

APF: H2 2023 Results Review



Tough year ahead but long-term prospects remain positive

AS APF Holdings (hereafter in text as “APF” or the “Group”) released its FY’23 results, marking historically high sales and profits driven by expanded egg production capacities and stabilized feed costs. However, despite overall y-o-y improvements, the results for H2’23 fell below expectations. This deviation can be attributed to lower gross profitability and a slight decline in egg production, down by 7% y-o-y.

In H2’23, the Group reported sales of EUR 6.3m (+1.8% y-o-y) while FY’23 sales reached EUR 13.3m (+18.6% y-o-y). Despite lower volumes sold, the sales were propelled by an average price increase of 30% y-o-y which reached its peak in H1’23 and normalized afterwards

Gross profit in H2’23 amounted to EUR 1.3m (-19.5% y-o-y), but in FY’23 gross profit reached EUR 3.5m (+66.6% y-o-y). The margins stood at 20.8% (-5.5 pp y-o-y) and 26.3% (+7.6 pp y-o-y), respectively. The notable decrease in gross margin in H2’23 can be attributed to several factors, including persistently high feed costs, a lower volume of eggs produced, and increased import volumes of cheaper eggs from Ukraine, creating pressure on sales prices.

The operating expenses (OpEx) in H2 reached EUR 1.3m (+30.2% y-o-y), while for FY’23, OpEx reached EUR 2.4m (+36.0% y-o-y). For better comparison, the OpEx for FY’22 was adjusted for Covid-19 related subsidies in the amount of EUR 0.6m. Given the Group’s rapid expansion phase, the relatively higher increase in OpEx compared to sales can be attributed to the necessity of additional personnel to implement the development projects; thus, it’s important to note that this relatively higher growth in OpEx is not expected to persist. Operating profit in H2’23 amounted to EUR 0.1m compared to EUR 1.3m in H2’22 or EUR 0.7m excluding subsidies received in H2’22. FY’23 operating profit reached EUR 1.1m increasing 17.9% y-o-y and more than doubling when adjusted for subsidies. Finally, the Group reported a net loss for H2’23 amounting to EUR 0.3m, contrasting with a net profit of EUR 0.9m (adjusted: EUR 0.3m) in H2’22. For the full year, APF recorded a net profit of EUR 0.5m, reflecting a substantial increase of 59.2% y-o-y, while FY’22 saw a net loss of EUR 0.3m when adjusted.

Company profile	
Listing market	Nasdaq Riga
Ticker	EGG
Industry	Consumer staples
Website	https://apf.lv/



Share Data (Mar 28, 2024)	
Current price, EUR	4.4
Target price, EUR*	5.55
Return, %	26.15
54 week Low/High, EUR	4.05/5.10
Average daily volume	249
Market cap, EURm	25.3
Ordinary shares	5.7

*Target price set on 29th Jan, 2024

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Key Numbers (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Sales (EURm)	3.9	11.2	13.3	16.3	23.8	23.9	24.1	24.2
Sales growth (%)	(18.8)	185.1	18.6	17.8	45.7	0.5	0.5	0.5
EBIT (EURm)	0.7	1.0	1.1	2.2	4.0	4.1	4.2	4.2
Net profit (EURm)	0.1	0.3	0.5	1.7	3.3	3.5	3.4	3.6
Payout per share (EUR)	-	-	-	-	-	0.1	0.3	0.3
Payout yield (%)						3.3	6.8	6.7
P/E (x)			55.6	15.0	7.6	7.3	7.4	7.1
P/B (x)			4.8	2.8	2.1	1.7	1.5	1.4
EV/Sales (x)			2.4	1.7	1.2	1.2	1.2	1.2
EV/EBITDA (x)			21.4	9.8	5.7	5.6	5.5	5.5
ROA (%)	1.2	2.5	3.4	7.5	10.9	11.0	11.0	11.7
ROE (%)	n.a.	(36.7)	15.4	20.7	31.2	25.4	21.6	20.4

Source: APF, Signet Bank for estimates. Valuation multiples 2024-2028E are calculated based on the share price EUR 4.40 at March 28, 2024.

Despite decent overall performance for the year, H2'23 indicates the outlook for the FY'24. Firstly, the temporary suspension of import duties and quotas on Ukrainian agricultural exports announced by the EU parliament, set to be extended until June 2025, is likely to sustain pressure on EU agricultural goods prices. Although the regulation also provides for an emergency brake for eggs, namely, the tariff-free quotas are limited to 2022 and 2023 average volumes. Secondly, APF has indicated that the completion of the 4th and 5th barns might be later this year than initially intended, lowering the expectations of sold volumes in H2'24. Lastly, in February this year, the Group attracted EUR 7m in a private bond placement, coming with a quite hefty coupon rate of 10.5% + Euribor.

Considering that the Group has attracted EU funding for its development projects, the bonds were chosen over bank loans for their adequate availability and are intended to be refinanced with cheaper funding when possible. To put it all together, in FY'24, the sold volumes are likely to remain at similar levels, while the market price pressure for eggs is anticipated to remain and financing costs to be higher than expected. Consequently, it is quite likely that financial results deteriorate y-o-y. Despite the current circumstances, we would not shape the long-term prospects for the Group. The market trend for cage-free eggs remains positive. Importantly, the Group has secured financing and is proceeding quite well with its development strategy, which is anticipated to significantly contribute to the Group's performance starting in 2025.

