

APF: Valuation Update



IPO targets downgraded: High cost of debt and import surge

The combination of tariff-free Ukrainian egg imports, delays in barn construction, and higher-than-expected borrowing costs has led to lower-than-expected financial results. In response, the Group has revised its financial targets downward for the upcoming years. Consequently, we have revalued the stock to EUR 4.18, down from our previous target of EUR 5.55.

APF expects: a) number of eggs sold in 2024 to be 17% lower than initially forecasted, while in 2025, the decrease will be 7%; b) revenues, to decrease by 27% this year and by 13% next year; c) EBITDA is expected to be 56% lower than forecasted in 2024 and 17% lower in 2025

Managements Guidance	2024	2025	2024	2025	Diff/24	Diff/25
	target	target	target	target		
	New	New	IPO	IPO		
Barns	3	5	5	5	-40%	0%
Laying hens (in thousands)	415	665	665	665	-38%	0%
Eggs annually (in millions)	99	168	119	180	-17%	-7%
Revenue EURm	12	22	17	26	-27%	-13%
Adjusted EBITDA EURm	2	7.0	4.6	8.5	-56%	-17%

Amidst the development pipeline, liquidity needs will be met through additional debt financing due to lower-than-anticipated operating cash flows. We project the total required debt funding to increase from previously expected EUR 12.1m to EUR 14.3m, where the additional debt financing, according to the Group's indications, will be provided by the UBO. On the positive note, as per H1 2024 results presentation, the final Capex for investment phase IV is reduced by ca. EUR 2m, stemming from lower construction costs than initially budgeted.

The import pressure on egg prices have deteriorated the Group's financial stability amidst its investment stage, reflected in the relatively high cost of debt. Understandably this has made us to revise downwards our earnings expectations with 2024 expected to have EUR 0.8m net loss. Upon the completion of 4th barn in Jan 2025, we anticipate the Group to breakeven in H1 2025, with positive earnings results coming in H2 2025 with all 5 barns fully operating. So far the construction of barns are going without concerns, however, any additional delays could cause liquidity issues for the Group.

Key Numbers (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Sales (EURm)	3.9	11.2	13.3	12.3	21.0	24.8	25.3	25.8
Sales growth (%)	(18.8)	185.1	18.6	(7.8)	70.8	18.2	2.0	2.0
EBIT (EURm)	0.7	1.0	1.1	0.2	3.0	4.2	4.3	4.3
Net profit (EURm)	0.1	0.3	0.5	(0.8)	1.1	2.1	2.1	2.9
CAPEX (EURm)	(2.9)	(0.2)	(0.6)	(8.0)	(5.5)	(1.0)	(1.0)	(1.0)
Payout per share (EUR)	-	-	-	-	-	0.2	0.2	0.2
Payout yield (%)	-	-	-	-	-	4.7	4.7	5.6
P/E (x)	-	-	43.5	n.a.	20.7	10.8	10.5	7.6
P/B (x)	-	-	3.8	4.2	3.5	3.0	2.6	2.2
EV/EBITDA (x)	-	-	17.5	36.2	6.8	5.1	5.0	4.9
ROA (%)	1.2	2.5	3.4	(3.9)	3.9	6.5	6.5	9.0
ROE (%)	n.a.	(36.7)	15.4	(14.0)	18.6	30.0	27.0	31.6

Source: APF, Signet Bank for estimates. Valuation multiples 2024-2028E are calculated based on the share price EUR 3.9 at October 30, 2024.

