

Food sector bright spot for AGT - The Western Producer

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The packaged food division was more than twice as profitable as the pulse and grain processing business

AGT Food and Ingredients posted record sales and profits last year, thanks in a large part to the non-traditional part of its business.

The company generated adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of \$101 million on sales of \$1.7 billion.

The 16 percent increase in EBITDA was due largely to the strong performance of the company's food ingredients and packaged foods division.

That division generated a margin of \$131.49 of adjusted EBITDA per tonne versus \$57.12 per tonne for the pulse and grain processing division.

AGT president Murad Al-Katib told investment analysts that the company will be adding production capacity to its food ingredients plant in Minot, North Dakota.

It is increasing fibre processing and granulated pulse flour production at the plant and installing a fourth production line. Both projects will be operational by the first quarter of next year.

"We feel these expansions are required to match our forecasting on potential volumes as our business

grows in the pulse ingredients for the human food sector,” said Al-Katib.

An estimated 80 percent of the pulse flour, protein, starch and fibre products produced at the Minot plant are used to make pet food. Most of them are made by processing yellow peas, which are the cheapest of all pulses.

Al-Katib said the company is about to make the transition into fababeen and lentil-based ingredients for the human food sector.

Pulse ingredients have an undesirable flavour, but AGT has in-stalled a de-flavoursing line at its Minot facility that will be operational in April.

Food ingredients suitable for the human food market will be available for sale in the second quarter of this year.

“We are already down the path with a strong pipeline of projects with many global food companies,” said Al-Katib.

He said the margins in the human food ingredients business are higher than those in the pet food business.

The fourth production line and the increased fibre and granulated pulse flour production will add another 45,000 to 50,000 tonnes of annual processing capacity to the 120,000 tonnes that already exist at the Minot plant.

“We’re also examining the feasibility of adding pulse flour and fibre processing capacity to our production facility in Turkey,” said Al-Katib.

The food and ingredients processing capacity pales in comparison to the 1.33 million tonnes of capacity in the traditional pulse and grain processing division.

Al-Katib said the company re-cently bolstered that side of the business with the acquisition of West Central Road and Rail and Mobil Capital Holdings.

He said the goal is to use those newly acquired bulk handling and transportation assets to move one unit train of wheat, durum and pulses a week out of west-central and central Saskatchewan.

“That’s 500,000 tonnes (per year) through the bulk handling system,” said Al-Katib.

One analyst noted that margins for AGT’s pulse and grain processing division dropped to \$53.73 of adjusted EBITDA per tonne in the fourth quarter of 2015 from \$59.22 per tonne in the third quarter.

Al-Katib said that is because there were more bulk shipments of peas and lentils, which is a lower margin business than container shipments of processed pulses.

However, he said the increase in bulk business through the West Central Road and Rail and Mobil Capital Holdings assets frees up the traditional processing plants to focus on cleaning, sorting and bagging pulses, which will eventually boost margins in that segment of the business.

Rapidly rising pea and lentil prices also contributed to the dip in margins in the fourth quarter.

“It gets tough to maintain your margin when prices are escalating very, very quickly (because) buyers resist the pass-on (passing on costs to them),” said Al-Katib.