	**9.7**	**7.5**	**6.8**
Discount to median				*-5%*	*n.m.*	*n.m.*	*-19%*	*-3%*	*0%*
Discount to average				*-5%*	*n.m.*	*n.m.*	*-27%*	*-1%*	*-2%*

*Source: Bloomberg, WOOD Research; *EV/EBITDA adjusted for IFRS 16*

Risks

The weather. As seen last year, unfavourable weather conditions are the main risk for AUGA and its largest segment, crops, as well as our current estimates.

Execution. While we believe we are conservative in our assumptions, AUGA has a very bullish plan in terms of the profitability for each of its four segments. We look forward to revising our estimates upwards, should the company deliver, but note that even our financial forecasts demand a high level of operational excellence.

Subsidies. Any change in the subsidies distribution, to either the downside or upside, would lead to changes in our financial forecasts and valuation. We believe that our subsidies forecast is conservative enough, and see more upside than downside risk for our subsidies' income. With subsidies increased this year, we now see lower upside risk for our subsidies estimates, going forward.

Inflation. From higher prices for fuelling the tractors, to higher wages and more expensive gas and power used in mushroom production, we try to reflect these cost increases in our model. Conversely, we believe that AUGA is a great inflation hedge, in both the short term, thanks to the supply and demand food dynamics, and the long term, with zero exposure to conventional fertilisers and food inflation sticking around for much longer.

Demand and COVID-19. So far, AUGA has been affected only moderately by the pandemic, mainly in its mushroom segment (factory shutdowns). Prolonged economic weakness, leading to weaker organic goods demand and prices; more government-imposed restrictions later this year; or a wider spread of the pandemic within the firm (mainly the mushroom facilities), all pose significant risks for AUGA. Currently, we believe that the risks are more skewed to the upside, with more stress on the supply chains or other producers driving soft commodity prices higher.

Other major risks. Crop and animal diseases; the loss of recognitions and certifications; changes in regulations; a loss of land leases; and the volatility of agricultural product prices. Moreover, AUGA's shares are still very illiquid, with a 3M ADTV of just EUR 10k.

Financials

Income statement

EURm	2020	2021	2022	2023E	2024E	2025E
Revenues	**83.1**	**71.7**	**80.1**	**87.0**	**84.6**	**86.1**
Revaluation	5.2	-5.9	2.7	1.0	4.2	4.1
Cost of goods sold	-72.5	-61.8	-67.5	-71.1	-68.6	-69.2
Gross profit	**15.8**	**4.0**	**15.3**	**17.0**	**20.2**	**21.0**
Operating expenses	-10.2	-14.4	-12.8	-11.6	-11.8	-12.2
Other income	1.4	0.6	0.6	0.6	0.6	0.6
EBIT	6.9	-9.8	3.1	6.0	9.1	9.5
EBITDA	**20.8**	**9.1**	**19.6**	**21.5**	**24.7**	**25.2**
Finance cost	-5.5	-6.5	-7.5	-8.2	-7.9	-7.8
Share of net profit of associates	0.0	0.0	0.0	7.5	0.0	0.0
Profit (loss) before income tax	1.3	-16.3	-4.4	5.3	1.1	1.6
Income tax	**0.4**	**0.8**	**-0.9**	**0.0**	**-1.7**	**-1.7**
Net income	**1.8**	**-15.4**	**-5.4**	**5.3**	**-0.6**	**0.0**

Source: Company data, WOOD Research

Balance sheet

EURm	2020	2021	2022	2023E	2024E	2025E
Long-term assets	**147.6**	**155.3**	**161.3**	**168.4**	**166.6**	**161.6**
Long-term receivables	0.4	0.4	0.5	0.5	0.5	0.5
Property, plant and equipment	97.0	99.9	93.7	94.9	97.0	100.1
Biological assets	9.7	10.0	10.5	10.8	11.2	11.5
Other	40.4	45.0	56.5	62.2	57.9	49.5
Current assets	**66.1**	**56.8**	**66.3**	**70.1**	**66.9**	**70.6**
Inventories	30.4	24.1	35.2	25.3	24.4	24.7
Trade receivables	16.1	10.9	7.8	11.9	9.3	9.4
Cash and cash equivalents	2.5	2.4	3.3	12.0	13.0	16.1
Other	17.1	19.4	19.9	20.9	20.2	20.4
Total assets	**213.7**	**212.5**	**231.4**	**238.6**	**233.5**	**232.1**
Current liabilities	**42.0**	**45.1**	**70.6**	**72.6**	**71.6**	**71.9**
Short-term borrowing	20.4	19.2	40.1	40.1	40.1	40.1
Payables	16.3	19.5	25.4	27.3	26.3	26.6
Other	5.3	6.4	5.2	5.2	5.2	5.2
Long-term liabilities	**78.9**	**88.4**	**83.2**	**83.2**	**79.6**	**78.1**
Long-term loans	40.5	46.1	37.2	37.1	33.6	32.0
Other long-term liabilities	38.4	42.3	46.1	46.1	46.1	46.1
Total liabilities	**120.9**	**133.5**	**153.9**	**155.7**	**151.3**	**150.0**
Minority interest	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Shareholders' equity	**92.5**	**78.6**	**77.1**	**82.4**	**81.8**	**81.7**
Total liabilities and equity	**213.7**	**212.5**	**231.4**	**238.6**	**233.5**	**232.1**
Net debt	92.0	100.5	113.7	105.0	100.4	95.8

Source: Company data, WOOD Research

Cash flow statement

EURm	2020	2021	2022	2023E	2024E	2025E
CF from operations	**-1.5**	**-3.0**	**-7.8**	**26.8**	**17.6**	**14.7**
o/w D&A	13.3	14.9	15.3	15.5	15.6	15.8
o/w changes in WC	10.3	0.6	-7.4	6.7	3.3	-0.3
CF from investments	**-7.2**	**-5.9**	**-5.4**	**-6.1**	**-7.1**	**-8.1**
o/w capex	-6.6	-7.0	-7.2	-7.9	-8.9	-9.9
CF from financing	**-7.3**	**-5.1**	**5.6**	**-12.0**	**-9.5**	**-3.5**
o/w dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
o/w net proceeds from loans	0.7	4.1	12.0	-0.1	2.5	8.5

Source: Company data, WOOD Research

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16/11/2020	BUY - initiation of coverage		
		09/06/2022	EUR 0.66
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