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

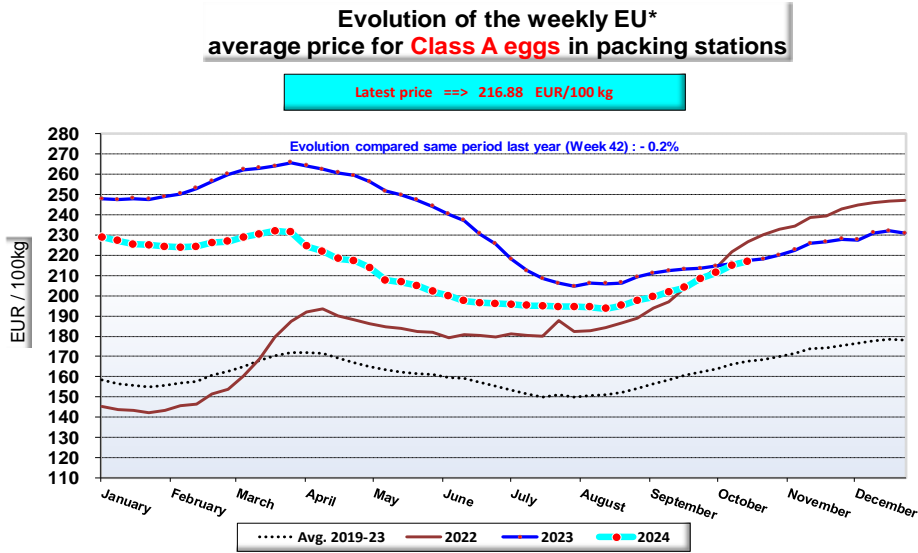


Share Data (Oct 30, 2024)	
Current price, EUR	3.9
Target price, EUR*	4.18
Return, %	7.2
54 week Low/High, EUR	3.25/5.14
Average 3m daily volume	140
Market cap, EURm	22.3
Ordinary shares	5.73

*Target price set on 30th Oct, 2024

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The temporary suspension of import duties and quotas on Ukrainian agricultural exports announced by the EU parliament, set to be extended until June 2025. Mid-term policy towards Ukrainian agriculture goods imports remains unclear. The pressure on EU agricultural goods prices will be sustained as long as there are tariff-free imports. On the positive note, the regulation also provides for an emergency brake for eggs, namely, the tariff-free quotas are limited to 2022 and 2023 average volumes which should somewhat ease the over-supply pressure. The EU's brake mechanism was activated in July 2024, following a period when egg prices were trailing below last year's levels. Since its launch, egg prices have begun to align more closely with those of the previous year.



Source: MS notifications (Commission Implementing Regulation (EU) 2017/1185)

Last but not least, we might see some positive barn egg demand and price tendencies from retail chains due to voluntary initiatives by the largest retail chains in the Baltics which have committed to selling only cage-free eggs as of 2025.

Signet estimates	New Estimates			Old estimates		
	2024E	2025E	2026E	2024	2025	2026
Net sales	12.3	21.0	24.8	16.3	23.8	23.9
Gross profit	3.2	6.0	7.4	4.2	6.4	6.6
EBITDA	0.7	3.8	5.0	2.9	4.9	5.1
Operating profit	0.2	3.0	4.2	2.2	4.0	4.1
Net profit	(0.8)	1.1	2.1	1.7	3.3	3.5
Gross margin, %	26.3	28.7	30.0	26.0	27.0	27.5
EBITDA margin, %	5.7	18.0	20.3	17.6	20.7	21.3
Operating margin, %	1.7	14.1	16.8	13.6	16.8	17.3
Net margin, %	(6.5)	5.2	8.3	10.3	13.9	14.4

Valuation



We have approached the valuation of APF using DCF analysis. Considering the Group's promising long-term growth prospects and the scarcity of comparable listed peers, we believe that the income approach better suits APF's valuation. Overall, based on our current estimates for APF and other assumptions, we set our target price for the Group at EUR 4.18 per share.

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. The Group plans to increase its flock to 500k barn hens and 165k enriched cage hens by H2 2025, producing 180 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.

The oversupply of Ukrainian eggs, resulting from the EU's tariff-free policy, has put significant pressure on APF's sales and profitability, adding strain during its development stage. The latter has weakened the Group's financial stability and outlook, which is now reflected in lower FCFF and increased weighted average cost of capital (WACC).

