Tanmiah Food Co.
Food Diversified – Industrial
TANMIAH AB: Saudi Arabia
28 August 2023

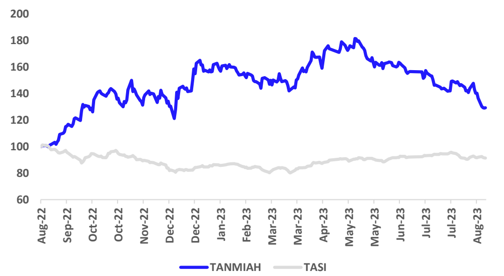
US$0.6bn	30.0%	US$4.3mn
Market Cap	Free Float	Avg. Daily Volume

Target price 110.00 2.4% above current
Current price 107.40 as at 27/08/2023

Existing rating

Underweight | **Neutral** | Overweight

Performance (Rebased to 100)



Earnings

SARmn	2022	2023E	2024E
Revenue	1,727	2,051	2,507
Y-o-Y %	43%	19%	22%
Gross Profit	420	470	579
Gross Margin	24%	23%	23%
EBITDA	220	246	285
EBITDA Margin	13%	12%	11%
Net Profit	75	78	103
Net Margin	4%	4%	4%
EPS (SAR)	3.63	3.95	4.55
P/E	28.7x	26.4x	22.9x
EV/EBITDA	12.6x	11.3x	9.7x

Source: Company data, Al Rajhi Capital.

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Tanmiah Food Co.

Margins likely to be under pressure on lower subsidy & higher competition/imports; we change our rating to neutral with TP of SAR110/sh.

Tanmiah reported a weaker-than-expected 2Q23 result, as higher costs ebbed away top-line gains in a competitive environment. Revenue jumped 14.4% y-o-y to SAR499mn, primarily fuelled by growth in the fresh poultry segment. The fresh poultry segment revenue grew 10.3% y-o-y to SAR420mn, supported by higher sales volumes (33.5mn vs 28.7mn in 2Q22) and improvement in production capacity (500k birds per day (bpd) vs 420.5k bpd as of June 2022). The company also added five new POPEYES® stores, ending the quarter with 31, resulting in a 3.4x growth in revenue to SAR20mn (2Q22: SAR6mn). Overall, gross and operating margins declined to 21.3% (2Q22: 25.0%) and 4.3% (2Q22: 7.5%), respectively. The decline in margins was mainly due to lower subsidy received during the quarter, pricing pressures from frozen products, and a 7.7% y-o-y jump in opex as Tanmiah continued to ramp up production and distribution capacity. Consequently, net income dropped to SAR11mn from SAR30mn in 2Q22. We revise our target price for Tanmiah to SAR110.0/sh from SAR145.0/sh, 2.4% higher than the current market price of SAR107.4/sh.

Figure 1: **Tanmiah 2Q23 earnings' summary**

(SAR mn)	2Q 2023	2Q 2022	Y-o-Y	1Q 2023	Q-o-Q	ARC est	vs ARC
Revenue	499	436	14.4%	485	2.9%	509	-2.0%
Gross profit	106	109	-2.9%	120	-11.7%	126	-16.1%
Gross margin	21.3%	25.0%		24.8%		24.8%	
Operating profit	22	33	-34.5%	37	-41.1%	40	-46.4%
Operating margin	4.3%	7.5%		7.5%		7.9%	
Net profit	11	30	-62.3%	21	-45.7%	25	-55.1%
Net margin	2.3%	6.9%		4.3%		5.0%	

Source: Company data, Al Rajhi Capital.

Competitive pressure likely to keep margins lower:

Saudi Arabia's poultry imports from Brazil increased by 19.4% y-o-y to 148,100 tonnes in 2023 (between January and May). Higher imports are putting downward pressure on the product selling prices. In 2Q23, Tanmiah's average selling price declined by 2.7% on a q-o-q basis. That decline whipped around SAR13mn in sales which could have left the margins at 23.6%. Tanmiah's bottom line could be under pressure as long as more frozen chickens are sold in the market.

Decline in government subsidy received a concern:

In 1H23, the company reported a government subsidy of SAR42mn including a one-time subsidy of SAR15mn, vs. SAR21mn in 1H22, despite a 21.5% y-o-y increase in sales volume. It translates to a SAR0.33 average government subsidy received per bird for 1H23, a decline from the average of SAR0.55 received in 2022. Subsequently, the company's margins were impacted in 1Q and 2Q from the lower subsidy received which raises a concern that the company might not be able to hold on to its guidance of 24-25% margins at least in the short term.

Thus, we revise our margins estimate for the next year to 23% gross margin from ≈24.5% as we are seeing a surge in imports as well as lower government subsidy.

Valuations: We have valued Tanmiah using a blended approach of DCF and P/E relative valuation (assigned equal weights). We arrived at our target price for the company using an equal mix of DCF and P/E. The DCF target price is based on a 2.5% terminal growth and a WACC of 8.9% reaching SAR124/sh. The P/E target price is SAR96/sh and is based on 25x and FY 2023 earnings. Overall, we change our rating on Tanmiah to neutral with a target price of SAR110/sh. Upside risks to our valuation are, better than expected improvement in gross margin, and lower than expected capex spending. Downside risks are lower earnings, lower capacity additions than anticipated, higher operating costs and higher competition.

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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.

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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