



Research Note

Agility

Rating: Outperform

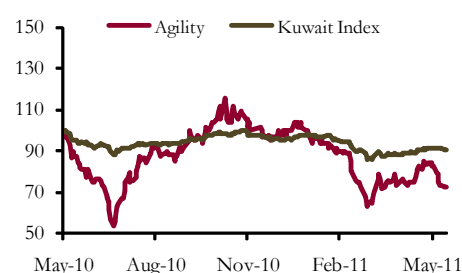
Agility Q1 2011 Results Review

Maintain Outperform, Maintain TP at KWD0.450

- Agility's sales stood at KWD319 Mn (-21.0% YoY, -13.6% QoQ) in Q1 2011 as the company's prime vendor contract with the US Army expired in December 2010. Revenue in Global Integrated Logistics (GIL) segment totaled KWD286Mn (+2.4% YoY, +1.4% QoQ) during the quarter. Excluding sales from Agility's Qatar operations, which recently merged with Gulf Warehousing Company (GWC), revenue from the GIL segment rose 12.3% YoY in Q1 2011. Growth in sales was marginally below our estimate of KWD338 Mn.
- Gross profit and EBITDA figures are not reported.
- Operating profit came in at KWD2 Mn (-91.1% YoY, -87.0% QoQ), which was below our projection of KWD11 Mn, as the company incurred costs to restructure its Defense and Government Business (DGS). Operating margin stood at 0.5% (4.7% in Q1 2010 and 3.5% in Q4 2010), lower than our estimate of 3.5%.
- Overall, the net profit stood at KWD8 Mn (-56.2% YoY, -131.5% QoQ), which was marginally higher than our estimate of KWD7 Mn. The YoY and QoQ decline in net profit was primarily due to lower revenue contribution from the high margin DGS segment (DGS' gross margin is ~45–50% compared to GIL's single-digit figure). The company changed the reporting standards and now reports its GIL segment without the consolidation of Qatar. This led to a one-off gain of KWD8 Mn (which would have been included after the operating profit in the P/L statement) from Agility Qatar's merger with GWC. In case of no change in reporting standards, Agility Qatar's operations would have contributed KWD8 Mn to Agility's EBITDA.
- Improvement in working capital management resulted in an operating cash flow of KWD15 Mn and free cash flow of KWD12 Mn.
- Agility continues to not record any provision for cash penalty in the ongoing legal case with the US Army. In April 2011, a US court had said that prosecutors correctly served Agility with an indictment in 2009 when it accused the company of overcharging the US Army over 2006-2009 on supply contracts in Kuwait and Iraq. While the outcome of the legal suit is still not known, the company, if found guilty, would potentially have to pay a cash penalty of around USD500 Mn – USD750 Mn, according to media reports.
- The company reported steady growth in its GIL business in Q1 2011 amid continued recovery in demand for logistics services. However, due to the expiration of its prime vendor contract and restrictions on bidding for any future US army contracts, we forecast revenue to decline 7.2% YoY to KWD1,470 Mn and net income to decline 23.2% YoY to KWD42 Mn in 2011. Our current projections do not consider any cash penalty in the ongoing legal case.
- We maintain our Outperform rating on Agility, with a price target of KWD0.450; this indicates a 21.6% upside to the current price.

Equity Data

Current Price (KWD)	0.370
Fair Value (KWD)	0.450
Upside/Downside	21.6%
12 Month Performance	-27.2%
12 Month High (KWD)	0.590
12 Month Low (KWD)	0.265
Market Cap. (KWD Bn)	0.4
Dividend Yield	10.8%
Enterprise Value (KWD Bn)	0.3
RIC	AGLT.KW
Bloomberg	AGLTY.KK



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Financials	Q1 2011A	Q1 2011E	Q1 2010A	Q4 2010A	YOY	QOQ	AMC
Revenue (KWD Mn)	319	338	403	369	-21.0%	-13.6%	-5.8%
Gross Profit (KWD Mn)	N/A	138	127	108	N/A	N/A	N/A
Gross Profit margin		40.9%	31.6%	29.2%			
EBITDA (KWD Mn)	N/A	20	30	23	N/A	N/A	N/A
EBITDA Margin		6.0%	7.4%	6.2%			
Operating Profit (KWD)	2	11	19	13	-91.1%	-87.0%	-84.9%
Operating Profit Margin	0.5%	3.3%	4.7%	3.5%			
Earning (KWD Mn)	8	7	18	-24	-56.2%	-131.5%	3.5%
Net Income Margin	2.4%	2.2%	4.4%	-6.6%			
EPS (KWD)	0.01	0.01	0.02	-0.02	-56.2%	-131.5%	3.5%

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