APF: H2 2024 Results Review

Significantly improves profits in 2H24. Market egg prices supportive in 1Q25.

AS APF Holdings (hereafter in text as "APF" or the "Group") 2H24 results showed a notable improvement in profitability, driven by the EU import cap on Ukrainian egg imports and an unusually warm winter that led to a rise in poultry diseases, both of which supported price recovery in the second half of the year.

Despite a 6% y-o-y decline in egg output, in 2H24 the Group benefited from higher market prices, generating sales of EUR 6.8m (+7% y-o-y). However, due to significantly weaker egg prices in 1H24, full-year sales declined by 5% y-o-y to EUR 12.7m. Gross profits in 2H24 reached EUR 2.2m (+59% y-o-y), bringing the full-year figure to EUR 3.7m (+3% y-o-y). Improved egg prices in 2H24 and normalized feed costs supported gross margin expansion to 28.9% (+2.6pp y-o-y). Net profit for 2H24 came in at EUR 0.5m, a strong turnaround from a EUR 0.3m net loss in 2H23. However, the full-year result was roughly at breakeven, reflecting weaker performance in 1H24, which also included a one-off fixed asset disposal expense. While sales were largely in line with expectations, 2H24 net profit exceeded forecasts due to a more stable OpEx and slightly lower interest expenses.

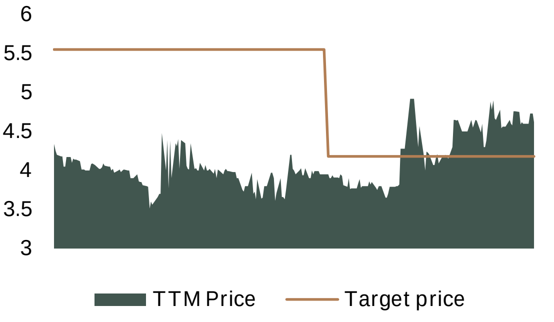
Looking into early 2025, the market dynamics appear highly favorable. According to the European Commission, the Ukrainian egg 0-tariff quotas for 1H25 have already been consumed, reducing price pressure within the EU market. Additionally, EU egg prices have started the year at significantly stronger levels, likely influenced by the unprecedented bird flu outbreak in the U.S., which has driven global egg prices higher. This trend should provide support for APF 1H25 results.

However, this price surge is expected to be a short-term effect, as supply chains are likely to normalize over time. The temporary price incentive may also encourage increased EU egg production, which could subsequently put downward pressure on market prices. On the other hand, barn eggs continue to face production shortages, and if the market maintains its transition toward cage-free eggs, prices in this segment could remain more stable.

The barn construction remains on schedule, with minimal contributions expected in 1H25 due to the lower productivity of the flock in its initial months. However, by 2H25, the barns should be operating at full capacity.

In line with our forecast, the Group has issued targets for 2025 with sales expected to reach EUR 21.1m and Adjusted EBITDA of EUR 6.0m. We reaffirm our target price and 2025 forecasts, expecting the Group to achieve a positive net profit for the year.

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



Share Data (Aug 22, 2024)	
Current price, EUR	4.62
Target price, EUR*	4.18
Return, %	-9.5
54 week Low/High, EUR	3.25/4.92
Average daily volume	590
Market cap, EURm	26.5
Ordinary shares (in millions)	5.73

