Target Price: SAR110/share
Current Price: SAR118/share
Upside: -6.7% (+Div. Yield: ~1%)
Rating: Neutral

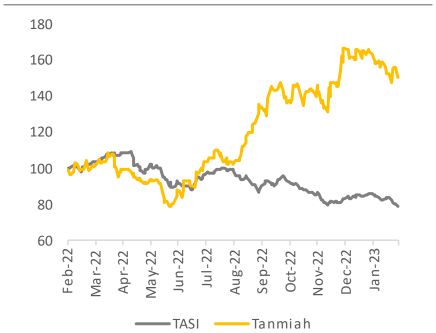
Tanmiah Food Company (Tanmiah)

Maintain TP of SAR110/share. Key questions answered.

Stock data	
TASI ticker	2281
Mcap (SARmn)	2,376
Avg. Trd. Val (3m) (SARmn)	14.3
Free float	30.0%
QFI holding	3.0%
TASI FF weight	0.04%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- 4Q22 numbers were below our estimates.
- Near term numbers are likely to be weak.
- We maintain our target price of SAR110/share and Neutral rating.

We attempt to answer key questions for Tanmiah in this note.

1) What happened in 4Q?

In 4Q, the company reported a one-off gain of SAR101.9mn, after the sale of 60% stake in Supreme Foods Processing Co. and 15% stake in Agricultural Development Co. to Tyson International. This transaction was done in early November of 2022 and thus 4Q numbers reflected 2 months of post-acquisition and 1 month of pre-acquisition making it difficult to analyze standalone 4Q numbers. Clean 4Q net profit is likely to have been more than SAR25mn. Excluding one off gains, 4Q22 results were below our and consensus estimates. We separated our estimated revenues of FPP segment to forecast 2023 revenues and are assuming gross profit margin of 25% to continue (as guided in the analyst con-call) for the consolidated business. 1Q23 gross margin may be an important indicator to track.

2) How important are subsidies?

Without subsidies, the company would be reporting losses.

3) Will subsidies increase or decrease?

Our view is that - given subsidies are provided to support companies' financial position, subsidies could decline if companies start reporting higher profits and vice-versa. So, margins could remain stable either way.

4) Would cost of raw materials come down?

Our price estimates for key raw material Soybean and Corn are flat (from 4Q22 levels). Also, the company has around 3 months of inventory and thus any benefits from a decline in raw materials may be visible after that (if at all prices decline). Thus, our near-term profit numbers are weak. However, as gas prices and Urea prices have come down significantly, there is a possibility of a decline in pricing of raw materials in the next 6 months.

5) Will chicken prices go up?

There is significant competition in the poultry space in KSA with plenty of capacity addition coming up. Thus, we do not expect prices to go up. Pricing increased steeply in 1H22 but data for the last ten years suggests chicken prices increased merely 2% p.a. In our view, chicken, being an essential protein in KSA, is unlikely to see any material price increases going forward.

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6) How do we see capacity expansion?

While capacity expansion has been happening in a steady manner, volumes haven't increased as much as capacity in 4Q22, but the management expects operating rates to pick in 1Q23. This may help volume growth in the coming quarters but overall, at the current pace, we continue to forecast 800k birds' capacity vs the company's guidance of 1.2mn birds/day by 2025/26.

7) What about operating leverage?

We haven't seen operating leverage kick in as much as expected. Sales and marketing continue to grow faster than revenues. This could be because of the aggressive expansion of the distribution network. Also, the company follows an asset light model thus operating leverage maybe lower than for an otherwise asset heavy expansionary mode.

8) How are cash flows?

Generally, when companies have thin profit margins, they have lower capex requirements. However, Tanmiah has low profit margins as well as high capex + lease payments. And given the asset light based operating model, even as capex may decline in the future, lease payments may continue to be high given that they relate to payments for the land/equipment. Notably Lease payments in last 3 years were above profits.

9) Where can we go wrong?

The key variable would be to note how cost of raw materials move and any possible benefits from export of chicken through Tyson.

10) Conclusion on Valuation?

Though the PE looks healthy for such a high growth company, in the past few quarters we have seen the net profits miss our expectations. Profits can continue to be volatile for Tanmiah. Based on our analysis given the risks, it is not a conviction buy given the uncertainties and cash flow generation. We continue to use the average of both methods (DCF and PE) to arrive at our target price of SAR110/share, which implies a Neutral rating based on our methodology.

Figure 1: Basic Financials

SARmn	2022a	2023e	2024e	2025e
Revenue	1,727	2,138	2,599	2,970
Revenue growth	*12%*	*24%*	*22%*	*14%*
Gross Profit	420	534	650	743
Gross Profit margin	*24%*	*25%*	*25%*	*25%*
EBITDA	220	308	363	411
Op. income	114	175	213	244
Net profit	75	127	156	174
Net profit margin	*4%*	*6%*	*6%*	*6%*
EPS (SAR)	3.6	5.4	6.6	7.4
DPS (SAR)	0.5	1.0	1.5	2.0
P/E	33.1x	22.3x	18.1x	16.2x

Source: Company, GIB Capital

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