Equity Research report
TANMIAH AB Equity
9 November 2023

Target Price: SAR95/share
Current Price: SAR88/share
Upside: 8% (+Div. Yield: 3.6%)
Rating: Neutral

Tanmiah Food Company (Tanmiah)

Revise TP to SAR95/share, Maintain a Neutral rating

- Topline grew 13% y/y in 3Q23, driven by 16% growth in sales volumes. However, earnings declined 46% y/y on lower margins.
- Capacity expansion continue to support top line, however, near-term margins likely to remain weak compared to the historical levels.
- We revise our TP to SAR95/sh. based on DCF and P/E based approaches but maintain a Neutral rating.

Stock data	
TASI ticker	2281
Mcap (SARmn)	1,754
Avg. Trd. Val (3m) (SARmn)	18.4
Free float	30.0%
QFI holding	3.0%
TASI FF weight	0.03%

Source: Bloomberg

Prices indexed to 100

Source: Bloomberg

3Q23 results: Tanmiah's revenue gained 13.2% y/y in 3Q23, mostly aided by 12% y/y growth in the fresh poultry business (driven by an increase in volumes 16%, offsetting weak prices) and growth in Popeyes. Revenue from Popeye's reached SAR23.5mn in 3Q23 compared to SAR6.7mn in 3Q22, aided by increased stores (36 store in 3Q23 vs. 13 in 3Q22). Further, animal feed and veterinary services revenue grew 3% y/y. However, gross margin contracted to 22% from 26% in 3Q22 due to pricing pressure and lower subsidy payout in 3Q23. This flowed down to operating level as well with operating margin reducing to 6% from 8% in 3Q22. Consequently, net profit from continuing operations declined by 46% y/y to SAR17.2mn.

Top-line expected to continue to grow at a healthy rate… During 9M23, the growth in the company's fresh poultry sales volume (19.5% y/y), in line with the growth in processing capacity (+19% y/y). Sales volume reached 100mn birds, and processing capacity was steady at 500,000 bpd (no growth in 3Q23). Going forward, we expect capacity to grow at a CAGR of 12% between 2022a-2027e and reach ~800,000 bpd, lower than the company revised target of 1mn bpd by 2025/26e (1.2mn bpd previous guidance given in 2Q23). An expected growth in capacity coupled with growing demand in fresh poultry is likely to support the topline growth, which we expect to witness a CAGR of +15% during 2022a and 2027e.

… however, continuous weak margins to limit the earnings growth: In 2Q-3Q23, prices remained under pressure partly due to the influx of frozen chicken in the local market. Further, there is competition in the local market and capacity addition is coming up. Considering these factors, we revise our prices slightly downwards by 1-2% than our previous forecasts.

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	1,727	2,069	2,373	2,757
Revenue growth	*43%*	*20%*	*15%*	*16%*
Gross Profit	420	465	545	647
Gross Profit margin	*24%*	*22%*	*23%*	*23%*
EBITDA	220	252	308	371
Op. income	114	121	158	199
Net profit	75	80	100	128
Net profit margin	*4%*	*4%*	*4%*	*5%*
EPS (SAR)	3.6	3.4	4.3	5.4
DPS (SAR)	3.5	3.5	3.5	4.5
P/E	24.2x	25.7x	20.6x	16.1x

Source: Company, GIB Capital

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The management also highlighted that prices in the Brazilian market have corrected by 20-30%, which indicates that there could be more frozen chicken entering the Saudi market, putting further pressure on fresh chicken prices and shrinking margins.

Further, we note that there is a revision in subsidies. Over the past two quarters, Tanmiah received subsidies amounting to only 30 halal per kg, down from 60-65 halal per kg in the same period last year, which negatively impacted the company by SAR12mn. This, along with persistent pricing pressure and weak efficiencies, impacted the gross margin notably. Hence, we lower our near-term margin forecasts to factor in the ongoing headwinds, which may limit the near-term earnings growth potential.

Valuation and risks: In the past few quarters, the company generated weaker-than-expected margins, mostly due to weak pricing and a cut in subsidies. We believe that profits can continue to be volatile for Tanmiah going forward. We continue to use DCF to arrive at our revised target price of SAR95/share, which implies a Neutral rating.

Key downside risks include adverse changes in Govt. support or self-sufficiency targets, delays in the procurement of equipment, a rise in mortality, and an increase in feed costs, global recessions, supply chain issues, increase in competition, unfavorable cost of corn and soybean, brand dilution, entry of newer players, and weaker product demand.

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

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