



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

Target price **80.0**  
Current price **66.6** 20% over current as at 3/7/2022

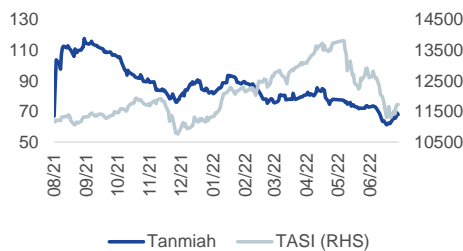
Existing rating

Underweight

Neutral

Overweight

#### Performance



#### Earnings

SARmn	2021	2022E	2023E
Revenue	1,539	1,941	2,150
Y-o-Y %	27%	26%	11%
Gross Profit	327	442	517
Gross Margin	21%	23%	24%
EBITDA	141	195	250
Operating Margin	9%	10%	12%
Net Profit	14	50	81
Net Margin	1%	3%	4%
EPS (SAR)	0.68	2.51	4.05

P/E	98.3x	26.5x	16.5x
EV/EBITDA	12.6x	9.1x	7.1x

Source: Company data, Al Rajhi Capital

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## Tanmiah Food

**Margins improvement likely on stabilizing cost; upgrade to an overweight with a TP of SAR80/share.**

Tanmiah's stock price has been under pressure over the last few months mainly due to rising feed prices for poultry. Corn and Soybean, on average have increased dramatically by 29% and 26% respectively since the start of the year (Figure 1 and 2 illustrate the movement of corn and soybean for 1H2022). We think that the worst is already behind us as prices for corn and soybean have remained at a stable range since Feb. (prices have remained largely flat since Feb, prices declined in late June) supported by future contracts (end year corn and soybean future contract prices at 15% and 13% lower than current levels) and the decline in fertilizers prices. Tanmiah still has more room for price increase as its products prices are below most of its peers. The company's gross margin took a hit in 4Q21, reaching (17.9%) mainly because of higher feed prices and the nature of some contracts with vendors which have a fixed price for a certain period (prices are sticky), but managed to recover in 1Q22 to 21% as management slightly raised prices for its products and contracts to pass part of the inflation to end users. For 2Q22 we believe the company will raise prices even further (as they have room for price hikes and to pass inflation cost), thus improving margins. We believe the full recovery for margins as feed price cools, will be seen in 1H 2023 as we expect earnings to reach SAR81mn in FY 2023. Moreover, the company has huge expansion planned, as they target to reach 1.2mn birds' production per day in 2025 from 400k per day as of 1Q22 and increase FPP capacity from current 23kt annually to 37kt in 2025 which we believe could further strengthen Tanmiah's position as an important player in the poultry market.

**Figure 1 Soyabean Price Trend**



Source: Company data, Al Rajhi Capital

**Figure 2 Corn Price Trend**



Source: Company data, Al Rajhi Capital



**Valuation and outlook:** The stock is currently trading at a FY2022e PE of 26.5x, which still affords it some upside considering the expansion plans and the strong demand for its products as room for growth. Moreover, as inflationary pressure cools (especially for the feed cost), margins will start recovering. We value Tanmiah using an equal mix given to DCF and PE-based relative valuation. Our DCF TP based on 9.1% WACC and 2.5% terminal growth is SAR82/sh while PE multiple based TP based on 22x FY2023e EPS is SAR78/sh (2022e earnings suffered from cost increase and usually prices are sticky and do not directly increase with the increase in costs, especially for some fixed price contracts). Thus equal-weighted TP stands at SAR80/sh from SAR84/sh earlier and implies a 20.1% upside from CMP of SAR66.6/sh. We upgrade our rating to “Overweight” on Tanmiah.

Downside risks are continuous increase in feed prices, higher than expected capex, increase in competition mainly in HORECA, unfavourable changes or reduction in government subsidies and failure to secure debt for expansions.



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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.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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