

# Tanmiah Food Company

Saudi Arabia  
4 August 2021

الراجحي المالية  
Al Rajhi Capital



US\$0.357bn

Market cap

30%

Free float

NA

Avg. daily volume

Fair price  
Issue price

87.00 +30.0% over current  
67.00 As on listing date

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## Existing rating

Underweight

Neutral

Overweight

## Financial highlights

(SARmn)	2020	2021E	2022E
Revenue	1,212	1,336	1,480
Revenue growth	5.8%	10.3%	10.8%
Gross profit	310	361	400
Gross margin	25.5%	27.0%	27.0%
EBITDA	183	214	241
EBITDA margin	15.1%	16.0%	16.3%
Net profit	74	89	95
Net margin	6.1%	6.6%	6.4%
EPS	3.7	4.4	4.7
DPS	0.0	0.0	0.0
Payout ratio	0.0%	0.0%	0.0%
RoE	21.4%	20.3%	17.9%

Source: IPO prospectus, Al Rajhi Capital

## Valuation

Valuations	2020	2021E	2022E
P/E	18.0x	15.1x	14.1x
EV/EBITDA	9.7x	8.8x	8.4x
P/B	3.9x	3.1x	2.5x

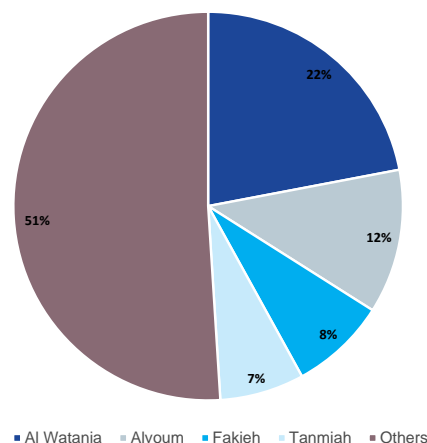
Source: Company data, Al Rajhi Capital

# Tanmiah Food Company

## Capacity expansion provides revenue visibility; Initiate with OW

Tanmiah food is one of the leading integrated poultry manufacturers in the kingdom with a production capacity of 360,000 birds per day. The company has three main segments poultry, food processing and feeds & veterinary segment. Its moat is its asset light business model, which is easily scalable; the company leases most of its farms, which enables it to allocate capital to most profitable avenues thus enhancing stakeholder's wealth. In recent years, the domestic poultry manufacturers have been benefitting as the tariffs on imported poultry has increased while local players have been getting subsidy. We expect the shift of market share from imported poultry to local players to increase as domestic players increase their capacity. Tanmiah has aggressive expansion plans to invest over SAR700mn between FY 2021-2023e to increase its poultry capacity. This provides strong revenue visibility in medium to longer term as the company operates in a defensive sector with increasing growth opportunities led by young demographics, eating out culture and increasing number of regional and international QSR's in the kingdom. We like Tanmiah as the company has strong return metrics (ROCE ~19% 2020) with sufficient reinvestment opportunities at such higher ROCE. We initiate coverage on Tanmiah foods with a tp of SAR87/sh.

Figure 1: Market Share By Volume of Birds



Source: Company data, Al Rajhi Capital

**Valuation:** We value Tanmiah using equal weight given to DCF and PE based relative valuation. Our DCF based tp based on 7.6% WACC and 2% terminal growth is SAR89/Sh while PE based relative valuation based on 20x FY 2022E EPS is SAR86/sh accordingly equal weighted tp stands at SAR87/Sh.

