الراجحي المالية
alrajhi capital

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US$0.7bn	30.0%	US$7.9mn
Market Cap.	Free Float	Avg. Daily Value traded

Tanmiah Food Co.

Rating Revised to Overweight

Overweight

Price Target (SAR): 135.0

Current: 122.2
Upside/Downside: 10.5% above current

Valuation Multiples	23A	24E	25E
P/E (x)	27.1	20.9	19.0
EV/EBITDA (x)	10.6	9.8	8.8

Major Shareholders	% Ownership
Al Dabbagh Holding Group Company	70.00

Price Performance	1M	3M	YTD
Absolute	22.0%	31.4%	18.6%
Relative to TASI	19.6%	16.4%	15.0%

Earnings

SARmn	2023	2024E	2025E
Revenue	2,093	2,514	2,941
Revenue growth	21.2%	20.1%	17.0%
Gross profit	495	621	706
Gross margin	23.6%	24.7%	24.0%
EBITDA	261	341	389
EBITDA margin	12.5%	13.5%	13.2%
Net profit	89	136	149
Net margin	4.3%	5.4%	5.1%
EPS	3.8	5.8	6.4
DPS	1.4	2.1	2.3
Payout ratio	35.6%	35.1%	34.9%
P/E	27.1x	20.9x	19.0x
RoE	13.3%	18.7%	18.0%

Source: Company data, Al Rajhi Capital.

We revise our rating on Tanmiah from Neutral to Overweight with a Fair Value of SAR135/sh (from SAR110/sh) amid changes in the fundamentals of the company's core business. International prices of corn/soybean (used in poultry feed) are down 47%/33% from their peak amid excess supply. Furthermore, USDA expects the global export of chicken meat for 2024 to decline by 1% from its last forecast amid expectation of lower exports from Brazil. While we expect these positive developments to improve the company's gross margins in the near term, we maintain a conservative approach and flag the possibility of further upside.

Dynamics of Corn, Soybean & Export of Chicken Meat: International corn prices have declined by 47% from their peak as supplies from US and Brazil have surged amid stagnant demand. In the aftermath of Russia's invasion of Ukraine (one of the world's largest grain exporters) prices of corn soared in 2022. In response to high prices, US farmers expanded their acreage. Additionally, supplies also increased as Ukraine resumed exports of grain through its Black Sea ports. Against this backdrop, the United States Department of Agriculture (USDA) now expects world corn ending stocks to rise by 7% in 2023/24 to 322mn tons.

Similar to corn, higher supply has contributed towards a 33% decline in soybean prices since its peak. As per USDA, world soybean ending inventory is expected to grow by 12% to 116mn tons in 2023/24. This is on account of the expectation of higher soybean production in Argentina as a result of better weather conditions in the western growing regions of the country.

In our opinion, a higher ending stock of corn and soybean should be expected to keep the prices of these key inputs of poultry feed under pressure in the near term. At the same time USDA, expects the global export of chicken meat for 2024 to decline by 1% from its last forecast amid expectations of lower exports from Brazil.

Recent results, Management guidance & Our opinion: During 4Q2023, Tanmiah's topline grew by 20% YoY led by higher volumes of the poultry business which grew by 15% YoY. Furthermore, the positive impact of grain price movement and 3% YoY improvement in poultry price contributed towards the significant improvement in gross margins during the quarter. The gross margins of the company grew by 431bps on a sequential basis to 26.3%. As a result, Tanmiah's net profit from continuing operations grew by 40% YoY and 57% QoQ.

A key highlight of Tanmiah's recent earnings call was the management's guidance that it expects the average gross margins in 2024 to be at the same level or exceed the margins witnessed in 4Q2023.

In our opinion, management's guidance is largely reflective of the above-mentioned dynamics in the international prices of corn and soybean and the outlook for the export of chicken meat from Brazil. However, given the volatility in commodity prices witnessed in the past on account of geo-political changes as well as changes in weather conditions, we maintain a relatively conservative opinion about the company's gross margins in 2024. Hence, we keep the average gross margins in 2024 at 24.7% (~160bps lower than management's guidance). Furthermore, for 2025 and beyond we expect gross margin of 24% which is largely in-line with the historical average gross margins of the company, despite the company's new processing capacity being more efficient than its existing ones. Hence, we flag that a higher-than-expected gross margin for the company can create the possibility of further upside for the stock.

Recommendation and Valuation:

We now have an Overweight stance on the company with a Fair Value of SAR135/sh reflective of the changing fundamentals of the company's core business. We value the company using the discounted cashflow method and EV/EBITDA multiple giving equal weight to each. For the discounted cashflow method, we use a cost of equity of 9.9% and a terminal growth rate of 2.5%. For the EV/EBITDA method, we use a target multiple of 10x in-line with the historical multiple of the company.

Figure 1 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/ downside
DCF Valuation	129	50.0%	64	5.2%
EV/EBITDA	142	50.0%	71	15.8%
Target price			**135**	
CMP			122.2	
Upside/(Downside)			**10.5%**	
Dividend yield			1.7%	
Total returns			**12.2%**	

Source: Al Rajhi Capital estimates.

Figure 2 **Corn Prices (USd/bu)**

Source: Bloomberg, Al Rajhi Capital.

Figure 3 **Soybean (USd/bu)**

Source: Bloomberg, Al Rajhi Capital.

Financials

Figure 4 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	**2,093**	**2,514**	**2,941**
y-o-y growth	*21.2%*	*20.1%*	*17.0%*
Cost of Sales	1,598	1,893	2,235
Gross Profit	**495**	**621**	**706**
y-o-y growth	*17.8%*	*25.6%*	*13.6%*
margins	*23.6%*	*24.7%*	*24.0%*
Operating Profit	**130**	**195**	**217**
y-o-y growth	*14.5%*	*50.1%*	*11.1%*
margins	*6.2%*	*7.8%*	*7.4%*
Net Income	**89**	**136**	**149**
y-o-y growth	*-52.7%*	*52.0%*	*9.6%*
margins	*4.3%*	*5.4%*	*5.1%*
EPS	3.8	5.8	6.4

Source: Company data, Al Rajhi Capital.

Figure 6 **Ratios and Multiples**

	2023	2024E	2025E
RoE	13.3%	18.7%	18.0%
Debt/EBITDA (x)	3.1	2.9	2.9
P/E (x)	27.1	20.9	19.0
D/Y	1.3%	1.7%	1.8%
EV/EBITDA (x)	10.6	9.8	8.8

Source: Company data, Al Rajhi Capital.

Figure 5 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and cash equivalents	111	104	127
Accounts receivables and others	437	523	564
Inventories	263	341	367
Biological assets	143	162	189
Others	22	22	22
Current Assets	**976**	**1,153**	**1,269**
PPE & Intangible	532	702	828
Right-of-use assets	423	453	477
Investment in associate	81	81	81
Others	1	1	1
Total Assets	**2,012**	**2,390**	**2,655**
Trade payables	400	511	551
Borrowings	288	500	600
Lease liabilities	80	69	72
Others	12	12	12
Current Liabilities	**781**	**1,092**	**1,236**
Borrowings	123	62	62
Lease liabilities	330	362	380
Others	99	99	99
Total Liabilities	**1,332**	**1,614**	**1,776**
Share capital	200	200	200
Retained earnings	303	398	502
Others	178	178	178
Total Equity	**680**	**775**	**879**

Source: Company data, Al Rajhi Capital.

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

"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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