# Tanmiah Food

**Poultry processing – Consumer**
TANMIAH AB: Saudi Arabia
28 April 2022

الراجحي المالية
Al Rajhi Capital

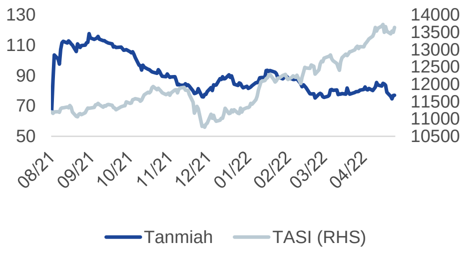
| US$0.411bn | 100% | US$5.29mn |
| --- | --- | --- |
| Market cap | Free float | Avg. daily volume |

| | | |
| --- | --- | --- |
| Target price | 84.00 | 8.9% over current |
| Current price | 77.00 | as at 27/4/2022 |

**Existing rating**

| Underweight | Neutral | Overweight |
| --- | --- | --- |

**Performance**




**Earnings**

| SARmn | 2021 | 2022E | 2023E |
| --- | --- | --- | --- |
| Revenue | 1,539 | 1,913 | 2,181 |
| Y-o-Y % | 27% | 24% | 14% |
| Gross Profit | 327 | 443 | 524 |
| Gross Margin | 21% | 23% | 24% |
| Operating Profit | 47 | 113 | 149 |
| Operating Margin | 3% | 6% | 7% |
| Net Profit | 14 | 75 | 106 |
| Net Margin | 1% | 4% | 5% |
| EPS (SAR) | 0.68 | 3.74 | 5.29 |
| | | | |
| P/E (Curr.) | 113.9x | 20.6x | 14.6x |
| P/E (Target) | 124.1x | 22.5x | 15.9x |

**Source:** Company data, Al Rajhi Capital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## Lowering the TP to SAR84/sh.

*Tanmiah's top-line came in at SAR435mn (+18.2% y-o-y) and was primarily underpinned by price increase followed by volume growth in its core segment - Fresh poultry (c.67% of revenue). Its capacity in this segment increased from 370k birds per day to 400k however further increase in the remaining year will stay constrained due to the equipment supply delay till end of the year. Also, the price increase witnessed in this quarter aided in passing on the higher costs to end consumer however it shrunk the room for maintaining the low-price advantage Tanmiah had at the IPO stage. Nevertheless, further price increase, if needed, may not be a challenge as the inflationary pressure, especially in the feed cost, is a global phenomenon impacting every player in the industry and thus warrants a higher pricing across board to offset this impact. The FPP segment which is a B2B setup also fared well (+29% y-o-y) as it witnessed higher demand which could be catered well given the increase in capacity. As such, the improved volumes (6mn kgs vs. 4.5mn kgs in 1Q'21) drove the sales higher. Considering the expansion plans and robust demand in this segment we factor in a strong growth of 30% over a year taking the volumes to 7.8mn. Moreover, the prices are also set to increase in near term as contracts are scheduled for renewal which further helps us stay optimistic on this segment's growth prospectus. We also stay positive on the Animal Feed segment given the company's focus on introducing new products and increasing customer base amid rising demand. The Food franchise business too, although at a nascent stage, stands to gain from high demand and aggressive expansion plan and could contribute meaningfully in the long run.*

**Q1 2022 earnings summary:** Tanmiah reported revenue of SAR435mn for 1Q'22 (+18.2% y-o-y), slightly lower than our estimate of SAR454mn. The healthy revenue growth was a result of good performance in the fresh poultry and further processing segments, given the strong consumer demand and was also supported by gradual increase in prices in the fresh category. Moreover, the recently started food franchising business was an additional stream of revenue in this quarter. The gross profit margin saw some compression compared to last year but was in-line with our estimate of 20.5%. The y-o-y impact in margin came mostly from the higher commodity inflation and lower subsidy recovery, which we had factored in. As such the gross profit came in at SAR91mn (+2% y-o-y) and was in line with our estimate of SAR93mn. Margin pressure got severe at the operating level though with the company reporting only 1.9% margin vs. our estimate of 4.4% leading to reported operating income of SAR8.5mn only (-68.2% y-o-y) vs. our estimate of SAR20mn. The margin impact was mainly driven by higher than anticipated expansion costs which were focused on improving market share and increasing the branch network as well as the workforce. Consequently, the net profit came in at SAR1.5mn (-91.8% y-o-y) and was considerably below our estimate of SAR12mn.

**Figure 1 Summary of 1Q 2022 earnings**

| (SAR mn) | 1Q 2022 | 1Q 2021 | *Y-o-Y* | 4Q 2021 | *Q-o-Q* | ARC est | *vs ARC* |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Revenue | 435 | 368 | *18%* | 415 | *5%* | 454 | *-4%* |
| Gross profit | 91 | 89 | *2%* | 74 | *23%* | 93 | *-2%* |
| Gross margin | 21% | 24% | | 18% | | 20% | |
| Operating profit | 8 | 27 | *-68%* | -1 | *-842%* | 20 | *-58%* |
| Operating margin | 2% | 7% | | 0% | | 4% | |
| Net profit | 2 | 19 | *-92%* | -12 | *-112%* | 12 | *-87%* |
| Net margin | 0% | 5% | | -3% | | 3% | |

*Source: Company data, Al Rajhi Capital*

**Valuation and outlook:** The stock is currently trading at a FY2022e PE of 20.6x, which still affords it some room for growth considering the expansion plans and the strong demand for its products. However, the continued inflationary pressure, especially in the feed cost could take a toll on demand and may require the companies to rely more on improving the efficiency to protect margin and maintain or improve their market share. As such we turn cautious on Tanmiah as we see the poultry space getting more competitive which could add pressure on margins.

We value Tanmiah using an equal mix given to DCF and PE-based relative valuation. Our DCF TP based on 9.9% WACC and 2% terminal growth is SAR84/sh while PE multiple based TP based on 24x FY2022e EPS is also SAR84/sh. Thus equal-weighted TP stands reduced to SAR84/sh from SAR91/sh earlier and implies a 8.9% upside from CMP of SAR77/sh. We reduce our rating to "Neutral" on Tanmiah.

**Key downside risks to our valuation:**

1) If the capacity expansion is slower than our expectations then it will have a negative impact on our revenue forecast and valuations.

2) If the inflation rises further due to continued geopolitical issues, it will impact the input cost for Tanmiah and will have negative impact on our valuation.

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"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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