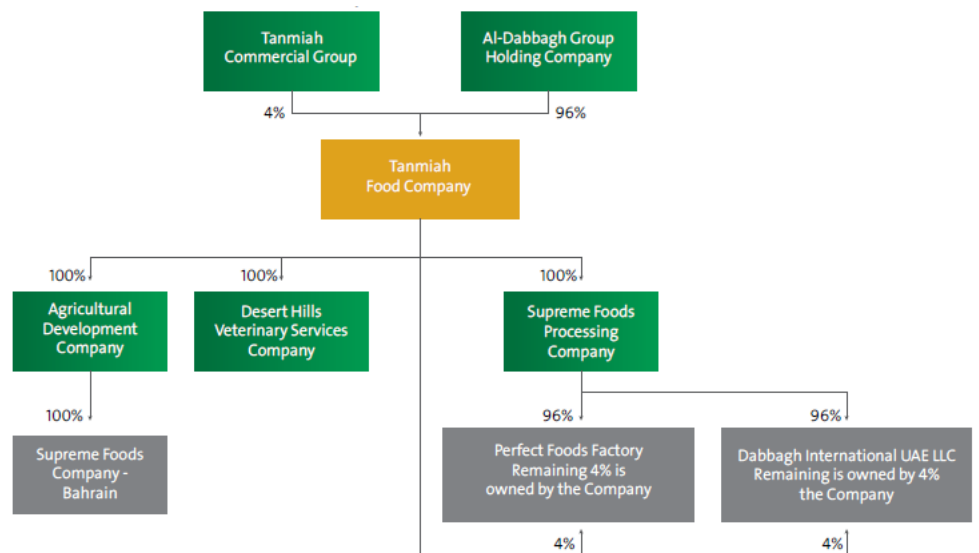


## Company Overview:

Tanmiah foods is one of the leading poultry producer with a market share of 7% (as of 2020 in terms of volume of birds). Al Watania is the market leader with 22% market share followed by BRF 12%, JBS 16% and Alyoum 12%. The company has three key segments:

- 1) Poultry production segment- It consists of production and selling of fresh poultry products.
- 2) Further food-processing segment- It consists of manufacturing, processing and selling of processed poultry and other meat products.
- 3) Feed and veterinary services- it primarily consists of the manufacturing and sales of animal feed, selling of broiler chicks, hatching eggs, animal health products, turnkey poultry, greenhouse projects and sale of poultry.

**Figure 2: Structure of the group**



Source: Company data

**Poultry Production Segment:** Through Agricultural development Co (ADC), the company offers Tanmiah brand poultry products for sale to supermarkets, distributors and food service providers. The key products offered under this segment are as follows:

- 1) Fresh Whole birds- The whole chickens comes in various sizes ranging from 600g-1500gm. The company use air-chilled technology (cheaper alternative to water chilled) to preserve the chicken and packaged in trays and bags customized according to end users demand. Under this category, company also sells marinated chickens as per customer demand.
- 2) Fresh cut-ups and others- This includes parts of chickens such as breast, legs, thighs etc. This segment also includes value added products such as marinated, minced parts etc.

**Further food-processing segments:** Through its subsidiary SFPC, PFF and SFC (Bahrain) this segment manufacture and markets ready to cook, ready to eat and bespoke poultry, turkey and beef products for its HORECA customers. The main products under these segments are:

- 1) Processed Poultry- This sub segment processes raw chicken meat to ready-to-cook and fully cooked poultry products such as breaded and un-breaded patties, nuggets, wings, mortadella, etc. The target customers for these products are local and international QSR's, hotel chains and restaurant operators.
- 2) Processed meats- This segment relates to processing of meat products other than poultry products such as steak cuts and other ready to eat delicatessen products, the main customers for these products are QSR's, food service operators, hotel chains and other retail as well as export markets. It is worth noting that the primary raw materials such as beef forequarters and trimmings used in meat division is sourced internationally.

**Feed and Veterinary Services segment:**

- 1) Feed: Through its subsidiary DHC the company produces its own poultry feed and sells excess feed to third parties, almost 90% of the feeds produced are used for captive consumption while remaining 10% is sold externally.
- 2) Broiler Baby: The Company sells broiler baby chicks to external parties after meeting its internal requirements. In addition to this DHV, also imports hatching eggs from international markets, hatch them using rented hatcheries, and sell the baby chicks using to end customers.
- 3) Animal health products- The Company sells animal health products to other poultry, pet players. The key products sold under these segments are medicated feed additives such as antibodies, nutritional feed, vitamins, etc.
- 4) Equipment and Projects- Through its subsidiary DHV the company implements turnkey poultry, greenhouse projects and related equipment's.

