Agility Risk and Return

# Estimating Historical Risk Parameters (Top-Down Betas)

The data was taken for Agility company in Kuwait market.

The return data (price) was taken from Oct-19 to Oct-24 on monthly basis.

* Intercept = -0.565, it is a measure of performance during the period of the regression, relative to the capital asset pricing model, since our intercept < -0.023 which is Rf (1-b), then the stock did worse than expected during regression period.
* The slope is 1.583, The slope of the regression corresponds to the beta of the stock, and measures the riskiness of the stock.
  + since 1.583 >1 this means the stock’s risk is higher than the market.
  + The standard error is 0.067. Therefore, if we are going for 67% confidence our range will be between 1.516 to 1.65 and 1.499-1.717 is our range for 95% confidence level.
* R2 is 0.525, which represents the estimate of the proportion of the risk (variance) of a firm that can be attributed to market risk, where the rest (1-R2) can be attributed to firm specific risk, this is important to know which risk is higher, this can affect the investment decision.
* The risk for this firm that is due to business factors is represented by unlevered beta, since we have levered beta which was estimated by the regression, and we have Debt, Equity and effective Tax from the financial report, we can calculate unlevered beta using Hamada Equation βL=βU(1+ (1−T)):
  + Debt: 1,299,718,000
  + Equity: 1,892,105,000
  + effective Tax: 15.57%
  + βL: 1.583
    - Then βU = 1.0022 which is represent the risk for this firm is due to business factors the rest of the risk is due to financial leverage.

**Comparing to Sector Betas (Bottom-up Betas)**

Based on 2023 report, Agility Public Warehousing Company has several subsidiaries and affiliates that it owns fully or partially. Some of the notable companies include:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Subsidiary | Primary Sector | Unlevered Beta (Bu) | Estimated Revenues (KD) | % Contribution | Debt/Equity | Tax rate |
| Tristar Holdings Limited | Transportation | 0.66 | KD 200,000,000 | ~14.78% | 49.22% | 15.66% |
| Menzies Aviation | Transportation | 0.66 | KD 180,000,000 | ~13.30% | 49.22% | 15.66% |
| UPAC (United Projects for Aviation) | Real Estate (Development) | 0.31 | KD 120,000,000 | ~8.87% | 248.91% | 14.39% |
| Agility DGS Logistics Services Company | Transportation | 0.66 | KD 150,000,000 | ~11.08% | 49.22% | 15.66% |
| NAS Holding | Transportation | 0.66 | KD 140,000,000 | ~10.34% | 49.22% | 15.66% |
| Gulf Catering Company | Restaurant/Dining | 0.79 | KD 80,000,000 | ~5.91% | 27.34% | 13.82% |
| MRC (Metal & Recycling Company) | Environmental & Waste Services | 0.77 | KD 90,000,000 | ~6.65% | 35.01% | 13.22% |
| Agility Global PLC | Transportation | 0.66 | KD 160,000,000 | ~11.83% | 49.22% | 15.66% |
| Agility Infrastructure Holding Co | Real Estate (Development) | 0.31 | KD 80,000,000 | ~5.91% | 248.91% | 14.39% |
| Global Clearing House Systems K.S.C.C. | Software (System & Application) | 1.23 | KD 53,023,000 | ~3.92% | 6.21% | 8.18% |
| Other Revenue Sources | Various | N/A | KD 100,000,000 | ~7.39% | 49.22% | 15.66% |
| Total |  |  | KD 1,353,023,000 | 100% |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sectors | Unlevered Beta | Estimated Revenue (KD) | % Contribution | Debt/Equity Ratio | Tax Rate | Levered Beta | Weight \* Levered Beta | Weight \* Levered Beta |
| Environmental & Waste Services | 0.77 | 90,000,000 | ~6.65% | 35.01% | 13.22% | 1.0039 | 0.0668 | 0.0668 |
| Real Estate (Development) | 0.31 | 200,000,000 | ~8.87% | 248.91% | 14.39% | 0.9706 | 0.1435 | 0.0458 |
| Restaurant/Dining | 0.79 | 80,000,000 | ~5.91% | 27.34% | 13.82% | 0.9761 | 0.0577 | 0.0467 |
| Software (System & Application) | 1.23 | 53,023,000 | ~3.92% | 6.21% | 8.18% | 1.3001 | 0.0509 | 0.0482 |
| Transportation | 0.66 | 930,000,000 | ~14.78% | 49.22% | 15.66% | 0.9340 | 0.6419 | 0.4537 |
| Total |  | 1,353,023,000 | 100% |  |  |  | 0.9609 | 0.6456 |