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

DCF Assumptions:	
Risk free rate	2.5%
Market risk premium	5.1%
Levered Beta	1.25
Country Risk Premium	1.8%
Add. comp. risk premium	4.0%
Share of debt	65.0%
Terminal sales growth	2.0%
Cost of equity	14.6%
Cost of debt	13.0%
Cost of debt (terminal)	9.0%
WACC	13.58%
WACC (terminal)	11.03%

Source: Signet Bank

DCF valuation, EURm	2025E	2026E	2027E	2028E	Term
EBIT	3.0	4.2	4.3	4.3	
Taxes	-	(0.3)	(0.3)	(0.3)	
Non-cash charges	0.8	0.9	0.9	0.9	
Capex	(5.5)	(1.0)	(1.0)	(1.0)	
Change in NWC	0.6	0.1	(0.1)	(0.1)	
FCFF	(1.2)	3.8	3.7	3.8	
Discounted FCFF	(1.1)	3.2	2.7	2.4	26.6
EV					33.8
Net debt + adjustments					9.9
Equity value					23.9
Equity value per share (EUR)					4.18

Source: Signet Bank

Sensitivity of DCF value to changes in assumptions (EUR)

		WACC						
		10.6%	11.6%	12.6%	13.6%	14.6%	15.6%	16.6%
Terminal growth rate	1.1%	4.3	4.1	3.9	3.8	3.6	3.5	3.3
	1.4%	4.4	4.2	4.1	3.9	3.7	3.6	3.4
	1.7%	4.6	4.4	4.2	4.0	3.9	3.7	3.6
	2.0%	4.7	4.5	4.4	4.2	4.0	3.8	3.7
	2.3%	4.9	4.7	4.5	4.3	4.2	4.0	3.8
	2.6%	5.1	4.9	4.7	4.5	4.3	4.2	4.0
	2.9%	5.3	5.1	4.9	4.7	4.5	4.3	4.2

Source: Signet Bank

Balance Sheet (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Assets								
Intangible assets	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Fixed assets	10.5	10.3	10.5	17.9	22.6	22.8	22.9	23.0
Immovable properties	4.3	4.2	4.1	-	-	-	-	-
Leasehold improvements	-	0.0	0.0	-	-	-	-	-
Technological equipment and machinery	6.0	5.8	5.5	-	-	-	-	-
Other fixed assets	0.2	0.2	0.3	-	-	-	-	-
Fixed assets under development	0.1	0.2	0.2	-	-	-	-	-
Advances for fixed assets	-	-	0.3	-	-	-	-	-
Non-current financial investments	-	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Total non-current assets	10.5	10.4	10.7	18.1	22.8	22.9	23.1	23.2
Inventories	1.8	1.7	1.8	1.8	3.3	3.3	3.4	3.5
Raw materials and consumables	0.2	0.3	0.4	-	-	-	-	-
Finished goods and goods for sale	0.0	0.0	0.0	-	-	-	-	-
Advances for inventories	-	0.3	0.4	-	-	-	-	-
Fauna and flora	1.6	1.1	1.0	-	-	-	-	-
Account receivable	0.4	1.1	1.6	2.7	3.7	3.7	3.8	3.9
Trade receivables	0.4	0.9	0.7	-	-	-	-	-
Other receivables	0.0	0.1	0.5	-	-	-	-	-
Deferred expenses	0.0	0.1	0.1	-	-	-	-	-
Cash and bank	0.0	0.1	3.3	1.4	1.3	2.3	3.1	1.5
Total current assets	2.3	2.9	6.7	5.8	8.2	9.3	10.3	8.8
Total assets	12.8	13.2	17.4	23.9	31.0	32.2	33.3	32.0
Equity and liabilities								
Equity								
Share capital	1.7	4.7	9.5	9.5	9.5	9.5	9.5	9.5
Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Brought forward from previous year	(4.4)	(4.3)	(3.9)	(3.9)	(4.2)	(3.2)	(2.1)	(0.9)
Current year profit or losses	0.1	0.3	0.5	(0.3)	1.1	1.1	1.1	1.5
Total equity	(2.6)	0.8	6.1	5.3	6.4	7.4	8.5	10.1
Liabilities								
Borrowings	10.9	5.6	4.7	9.1	14.1	14.1	7.1	11.1
Advances from customers	-	-	-	-	-	-	-	-
Deferred income	2.6	2.5	2.4	5.6	4.5	4.5	4.5	4.4
Total non-current liabilities	13.5	8.1	7.6	14.6	18.6	18.6	11.6	15.5
Borrowings	0.2	2.6	1.7	2.2	0.2	0.2	7.2	0.2
Advances from customers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Trade payables	1.1	1.2	1.2	1.1	2.0	2.0	2.1	2.1
Taxes and state social insurance payments	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Other creditors	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Deferred Income	0.1	0.1	0.1	0.1	3.1	3.2	3.2	3.2
Accrued liabilities	0.2	0.2	0.3	0.2	0.3	0.4	0.4	0.4
Total current liabilities	1.9	4.4	3.7	4.0	6.0	6.3	13.3	6.4
Total liabilities	15.3	12.4	11.3	18.6	24.7	24.9	24.9	21.9
Total equity and liabilities	12.8	13.2	17.4	23.9	31.0	32.2	33.3	32.0