**Sector Overview:**

KSA's poultry market is pre dominantly dominated by chicken, which accounts for 90% of the total volume of the poultry market, other 10% accounts for niche categories such as quail and turkey. The consumption of poultry meat is high compared to other meat protein; the per capita consumption of meat was 40-43kg in FY 2020. The majority of poultry demand is in the form of completely chicken however, there is a growing demand for chicken parts as well from catering, food service and restaurant industry. Approximately half of the local market demand was fulfilled by frozen chicken imports from countries such as Brazil (import in FY 2020 was 550.000MT). It is worth noting that since 2018 the imports are decreasing as the local poultry manufactures are getting support from government (local production reached 930,000MT in FY 2020)



**Figure 3: The Kingdom's Poultry Meat Market**

	2018	2019	2020E	CAGR (2018-2020)
Domestic Production (kt)	710	800	930	14.4%
Import (kt)	630	601	550	-6.5%
Export (kt)	40	44	45	6.1%
<b>Net Market Size (kt)</b>	<b>1,300</b>	<b>1,357</b>	<b>1,435</b>	<b>5.1%</b>

Source: Company data, Al Rajhi Capital

**Figure 4: Kingdom's Poultry Market Break-Up by Product Type (2020G)**

Poultry Meat			
1,435 kt			
Fresh		Frozen	
52%		48%	
Whole	Parts	Whole	Parts
70%	30%	65%	35%

Source: Company data, Al Rajhi Capital

**Figure 5: Kingdom's Poultry Meat Market in Kilotons, Segmented by Distribution Channels**

	2018	2019	2020E
Net Market (kt)	1,300	1,357	1,435
Retail (%)	50	55	70
HORECA (%)	50	45	30

Source: Company data, Al Rajhi Capital

**Figure 6: Kingdom's Processed Meat Market in Kilotons**

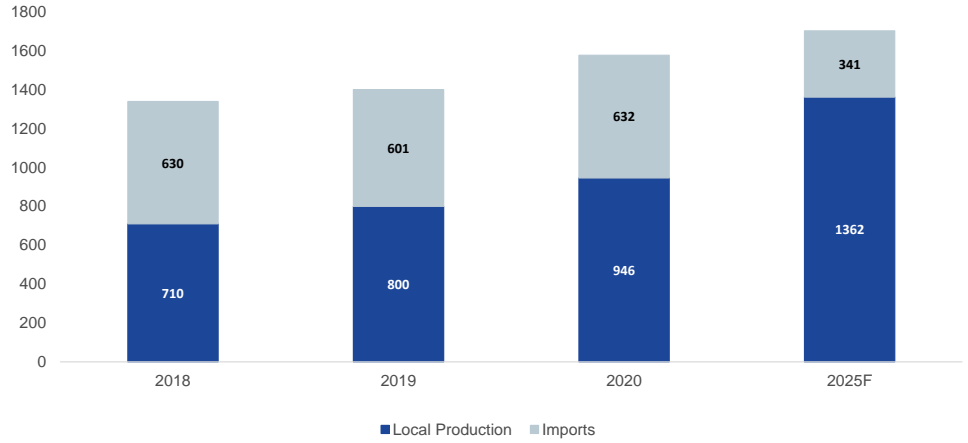
	2018	2019	2020E	CAGR (2018-2020)
Domestic Production	196	200	210	3.5%
Import (kt)	42	42	40	0.0%
Export (kt)	38	36	35	-4.0%
<b>Net Market Size (kt)</b>	<b>200</b>	<b>206</b>	<b>215</b>	<b>3.7%</b>

Source: Company data, Al Rajhi Capital

Increasing consumer spending towards eating out bodes well for poultry and processed meat manufacturers: Saudi consumers are driven towards convenience-centred consumption owing to rise in female employment.

