Analyst Comment

NBK CAPITAL

February 04, 2010

AGILITY (AGLT.KW)

12-Month Fair Value: Under Review
Last Close (03 February, 2010): KD 0.530
Recommendation: Under Review - Risk Level: Under Review

- Agility's legal woes continue. The company recently posted the following statement on the Dubai Financial Market's website: "*The case has been postponed till the 8th of February 2010, and the company is still in discussions with the U.S. government with a view to resolving the current legal cases with the U.S. Department of Justice.*"

- This marks the sixth postponement of Agility's court hearing since the company was indicted in November 2009. Recent media reports have associated the postponements in Agility's court hearings to negotiations to settle the issue outside the court.

- Moreover, some media outlets have reported that the Department of Justice is seeking to recover from Agility a monetary amount in the range of USD 60 million to USD 3 billion. We do not have any means that allow us to assess the accuracy of this information; however, we consider that any payment that comes close to, or exceeds, USD 1 billion will have a material impact on Agility. According to the latest financial statements, Agility has KD 348 million (USD 1.2 billion) in cash and total debt of KD 387 (USD 1.3 billion), which means a net debt-to-equity ratio of almost zero. If we assume Agility pays USD 1 billion, this will mean that the company's leverage will go up to 0.36x. Such leverage would be manageable by Agility if the company continues to do business as usual. A USD 3 billion payment will mean that Agility would have to raise USD 2 billion. If we assume the company is able to borrow that amount, the company's leverage will increase to 1.1x.

- What warrants major concern is the potential impact that this case may have on Agility's Defense and Government Services (DGS), the highest cash-generating segment for Agility. This segment has taken several hits recently such as: the temporary suspension by the U.S. government from being awarded any new contracts and the termination of the contract with DynCorp International for LOGCAP IV. In addition, we feel that the reputation of the company has been hurt, regardless of the outcome of the case, and this can materially impact Agility's ability to bid for new governmental contracts. The income stream for DGS faces a lot of uncertainty beyond 2010, as the Subsistence Prime Vendor Contract (which is Agility's most lucrative contract and the contract currently under investigation) is set to expire in December 2010.

- Global Integrated Logistics (GIL), which accounts for 54% of total revenue, is not the major contributor to operating profitability. Agility does not disclose segmental performance, but we expect that GIL has an EBITDA margin in the low single digits. In our previous forecasts for Agility, we used to model GIL with an EBITDA margin of 5%, based on an average for similar companies. Thus, any conclusion of the case, beyond a monetary payment, which constricts (or prohibits) Agility from bidding for new deals with the U.S. Army will materially reduce the company's profitability.

- We maintain our status on Agility as "Under Review" as there are several variables in play for which we have no means of predicting an outcome.

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Related Research

- Agility Update - 25 June 2009
- Agility Update - 20 November 2008

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