Source: APF for historicals, Signet Bank for estimates

Income Statement (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Revenues	3.9	11.2	13.3	12.3	21.0	24.8	25.3	25.8
Production costs	(4.5)	(9.1)	(9.8)	(9.1)	(15.0)	(17.4)	(17.7)	(18.1)
Gross profit	(0.6)	2.1	3.5	3.2	6.0	7.4	7.6	7.7
Distribution expenses	(0.4)	(0.9)	(0.9)	(0.9)	(1.1)	(1.2)	(1.3)	(1.3)
Administrative expenses	(0.6)	(0.9)	(1.5)	(1.9)	(2.0)	(2.1)	(2.2)	(2.2)
Other operating income	2.3	0.7	0.2	0.2	0.3	0.3	0.3	0.3
Other operating expenses	(0.1)	(0.1)	(0.1)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)
Operating profit	0.7	1.0	1.1	0.2	3.0	4.2	4.3	4.3
Depreciation & Amortization	1.4	0.4	0.3	0.5	0.8	0.9	0.9	0.9
EBITDA	(0.7)	1.3	1.5	0.7	3.8	5.0	5.1	5.2
Net financial expenses	(0.5)	(0.6)	(0.6)	(1.0)	(1.9)	(1.9)	(1.9)	(1.1)
Pre-tax profit	0.1	0.3	0.6	(0.8)	1.1	2.3	2.4	3.3
Income tax	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.3)	(0.3)	(0.3)
Deferred income tax	-	-	-	-	-	-	-	-
Net profit	0.1	0.3	0.5	(0.8)	1.1	2.1	2.1	2.9

Nr of shares (m)				5.7	5.7	5.7	5.7	5.7
EPS				(0.1)	0.2	0.4	0.4	0.5
Dividends paid			-	-	-	1.0	1.1	1.3
DPS (EUR)			-	-	-	0.2	0.2	0.2

Cash Flow Statement Summary (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Operating Activities								
Profit or losses before corporate income tax	0.1	0.3	0.6	(0.8)	1.1	2.3	2.4	3.3
Adjustments for:								
depreciation and impairment	0.3	0.4	0.4	0.5	0.8	0.9	0.9	0.9
change in receivables	(0.1)	(0.7)	(0.5)	(1.0)	(1.0)	(0.1)	(0.1)	(0.1)
change in inventory	(1.1)	0.1	(0.1)	0.0	(1.5)	(0.1)	(0.1)	(0.1)
change in payables	(1.9)	(0.1)	0.4	(0.1)	3.0	0.2	0.0	0.0
Corporate income tax	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.3)	(0.3)	(0.3)
Net operating cash flow	(2.6)	0.1	0.7	(1.3)	2.5	3.0	2.9	3.7
Investing Activities								
Purchase of PPE and intangibles	(2.9)	(0.2)	(0.6)	(8.2)	(5.5)	(1.0)	(1.0)	(1.0)
Net change in loans	(0.0)	(0.4)	(0.0)	(0.0)	-	-	-	-
Other	-	-	0.0	0.0	-	-	-	-
Net investing cash flow	(2.9)	(0.7)	(0.6)	(8.2)	(5.5)	(1.0)	(1.0)	(1.0)
Financing Activities								
Net proceeds/redemption of debt and leases	5.2	0.0	(1.7)	4.6	3.0	-	0.0	(3.0)
Dividends paid	-	-	-	-	-	(1.0)	(1.1)	(1.3)
Change in capital	0.0	-	5.3	-	-	-	-	-
Net other financing items	0.2	0.6	0.1	3.0	-	-	-	-
Net financing cash flow	5.4	0.6	3.1	7.6	3.0	(1.0)	(1.1)	(4.3)
Total change in cash	(0.0)	0.0	3.3	(1.9)	(0.0)	0.9	0.8	(1.6)
Cash & equivalents at beginning of the year	0.1	0.0	0.1	3.3	1.4	1.3	2.3	3.1
Cash & equivalents at end of the year	0.0	0.1	3.3	1.4	1.3	2.3	3.1	1.5