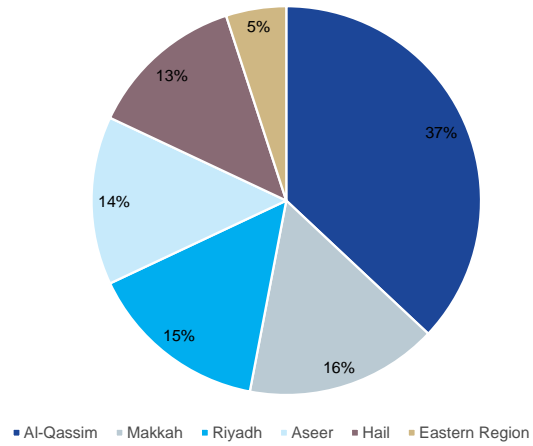


**Figure 7: Market Size (KT)**



Source: Company data, Al Rajhi Capital

**Figure 8: Domestic Poultry Production by Region in 2020E**



Source: Company data, Al Rajhi Capital



## Key Financials:

Figure 9: Income Statement

(SAR mn)	2020	2021E	2022E	2023E
Revenue	1,212	1,336	1,480	1,662
YoY%	5.8%	10.3%	10.8%	12.3%
Cost of sales	(902)	(976)	(1,081)	(1,213)
<b>Gross profit</b>	<b>310</b>	<b>361</b>	<b>400</b>	<b>449</b>
YoY%	11.4%	16.5%	10.8%	12.3%
GPM%	25.5%	27.0%	27.0%	27.0%
Operating expenses	(203)	(232)	(257)	(292)
Other income	1	0	0	0
<b>Operating profit</b>	<b>107</b>	<b>129</b>	<b>143</b>	<b>156</b>
YoY%	0.0%	20.0%	10.8%	9.5%
OPM%	8.8%	9.6%	9.6%	9.4%
Finance costs	(26)	(30)	(37)	(45)
<b>Profit before zakat</b>	<b>82</b>	<b>99</b>	<b>105</b>	<b>111</b>
Zakat	(7)	(10)	(11)	(11)
<b>Profit for the year</b>	<b>74</b>	<b>89</b>	<b>95</b>	<b>100</b>
YoY%	5.1%	19.3%	6.9%	5.0%
NPM%	6.1%	6.6%	6.4%	6.0%

Source: Company data, Al Rajhi Capital



**Figure 10: Balance Sheet**

(SAR mn)	2020	2021E	2022E	2023E
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	155	350	528	753
Right-of-use assets	200	210	219	226
Intangible assets	2	2	3	5
Financial assets at fair value through OCI	1	1	1	1
<b>Total non-current assets</b>	<b>357</b>	<b>563</b>	<b>751</b>	<b>985</b>
<b>Current assets</b>				
Inventories	139	147	163	183
Biological assets	82	74	77	81
Contract assets	2	2	2	2
Trade receivables and other debtors	472	513	560	601
Prepayments and other receivables	84	67	74	83
Cash and cash equivalents	60	102	120	154
<b>Total current assets</b>	<b>840</b>	<b>904</b>	<b>995</b>	<b>1,104</b>
<b>Total assets</b>	<b>1,197</b>	<b>1,468</b>	<b>1,746</b>	<b>2,088</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Employee benefit obligations	83	83	83	83
<b>Borrowings</b>	<b>313</b>	<b>463</b>	<b>613</b>	<b>813</b>
Lease liabilities	124	127	129	130
<b>Total non-current liabilities</b>	<b>520</b>	<b>673</b>	<b>825</b>	<b>1,026</b>
<b>Current liabilities</b>				
Trade payables	161	160	178	199
Accrued and other liabilities	103	134	148	166
Lease liabilities	55	54	55	56
Due to related party	0	0	0	0
Provision for zakat	10	10	10	10
<b>Total current liabilities</b>	<b>330</b>	<b>358</b>	<b>391</b>	<b>431</b>
<b>Total liabilities</b>	<b>850</b>	<b>1,031</b>	<b>1,215</b>	<b>1,457</b>
<b>Equity</b>				
Share capital	200	200	200	200
Statutory reserve	15	15	15	15
Financial assets at FVOCI reserve	0	0	0	0
Retained earnings	133	222	317	416
Non-controlling interest	0	0	0	0
<b>Total equity</b>	<b>348</b>	<b>436</b>	<b>531</b>	<b>631</b>
<b>Total equity and liabilities</b>	<b>1,197</b>	<b>1,468</b>	<b>1,746</b>	<b>2,088</b>

Source: Company data, Al Rajhi Capital

**Figure 11: Cash Flow Summary**

(SAR mn)	2020	2021E	2022E	2023E
Cash flow from operations	161	192	165	193
Cash flow from investments	(38)	(229)	(224)	(284)
Cash flow from financing	(86)	77	77	126
Net changes in cash flow	37	41	18	34
Cash at the end of the year	60	102	120	154