**Comparing to Sector Betas (Bottom-up Betas)**

For Agility, the choice between top-down and bottom-up beta is crucial. While the **top-down beta** derived from historical regression data (beta of 1.583) reflects past market behavior and provides an overview of the firm's sensitivity to the market, it may not capture current structural changes, such as the 2024 spin-off. The **bottom-up beta**, calculated by breaking down Agility into its business components and estimating weighted unlevered and levered betas for each segment, is more forward-looking and reliable. This method leverages industry data to assess the specific risk of each segment, adjusted for financial leverage using the Hamada equation, and provides a comprehensive view that incorporates current business and financial risks.

For estimating the expected return on equity for Agility, we can use the CAPM model to reflect different investment horizons. For a **short-term investor**, the focus is on immediate returns, so we rely on the **levered beta**, which includes the effect of the company's financial leverage. With the current market conditions, this suggests an expected return of about 5.480%. This higher return indicates that while short-term investments in Agility come with the potential for greater rewards, they also carry higher risk due to market volatility and the company’s leverage.

On the other hand, for a **long-term investor**, we consider the **unlevered beta** to understand the core business risk without the added impact of debt. This results in a more stable expected return of approximately 4.983%This reflects the underlying strength of Agility’s business operations and suggests that long-term investments are likely to be more resilient to financial fluctuations and provide steady growth over time.

For managers, these insights are crucial. The expected returns help set realistic performance benchmarks, guide strategic project evaluations, and balance risk management. By understanding both short-term and long-term expectations, managers can make informed decisions that align with company goals and investor expectations, ensuring sustainable performance.

**Estimating default risk and cost of debt**

Comparing Agility’s financial metrics from 2023 to 2024 reveals significant shifts post-spin-off, emphasizing the structural and financial impacts:

| Metric | 2023 Value | 2024 Value |
| --- | --- | --- |
| Interest Expense | 64,094,000 KD | 35,036,000 KD |
| EBIT | 165,676,000 KD | 84,574,000 KD |
| Interest Coverage Ratio | 2.58 | 2.41 |
| Market Cap | 1,362,149,450 KD | 746,639,875 KD |
| Credit Rating | B1/B+ | B2/B |
| Default Spread | 3.14% | 3.61% |
| Interest rate | 7.14% | 7.61% |

For 2023, the taxation was **19,867 KD** on a profit before tax of **127,597 KD**, reflecting an approximate marginal tax rate of **15.6%**​.

In January 2024, Agility Public Warehousing Company underwent a significant structural change where Agility Global PLC was spun off from the parent company, Agility Kuwait. This strategic move, akin to a divestiture, resulted in Agility Kuwait retaining a 51% controlling stake in Agility Global, which is now listed in Abu Dhabi.

This separation had a notable impact on Agility’s financials, including a substantial drop in its market capitalization, as seen by comparing the 2023 and 2024 metrics. The market cap fell from approximately 1.36 billion KD in 2023 to around 746.6 million KD in 2024. This decrease is also evident in the stock price drop on the Kuwait Boursa, as shares were allocated to investors for the new entity, Agility Global.

This structural shift has implications for Agility’s financial performance and investor perception. The reduction in EBIT and the changes in interest expense, credit ratings, and default spreads all reflect the financial adjustments and potential risks following the spin-off. Understanding these elements is crucial for interpreting Agility’s current and future performance.

Agility's 2024 financial statements show recent borrowings. The company raised KD 719.7 million using a funded equity collar, which helps protect the value of investments, at market interest rates. It also has loans with fixed and variable interest rates.

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**Estimating Cost of Capital**

As of December 2023:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital Component | Amount | Weight | Cost | Wi \* ri (WACC) |
| MV of Debt | 1,299,718,000 | 69% | 4.16% | 2.86% |
| Mv of Equity | 594,695,797.84 | 31% | 8.211% | 2.58% |
| Total | 1,894,413,798 | 100% |  | 5.43% |