Source: APF for historicals, Signet Bank for estimates

Main Ratios	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Growth, %								
Sales growth	(18.8)	185.1	18.6	(7.8)	70.8	18.2	2.0	2.0
Gross profit growth	n.a.	(445.4)	68.7	(8.8)	86.6	23.4	2.0	2.0
EBITDA growth	n.a.	(291.4)	10.5	(52.6)	435.4	33.2	1.7	1.7
Operating profit growth	n.a.	40.2	19.2	(81.7)	1332.0	40.6	1.9	1.9
Net profit growth	n.a.	144.7	59.2	(251.4)	n.a.	90.4	3.8	37.5
Margins and profitability, %								
Gross margin	(15.4)	18.7	26.6	26.3	28.7	30.0	30.0	30.0
EBITDA margin	(17.8)	12.0	11.1	5.7	18.0	20.3	20.2	20.1
Operating margin	17.2	8.5	8.5	1.7	14.1	16.8	16.8	16.8
Net margin	3.4	2.9	4.0	(6.5)	5.2	8.3	8.4	11.4
Return Ratios								
Capital Employed (EUR m)	8.5	8.9	12.5	16.5	20.6	21.6	22.7	21.4
ROCE (%)	10.1	11.0	10.6	1.4	16.0	19.7	19.2	19.6
ROE (%)	n.a.	(36.7)	15.4	(14.0)	18.6	30.0	27.0	31.6
ROA (%)	1.2	2.5	3.4	(3.9)	3.9	6.5	6.5	9.0
Leverage								
Debt, EURm	11.0	8.1	6.4	11.3	14.3	14.3	14.3	11.3
Debt/Equity ratio, x	(4.3)	10.6	1.1	2.1	2.2	1.9	1.7	1.1
Net debt, EURm	11.0	8.1	3.1	9.9	12.9	12.0	11.2	9.8
Net gearing, x	(4.3)	10.5	0.5	1.9	2.0	1.6	1.3	1.0
Net debt/EBITDA, x	(15.7)	6.0	2.1	14.0	3.4	2.4	2.2	1.9
Valuation								
EV/Revenue, x			2.0	2.1	1.2	1.0	1.0	1.0
EV/EBITDA, x			17.5	36.2	6.8	5.1	5.0	4.9
P/E, x			43.5	n.a.	20.7	10.8	10.5	7.6
P/BV, x			3.8	4.2	3.5	3.0	2.6	2.2
P/CF, x			31.9	(17.1)	9.1	7.5	7.8	6.1
Dividend Yield (%)			-	-	-	4.7	4.7	5.6

Source: APF, Signet Bank for estimates. Valuation multiples 2023-2028E are calculated based on the share price EUR 3.9 at October 30, 2024.

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Sign-off time: October 30, 2024, 18:00

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The target price 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 Signet Bank 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. 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 -10% to 10% within 12-18 months (including dividends)
- Sell- Expected loss more than 10% within 12-18 months (including dividends)

In the 12-month period preceding 30.10.2024 Signet Bank has issued 1 recommendation, of which 67% have been 'Buy recommendations', 33% as 'Neutral', 0% as 'Sell' and 0% as 'under review'. Of all the 'Buy recommendations' issued, 67% have been for companies for which Signet Bank has provided investment banking services in the preceding 12-month period. Of all the 'Neutral recommendations' issued, 33% have been issued to companies for which Signet Bank has provided investment banking services in the preceding 12-month period. The classification is based on the above structure

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