Source: Company data, Al Rajhi Capital



## Valuation Summary:

Figure 12: DCF Summary

DCF Method (SAR mn)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Operating profit	129	143	156	185	209	215	232	251
Growth(%)	20.0%	10.8%	9.5%	18.3%	13.3%	2.9%	7.9%	7.8%
Tax rate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
<b>Post-tax operating profit (NOPAT)</b>	<b>116</b>	<b>128</b>	<b>141</b>	<b>166</b>	<b>188</b>	<b>194</b>	<b>209</b>	<b>226</b>
Add: Depreciation & amortization	85	99	115	118	121	124	126	129
Add/(Less): Change in working capital	6	(41)	(34)	(42)	(47)	(51)	(54)	(58)
Less: Capex	(229)	(224)	(284)	(29)	(26)	(28)	(30)	(32)
Less: Lease payment	(73)	(73)	(74)	(75)	(76)	(77)	(78)	(79)
<b>Free Cash Flow to Firm</b>	<b>-94</b>	<b>-111</b>	<b>-137</b>	<b>138</b>	<b>160</b>	<b>162</b>	<b>173</b>	<b>185</b>
Discount factor	0.97	0.90	0.84	0.78	0.72	0.67	0.63	0.58
PV of Free Cash Flows	(91)	(100)	(115)	108	116	109	108	108
<b>Sum of present values of FCFs</b>	<b>243</b>							
Free cash flow (t+1)	189							
<b>Terminal value</b>	<b>3,374</b>							
<b>Present value of terminal value</b>	<b>1,960</b>							
<b>EV</b>	<b>2,202</b>							
Less: Net debt	(432)							
Less: Minority	0							
Add: Investment in associates	1							
<b>Equity value</b>	<b>1,771</b>							
<b>Fair value per share (SAR)</b>	<b>88.6</b>							

Source: Company data, Al Rajhi Capital

Figure 13: Sensitivity Analysis

		Terminal Growth Rate					
		1.5%	1.8%	2.0%	2.3%	2.5%	2.8%
WACC	5.6%	146.1	156.5	168.2	181.7	197.4	215.9
	6.6%	106.5	112.7	119.6	127.3	135.9	145.6
	7.6%	80.1	84.2	88.6	93.4	98.7	104.6
	8.6%	61.3	64.1	67.1	70.3	73.9	77.7
	9.6%	47.2	49.2	51.4	53.7	56.2	58.8

Source: Company data, Al Rajhi Capital





## Key Investment Thesis

### Population growth and growing tourism to support the demand for poultry:

Rising population and increasing consumption of poultry as a source of lean protein is expected to drive the demand for the company's products. Apart from this government's support to tourism and entertainment, sectors are also expected to positively affect the HORECA segment, which in turn will drive the demand for poultry and processed chicken.

Figure 14: Kingdom's Population Statistics

(mn)	2018		2019		2020E	
	Saudi	Non-Saudi	Saudi	Non-Saudi	Saudi	Non-Saudi
Male	10.6	8.7	10.7	9.0	10.9	9.1
Female	10.2	4.0	10.4	4.1	10.6	4.2
<b>Total</b>	<b>33.4</b>		<b>34.2</b>		<b>34.8</b>	

Source: Company data, Al Rajhi Capital

### Increasing consumer spending towards eating out bodes well for poultry and processed meat manufacturers:

Saudi consumers are driven towards convenience-centred consumption mainly due to rise in female employment, with both the couples, working this trend is expected to continue and in future and we expect the demand for frozen and processed food to Grow significantly. Since the frozen segment is a high margin business, the growth in this segment are expected to enhance the overall return metrics.

