APF: H1 2024 Results Review

Market circumstances remain heavy on profitability, hoping for better outlook in H2

AS APF Holdings (hereafter in text as "APF" or the "Group") reported its H1 2024 results, revealing ongoing pressure from the high inflow of eggs into the EU from Ukraine due to the abolition of quotas. This surge in supply has significantly impacted egg prices, adversely affecting both sales and profitability. To avoid selling eggs below cost, APF reduced its production capacity during the Summer, which increased the share of fixed costs in the production cost of eggs and led to a 7.5% y-o-y decrease in eggs sold. The combined effects of pricing pressure and reduced output resulted in lower revenues of EUR 5.9m, a 15.5% decline compared to the previous year.

Gross profits declined to EUR 1.5m, a drop of 30.9% year-on-year, with the gross margin decreasing by 5.7 percentage points to 25.6%. Selling and administrative expenses increased by 14.0% year-on-year, driven by a 20% rise in the number of employees and salary inflation. Total operating expenses grew by 36.7% y-o-y in H1 2024, largely due to a net loss from the disposal of fixed and intangible assets, as older assets were replaced by new facilities. Consequently, EBITDA fell by 48.9% y-o-y to EUR 1m, while operating profit turned negative at EUR -0.1m, compared to an operating profit of EUR 1.1m in H1 2023. The net loss on disposal of assets significantly affected the results (by EUR -0.3m), which on the bright side is a one off cost and should not have impact in the next period. Furthermore, the Group indicated that the feed costs have normalized, thus excluding the one-off costs, the Group's bottom line profitability has improved, compared to H2 2023.

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. Understandably, this continued to push down net loss to EUR 0.5m, compared to net profit of EUR 0.8m in the respective period last year.

As anticipated at the end of H2 2023, the ongoing pressure from the influx of eggs from Ukraine, where farming costs are significantly lower, has continued to constrain sales and profitability, resulting in a net loss for the Group.

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

Share Data (Aug 22, 2024)	
Current price, EUR	3.9
Target price, EUR*	U.R.
Return, %	U.R.
54 week Low/High, EUR	3.25/5.14
Average daily volume	173
Market cap, EURm	25.2
Ordinary shares (in millions)	5.7

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Key Numbers (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Sales (EURm)	3.9	11.2	13.3					
Sales growth (%)	(18.8)	185.1	18.6					
EBIT (EURm)	0.7	1.0	1.1					
Net profit (EURm)	0.1	0.3	0.5					
Payout per share (EUR)	-	-	-					
Payout yield (%)			-			Under Review		
P/E (x)			55.6					
P/B (x)			4.8					
EV/Sales (x)			2.4					
EV/EBITDA (x)			21.4					
ROA (%)	1.2	2.5	3.4					
ROE (%)	n.a.	(36.7)	15.4					

Source: APF

However, some relief may come from the EU's emergency brake on Ukrainian eggs. Imports of eggs from Ukraine have now reached a threshold (arithmetic mean of quantities imported between 1 July 2021 and 31 December 2023), prompting the Commission to impose tariff rate quotas. This action is expected to help stabilize egg prices and support demand for EU produced eggs, consequently, this is likely to improve the Group's sales and profitability.

The Group is continuing with its investment phase IV, with the warehouse and processing plant expected to be completed by October this year. However, the schedule for the fourth barn has been pushed to the end of 2024, and the fifth barn is now expected to be ready by May 2025. This delay means that the contribution from these barns will not align with our initial expectations for 2024 and 2025. On a positive note, the capital expenditure (Capex) required for the barns is now estimated to be lower than initially anticipated (EUR 9.0m vs. EUR 11.2m at IPO).

Given the current investment schedule, the Group's Capex reached EUR 2.3m in H1 2024, leaving EUR 0.9m in cash reserves. Additionally, APF received approval for EUR 3.0m in project subsidies from the Latvia Rural Support Service as announced in prospectus and other APF news. However, considering the anticipated shortfall in operating cash flow to meet Capex needs, we believe that additional external financing will be necessary.

APF indicated during its results presentation webinar that it has a soft commitment from CVI to extend an additional EUR 5.0m loan at the beginning of 2025, which would be in addition to its existing EUR 7.0m loan. The CEO also mentioned that the remaining investment and liquidity needs would be covered by a loan from the UBO, which we estimate could amount to approximately EUR 3m.

We expect that the additional funds from CVI will likely carry a similar interest rate of 10% plus Euribor, leading to a significant increase in finance costs and further pressure on the bottom line.

Overall, the challenging market conditions, higher-than-expected loan costs, and delays in barn construction have led to a downgrade in both the IPO and our anticipated results. As a result, we are placing the stock under review until further notice.

APF: Results Review, EURm	H1/24A	H1/23A	% y-o-y	H1/24E	Dev, abs	FY/23A	FY/22A	% y-o-y
Net sales	5.9	7.0	(15.5)	7.0	(1.1)	13.3	11.2	18.6
Gross profit	1.5	2.2	(30.9)	1.8	(0.3)	3.5	2.1	66.6
EBITDA*	0.1	1.3	(92.5)	0.9	(0.8)	2.8	2.1	31.4
Operating profit	(0.1)	1.1	n.a.	0.7	(0.8)	1.1	1.0	17.9
Net profit	(0.5)	0.8	n.a.	0.5	(1.0)	0.5	0.3	59.2
Gross margin, %	25.6	31.3		26.0		26.3	18.7	
EBITDA margin, %	1.6	18.0		13.0		20.7	18.7	
Operating margin, %	(2.0)	15.2		10.3		8.4	8.5	
Net margin, %	(8.1)	11.5		7.4		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.).*

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Sign-off time: August 23, 2024, 18:00

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