Tanmiah Food

Poultry processing – Consumer
TANMIAH AB: Saudi Arabia
31 August 2022

الراجحي المالية
Al Rajhi Capital

US$0.355bn	30%	US$3.3mn
Market cap	Free float	Avg. daily volume

Target price	92.0	+14.4% over current
Current price	80.4	as of 30/08/2022

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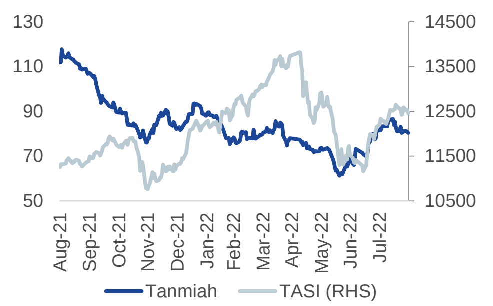
Existing rating

Underweight | Neutral | **Overweight**

Performance



Earnings

SARmn	2021	2022E	2023E
Revenue	1,539	2,022	2,452
Y-o-Y %	27%	31%	21%
Gross Profit	327	486	584
Gross Margin	21%	24%	24%
EBITDA	141	260	326
Operating Margin	9%	13%	13%
Net Profit	14	82	101
Net Margin	1%	4%	4%
EPS (SAR)	0.68	4.12	5.05
P/E	121.0x	19.9x	16.3x
EV/EBITDA	12.6x	6.8x	5.5x

Source: Company data, Al Rajhi Capital

Tanmiah Food

Strong results with continuous expansion in both FPP and Fresh segment; raising TP to SAR92/share

Tanmiah's first half of 2022 results were positive as the company ended the period with a strong performance driven mainly from the fresh segment. The top-line grew by 31.4% y-o-y. The fresh segment sales grew by 31% from SAR511mn to SAR666mn. (Fresh % of sale 69%). Similarly, the frozen segment sales grew by 31% y-o-y from SAR152mn to SAR199mn in H1 2022 (21% of sales). In the meantime, net profit grew by 43% y-o-y to SAR31.7mn. The company's sales volume from fresh chicken in the first half of 2022 reached 53.5mn vs 49.2mn during the same period last year (+8.8% y-o-y). While the frozen segment volume reached 11.6mn kg (+29% y-o-y) compared to 9mn kg. In 2022, (as of 30/8/22), the company added +50k birds per day capacity, boosting total capacity to 421k birds per day and we expect a similar amount to be added in H2 2022. In the frozen segment, we expect 9mn kg capacity to be added by the end of 2022. The deal with Tyson will help Tanmiah in achieving its expansion goals in the FPP segment but we believe the synergies would be captured in the long term. We think in H2 2022, Tanmiah will be able to maintain its current margin for two reasons: 1) lower cost pressure proven by the decline in the raw material from their peak in May which will help in maintaining the margins. 2) the company is restructuring its cost to remove the middle man in its transactions (this is one of the reasons why S&DE in H1 increased by 33% as the company is expanding its S&D presence) which will further enhance the margins. We have revised our capacity expectations from 400k per day to 450k per day in 2022 on the faster capacity expansion (we had earlier expected the company to delay expansion until 2023). We also revise our 2025 capacity from 750k to 900k birds per day. In conclusion, we revise our target price from SAR80/sh. to SAR92/sh. with an Overweight rating, implying an upside of ~14% from the CMP of SAR80.4/sh

2Q Result Commentary: Tanmaih's Q2 results came above our expectations on faster recovery in margins. Top-line grew 45% y-o-y while we were expecting a growth rate of 32% y-o-y. We attribute the deviation mostly to higher volumes sold in the 2Q. We expected margins to improve to 22.3%, however, it surprised us and reached 25.2%. As a result, there was a big deviation in the bottom line (SAR30mn vs SAR14mn expected).

Figure 1: Tanmiah's Q2 2022 Results

(SAR mn)	2Q 2022	2Q 2021	*Y-o-Y*	1Q 2022	*Q-o-Q*	ARC est	*vs ARC*
Revenue	531	367	*45%*	435	*22%*	485	*9%*
Gross profit	134	78	*71%*	91	*47%*	108	*24%*
Gross margin	25%	21%		21%		22%	
Operating profit	42	9.7	*329%*	9	*389%*	22	*86%*
Operating margin	8%	3%		2%		5%	
Net profit	30	3	*783%*	2	*1913%*	14	*111%*
Net margin	6%	1%		0%		3%	

Source: Company data, Al Rajhi Capital

Valuation and outlook: We value Tanmiah using an equal mix given to DCF and PE-based relative valuation. Our DCF TP, based on 8.6% WACC (we revised WACC from 9.1% to 8.6% as we believe the weight of debt will increase) and 2.5% terminal growth, is SAR93/sh. while PE multiple-based TP, based on 22x FY2022e EPS, is SAR91/sh. Thus equal-weighted TP stands at SAR92/sh. (SAR80/sh. earlier), implying a 14.4% upside from CMP of SAR80.4/sh. We maintain our "Overweight" rating on Tanmiah. Upside risks include, faster than expected expansion in both segments, better margins than we anticipate, earlier than expected realization of synergies from the Tyson transaction, and higher government subsidies.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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