Figure 15: POS Transaction

POS Transactions	2018	2019	2020E	CAGR
Total Volume of Transactions (Billion Transactions)	1.03	1.62	2.85	66.3%
Total Value (SAR Billion)	232.3	287.8	357.3	24.0%
Avg. Value (SAR)	225.5	177.7	125.4	-25.4%

Source: Company data, Al Rajhi Capital

### New product innovation and launches to drive the demand for processed food segment:

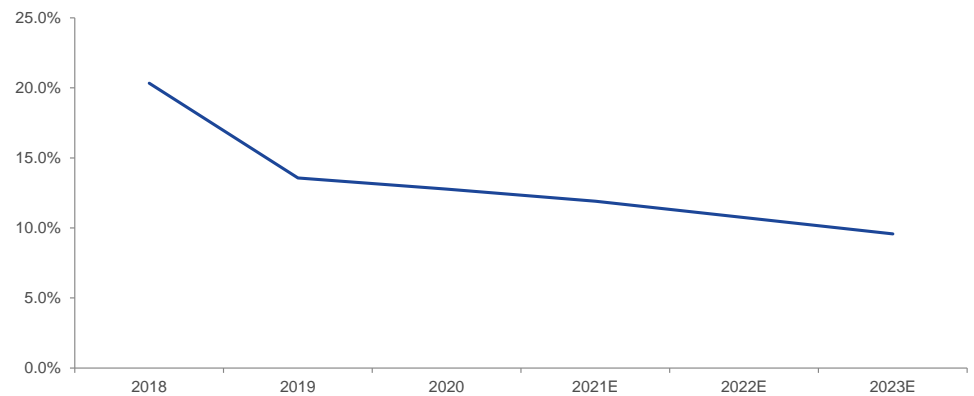
The major processed food manufacturers have focussed on product innovation with frequent new launches with better taste and longer shelf life; this in turn increases the addressable market from only household retail to HORECA segment as well. Apart from this there is a rapid expansion of QSR's, restaurants and fine dining in the kingdom due to favourable demographics, this is expected to drive the demand for processed poultry segment.

### High ROCE with significant reinvestment opportunities to drive shareholders wealth in the long term:

The Company seeks to grow its fresh chicken business in line with the Saudi government strategic goal of meeting 80% of the local poultry demand within the next 5 years through domestic production. The company has generated a ROCE of 19% in FY 2020 and has sufficient reinvestment opportunities at such higher ROCE and ROIC as it has expansion plans to expand PPL, hatcheries, feed mill and FPL. The amount required for the capex is ~SAR733mn while the PPL YE capacity is expected to increase to 1,208,000 birds per day. This should more than triple the revenue by FY 2025e and drive overall profitability.



Figure 16: ROCE Trend



Source: Company data, Al Rajhi Capital

**Integrated Business model ensures process efficiencies:** Tanmiah foods currently manages all critical production stages in house. This allows the company to streamline all the process and save cost, apart from this since poultry is a highly sensitive business when it comes to quality control, having an integrated business model help the company in ensuring quality control. The company has invested in its primary and processed plants to introduce leading technologies, which leads to operating efficiencies.

**Asset light business model provides scalability:** Tanmiah food has an asset light business model as the company through its subsidiary assists landowners by sharing their expertise and providing advisory services that help them build and plan their farms efficiently. The group does not own its farms, primary processing units and hatcheries but leases them from third parties. This asset light business model provides scalability to Tanmiah foods and provides an edge compared to its competitors. It also enhances return on investment as capital employed to high return generating avenues.

**Lower competition from foreign players:** Saudi government is supporting local poultry producers through various direct and indirect incentives in the form of subsidies, stricter import norms, tariffs on frozen poultry imports, Halal compliant requirements all of which makes imported poultry expensive for end users. This is one of the key reason we are see domestic poultry producers such as Almarai and Tanmiah increasing their capacity to capture the market.



### Valuation:

We value Tanmiah using equal weight given to DCF and PE based relative valuation. Our DCF based tp based on 7.6% WACC and 2% terminal growth is SAR89/Sh while PE based relative valuation based on 20x FY 2022e EPS is SAR86/sh accordingly equal weighted tp stands at SAR87/Sh.

### Key Risks:

Key downside risks to our valuation includes:

- 1) Any slowdown in consumer spending might affect the processed meat sales and will have a downside risk to our valuations
- 2) Poultry is a regulated business, any change in government subsidy or other regulations might impact the margins and overall valuation
- 3) The government is supporting domestic poultry manufacturers and with high return metrics, the industry is attractive with relatively low barriers to entry, this might attract competition in future and affect the overall income of the company. This poses a downside risk to our valuations.



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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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