



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

Target price **145** 33% over current
Current price **109** as of 06/10/2022

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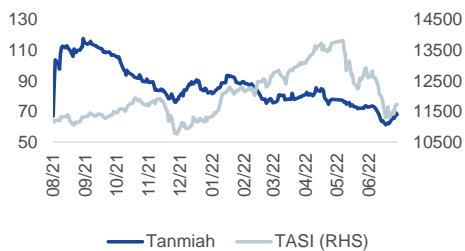
Existing rating

Underweight **Neutral** **Overweight**

Tanmiah Food

Strong results likely to continue as input cost fall; raising TP to SAR145/share.

Performance



Earnings

SARmn	2021	2022E	2023E
Revenue	1,539	2,122	2,478
Y-o-Y %	27%	38%	17%
Gross Profit	327	524	622
Gross Margin	21%	25%	25%
EBITDA	141	264	359
Operating Margin	9%	12%	14%
Net Profit	14	104	126
Net Margin	1%	5%	5%
EPS (SAR)	0.68	5.21	6.28
P/E	162.3x	21.1x	17.5x
EV/EBITDA	12.6x	6.7x	5.0x

Source: Company data, Al Rajhi Capital

Is the story over?

Tanmiah has rallied over the last few months after the earnings turnaround in the second quarter. Is the story over? – a key question generally asked by investors. We believe that there is still significant growth potential in the stock, mainly due to the following reasons.

- 1) Gross margin will likely stay between 24 to 25% over the medium long term, supported by falling input cost and a higher probability of a hike in government subsidy. The latest U.S PPI data showed a decline for the second month across most of the food manufacturers, which we believe is reflective of the global trend (Corn mill products fell 5.7% which is used for animal feed; Processed poultry down 1.8%, and Slaughter Poultry down 7.2%). In the short term, margins could go higher than 25%, driven by the decline in major components, but we believe that is not sustainable in the long run.
- 2) Initially, we overestimated the operating cost and estimated OPEX to eventually fall to 16.5% of sales after the expansion phase. However, on a conservative basis, we now revise our OPEX expectation to 14.8% (still higher than the management expectations of 14%; ~15% an average over 2018-20) as we expect an improvement in cost efficiencies post its expansion plans.

Profitability:

Going forward, we see strong growth in net profit as a result of many factors such as improved performance, expansions, and cost efficiencies, among others. However, the size of the leverage needed for the expansion is expected to be high, thus slightly affecting the net profit, especially during a rising interest rate environment. In the short term, we expect 3Q earnings to be SAR37.1mn with fresh volume hitting 30mn birds.

Government Subsidy:

Government subsidy was implemented sometime before the sharp increase in the cost of animal feed which inflated the prices of poultry products significantly. We think that the subsidy will be revised upward and is considered an upside risk (it's not included in our assumptions) to margins. However, that wouldn't change long-term sustainable margin levels. In conclusion, we change our target price from SAR92/sh to **SAR145/sh**. with an Overweight rating, an upside of 33% from the CMP of SAR109/sh.

Valuation and outlook:

We value Tanmiah using an equal mix given to DCF and PE-based relative valuation. Our DCF TP based on 8.5% WACC and 2.5% terminal growth is SAR154/sh while PE multiple-based TP based on 24x FY2023e EPS is SAR136/sh. Thus equal-weighted TP stands at SAR145/sh from SAR92/sh earlier, implying a 33% upside from CMP of SAR109/sh. We maintain our "Overweight" rating on Tanmiah. Upside risks include faster-than-expected expansion in both segments, higher subsidies, and lower-than-expected animal feed costs.



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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.

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