

August 16, 2010

## AGILITY (AGLT.KW)

**12-Month Fair Value: Under Review**

**Last Close (15 August 2010): KD 0.470**

**Recommendation: Under Review - Risk Level: Under Review**

- In continuation of the trend that started in 1Q2010, Agility continued to report declines in profitability as a result of lower revenue from Defense & Government Services (DGS) and weaker Global Integrated Logistics (GIL) margins. Though 2Q2010 performance marked a slight improvement over 1Q2010, Agility continued to guide for further declines in net income as US contracts expire.
- Agility remains pressured by three key challenges: 1) the anticipated troop drawdown in Iraq, 2) the slower-than-expected recovery from the global recession and 3) the legal proceedings by the US government. These three factors have had their toll on the company's two major segments, DGS and GIL.
- Agility's revenue inched up by 3.5% YoY (6.2% QoQ) to KD 428 million. Though GIL had a 23% increase in revenue YoY, DGS experienced a sharp drop in revenue of 29% YoY (5% decline QoQ). The decline in the DGS revenue highlights the company's inability to renew or win new business in other regions due to its suspension by the US government.
- EBITDA fell 39.8% YoY to KD 32.2 million in 2Q2010, but saw a 6.3% increase QoQ. Accordingly, the company's EBITDA margin went down from 12.9% in 2Q2009 to 7.5% in 2Q2010, as a result of the fall in DGS revenue and the decline in GIL net revenue margins from 31.8% in 2Q2009 to 23.8% in 2Q2010. Net income declined by 52.4% YoY to KD 18.1 million and was 2.9% better than what was achieved in 1Q2010.
- A major development took place on Agility's balance sheet in 2Q2010, whereby the company paid back a big chunk of its long term debt. Agility's long term debt went down from KD 260.9 million on March 31, 2010 to KD 59.5 million on June 30, 2010—a 77% drop. This led to a 58% decline in the cash balance, from KD 363 million on March 31, 2010 to KD 151.9 million on June 30, 2010, with little impact on the company's net debt level. The company stated that the reason behind this move is to reduce interest expense, and that the revolving credit facilities that were paid down remain available to the group.
- In clarification of news circulating in the market about an extension to Agility's Prime Vendor 2 (PV 2) contract, the company posted the following statement: "Agility recently received a letter from the Defense Logistics Agency that says that as a result of the ongoing protest of the PV3 bid, and in the event of any ensuing delays, Agility should be prepared to perform PV2 through December 5, 2010, the natural end of the PV2 contract."
- Due to the legal dispute with the US government, we maintain our status on Agility as "Under Review."

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### Related Research

- [Agility Analyst Comment - 28 July 2010](#)
- [Agility Analyst Comment - 15 April 2010](#)
- [Agility Analyst Comment - 23 December 2009](#)
- [Agility Analyst Comment - 18 November 2009](#)
- [Agility Analyst Comment - 17 November 2009](#)
- [Agility Update - 25 June 2009](#)

## RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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