

Tanmiah Food Co.

Food Diversified – Industrial
TANMIAH AB: Saudi Arabia
24 July 2023



US\$0.6bn Market Cap	30% Free Float	US\$3.3mn Avg. Daily Volume
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Target price 145.00 **27% above current**
Current price 114.20 **as at 23/07/2023**

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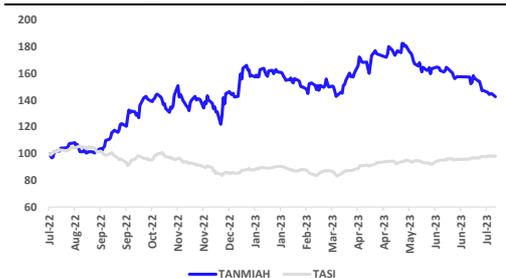
Existing rating

Underweight **Neutral** **Overweight**

Tanmiah Food Co.

Tanmiah earnings to improve, we maintain our rating of overweight and target price of SAR145/sh.

Performance (Rebased to 100)



Earnings

SARmn	2022	2023E	2024E
Revenue	1,727	2,102	2,525
Y-o-Y %	42.8%	21.7%	20.1%
Gross Profit	420	525	621
Gross Margin	24.3%	25.0%	24.6%
EBITDA	220	294	326
Operating Margin	12.8%	14.0%	12.9%
Net Profit	75	127	141
Net Margin	4.3%	6.0%	5.6%
EPS (SAR)	3.6	5.6	6.2
P/E	32.3x	21.0x	18.9x
EV/EBITDA	12.6x	9.4x	8.5x

Source: Company data, Al Rajhi Capital.

Tanmiah's top line came in at SAR485mn (+42.2% y-o-y) and was primarily supported by price and volume growth in its core business. Fresh poultry volumes increased by 25.6% y-o-y, reaching 31.5mn birds sold. The capacity for fresh poultry was expanded by 90k from 385k birds per day (bpd) to 475k bpd, and another 25k bpd of capacity growth is anticipated for the rest of the year, raising the total capacity to roughly 500k bpd. Tanmiah added six new POPEYES stores during the quarter, increasing the total number of stores to 26, in line with the company's expansion plan in the fast food sector. Compared to last year, the restaurant chain's sales stood at SAR17mn vs SAR4mn. The management plans to double the number of restaurants by the end of the year. In comparison to SAR17mn last year, we anticipate POPEYES sales to total SAR37mn in 2023. The company received a one-time subsidy of SAR15mn during this quarter. Meantime, the company received lower-than-normal recurring subsidy, while the difference the company expects to be compensated for in the upcoming quarters. Operating expenses grew by SAR17.8mn y-o-y due to restaurant chain expansions and capacity addition in the fresh poultry. Net income came in at SAR21mn (lower than the consensus estimate) after excluding Tyson's share of SAR3.5mn. The reason for the lower net income is attributed to new stores openings which increased costs with a negligible contribution to the bottom line.

Figure 1: Tanmiah 1Q23 earnings' summary

(SAR mn)	1Q 2023	1Q 2022	Y-o-Y	4Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	485	341	42%	479	1%	502	-3%
Gross profit	120	70	70%	119	1%	123	-2%
Gross margin	25%	21%		25%		24%	
Operating profit	36	2.6	1285%	38	-6%	39	-7%
Operating margin	7%	1%		8%		8%	
Net profit	25	2	1534%	123	-80%	27	-11%
Net margin	5%	0%		26%		5%	

Source: Company data, Al Rajhi Capital.

Outlook: For the current year, we expect the fresh poultry capacity to be around 500k birds per day and a utilisation level of 86%. Also, we expect margins to be in the same range of 24% to 25%. The company plans to make a huge capacity addition second half of next year (250k bpd, 50% increase), which would result in a total capacity of 750k bpd (240mn birds on an annual basis). Given the plans for higher capacity and expansion in the restaurant chain we believe Tanmiah is currently undervalued. Thus, we reaffirm our target price of SAR145/sh from the current market price of SAR114.2/sh (an upside of 26.8%).

Valuations: We have valued Tanmiah using a blended approach of DCF and P/E relative valuation (assigned equal weights). The DCF target price is based on a 2.5% terminal growth and a WACC of 8.9% reaching SAR155/share. The P/E target price is SAR135/sh and is based on 25x and FY2023 earnings. Overall, we maintain our view on Tanmiah with an overweight rating and a target price of SAR145/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 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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