APF: Results Review, EURm	H2/23A	H2/22A	% y-o-y	H2/23E	Dev, abs	FY/23A	FY/22A	% y-o-y
Net sales	6.3	6.2	1.8	6.9	(0.5)	13.3	11.2	18.6
Gross profit	1.3	1.6	(19.5)	1.7	(0.4)	3.5	2.1	66.6
EBITDA*	0.9	1.4	(33.0)			2.8	2.1	31.4
Operating profit	0.1	1.3	(95.4)	0.6	(0.6)	1.1	1.0	17.9
Net profit	(0.3)	0.9	n/a	0.5	(0.7)	0.5	0.3	59.2
Gross margin, %	20.8	26.3		24.7		26.3	18.7	
EBITDA margin, %	14.8	22.5				5.5	12.0	
Operating margin, %	0.9	20.4		8.9		8.4	8.5	
Net margin, %	(4.3)	14.3		6.77		4.0	2.9	

Source: APF, Signet Bank *Adjusted EBITDA (earnings before interest payments, taxes, depreciation and amortization, as well as other irregular income and expenses, changes of the carrying amount of laying hens, donations and state aid received, etc.).

Investment Case

APF is a vertically integrated egg producer located in Latvia. The Group primarily sells shell eggs but also intends to scale up its egg product segment. Presently, the Group can size its flock up to 165 thousand enriched cage hens and 250 thousand barn hens, which produce 115m eggs annually. On November 2023, APF concluded a successful IPO, raising c.a. EUR 5.2m to finance its next development phase.

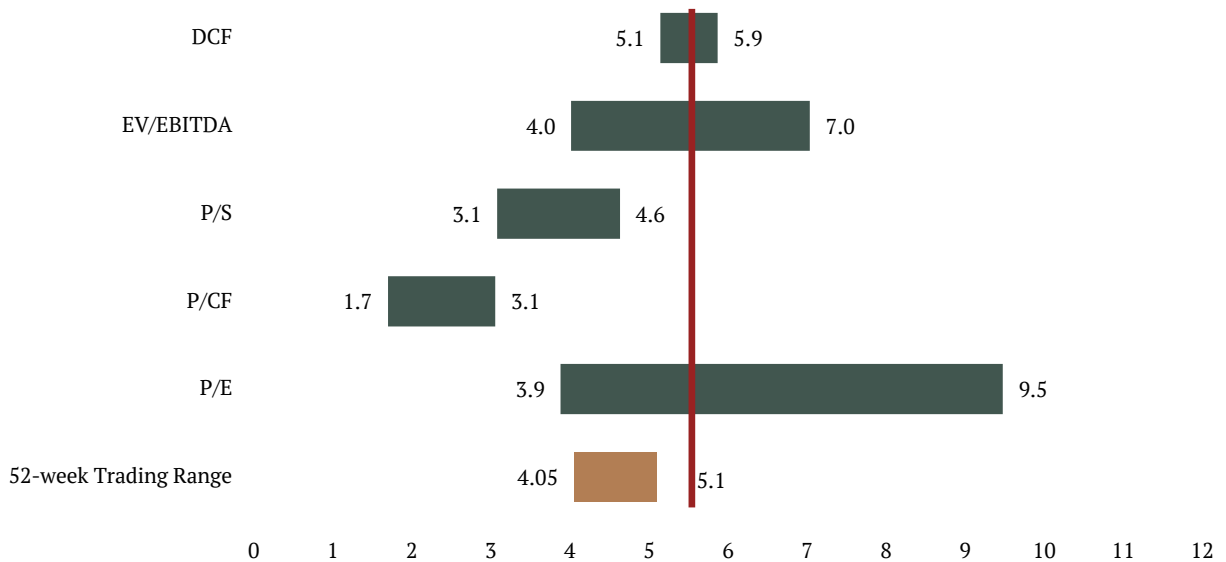
We anticipate that APF's strategic focus on expanding barn egg production will grant the Group a competitive edge and unlock opportunities within both local and export markets. This direction aligns with evolving consumer preferences and market demands, positioning APF favorably to capitalize on these trends and gain a stronger foothold in various markets.

Key Risks:

- Disease outbreaks
- Stiff competition/product similarity
- Feed price volatility
- High bargaining power of retail chains

Key Drivers:

- Market transition to barn eggs
- Egg price inelasticity
- Strong position in Baltic market



Source: Signet Bank

Weighted Value Per Share, EUR	Period weights			Period weighted value	Weights	Contribution to value
	2023E	2024E	2025E			
Method	20%	30%	50%			
DCF				5.5	80.0%	4.4
P/E	3.9	5.6	9.5	7.2	7.5%	0.5
EV/EBITDA	4.0	5.8	7.0	6.1	7.5%	0.5
P/S	3.1	3.5	4.6	4.0	2.5%	0.1
P/CF	1.7	2.1	3.1	2.5	2.5%	0.1
Total weighted value per share						5.55

Source: Signet Bank

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Sign-off time: March 28, 2024, 18:00

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