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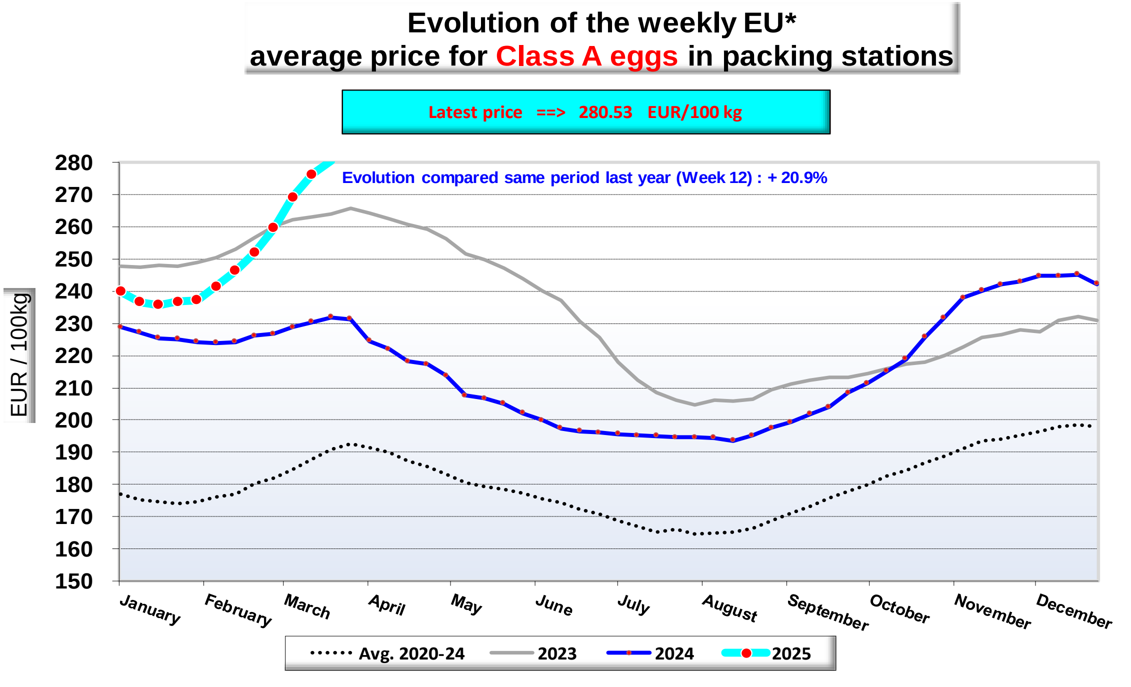
Key Numbers (EURm)	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Sales (EURm)	3.9	11.2	13.3	12.7	21.0	24.8	25.3	25.8
Sales growth (%)	(18.8)	185.1	18.6	(4.8)	70.8	18.2	2.0	2.0
EBIT (EURm)	0.7	1.0	1.1	0.8	3.0	4.2	4.3	4.3
Net profit (EURm)	0.1	0.3	0.5	(0.005)	1.1	2.1	2.1	2.9
CAPEX (EURm)	(2.9)	(0.2)	(0.6)	(7.6)	(5.5)	(1.0)	(1.0)	(1.0)
Payout per share (EUR)	-	-	-	-	-	0.2	0.2	0.2
Payout yield (%)			-	-	-	3.9	4.0	4.8
P/E (x)			43.5	n.a.	24.5	12.9	12.4	9.0
P/B (x)			3.8	4.3	4.2	3.6	3.1	2.6
EV/EBITDA (x)			17.5	28.5	9.6	7.2	7.1	7.0
ROA (%)	1.2	2.5	3.4	n.a.	3.9	6.5	6.5	9.0
ROE (%)	n.a.	(36.7)	15.4	n.a.	18.6	30.0	27.0	31.6

Source: APF for historicals, Signet Bank for estimates. Valuation ratios 2025-2028E calculated at share price of EUR 4.62 at March28, 2025.

APF: Results Review, EURm	H2/24A	H2/23A	% y-o-y	H2/24E	Dev, abs		FY/24A	FY/23A	% y-o-y
Net sales	6.8	6.3	7	6.4	0.4		12.7	13.3	(5)
Gross profit	2.2	1.4	59	1.7	0.4		3.7	3.5	3
EBITDA*	1.6	0.9	77				2.6	2.8	(6)
Operating profit	0.9	0.1	1 155	0.3	0.6		0.8	1.1	(31)
Net profit	0.5	(0.3)	n.a.	(0.3)	0.8		(0.0)	0.5	n.a.
Gross margin, %	31.8	21.5		27.0			28.9	26.3	
EBITDA margin, %	24.1	14.5					20.4	20.7	
Operating margin, %	13.1	1.1		5.1			6.1	8.4	
Net margin, %	7.0	(4.3)		(5.0)			(0.0)	4.0	

*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.).*



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

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						
Terminal growth rate	10.6%	11.6%	12.6%	13.6%	14.6%	15.6%	16.6%
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

Disclaimer

Sign-off time: March 31, 2025, 18:00

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