

**Target Price: SAR140/share**  
Current Price: SAR123/share  
Upside: ~14% (+Div. Yield: 2.4%)  
**Rating: Overweight**

## Tanmiah Food Company (Tanmiah)

### Strong 4Q results on margin expansion; TP revise to SAR140

- 4Q23 earnings beat our estimate, mainly due to better-than-expected segment-wise performance and margin expansion
- Tanmiah aims to continue expanding the capacity and new Popeye's store rollout with the margins improving gradually aided by easing commodity prices.
- Post 4Q23 results, we revise our TP to SAR140/sh. (SAR95/sh. earlier) based on DCF and P/E (20x on 2024e EPS) valuation approaches and rating to Overweight.

**Capacity expansions to continue:** The company aims to continue to improve its production capacity, targeting to increase its further ~3% to 514K bpd in 3Q-4Q24 and 1mn bpd in the three coming years (looks optimistic in our view). On a conservative basis, we forecast the capacity to grow at a CAGR of 9% over 2023-27e to reach 0.7mn bpd. Further, the company has signed an exclusive master franchise agreement for Popeye's in Kuwait and Bahrain and is focused on expanding Popeye's footprint there in the coming years. Going forward, we expect Popeye's locations to grow by ~18% CAGR to reach over 100 by 2027e. Overall, capacity and store expansion (with a gradual ramping phase), along with higher product demand amid stable price should ensure a sustainable top-line growth (+13% CAGR over 2023-27e) in future.

**Margin expansion to boost earnings:** After reaching its peak in 2Q22 due to supply concerns, average international Corn and Soybean prices have started correcting since then, down by 19% y/y and 9%, respectively in 2023, aided by easing supply concerns. In 2024 so far, average Corn and Soybean prices continue its downward trend with a further decline of ~21% and ~14%, respectively, weighed down by rising inventory levels amid excess supply. The KSA government's recent announcement of waiving some customs duties for agricultural and food-related companies is also expected to more than offset the impact of higher HFO/diesel prices. Further, its agreement with Tyson Foods should ensure a smooth supply of fed at the competitive prices. Accordingly, post robust 4Q23 results, we revise our gross margin forecasts for 2024-25e from ~23% to ~25% (although remain conservative compared to the management guidance of ~26%) to factor in the improved market dynamics. Overall, we expect earnings to grow at a CAGR of ~29% over 2023-27e.

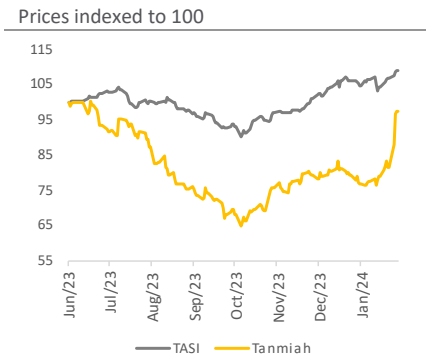
Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e
Revenue	1,727	2,093	2,434	2,671
Revenue growth	43%	21%	16%	10%
Gross Profit	420	495	615	676
Gross Profit margin	24%	24%	25%	25%
EBITDA	220	272	330	406
Op. income	114	130	193	220
Net profit	75	89	147	175
Net profit margin	4%	4%	6%	7%
EPS (SAR)	3.6	3.8	6.3	7.4
DPS (SAR)	3.5	2.0	3.0	3.7
P/E	33.9x	32.4x	19.7x	16.6x

Source: Company, GIB Capital

Stock data	
TASI ticker	2281
Mcap (SARmn)	2,460
Avg. Trd. Val (3m) (SARmn)	30.3
Free float	30.0%
QFI holding	3.6%
TASI FF weight	0.03%

Source: Bloomberg



Source: Bloomberg

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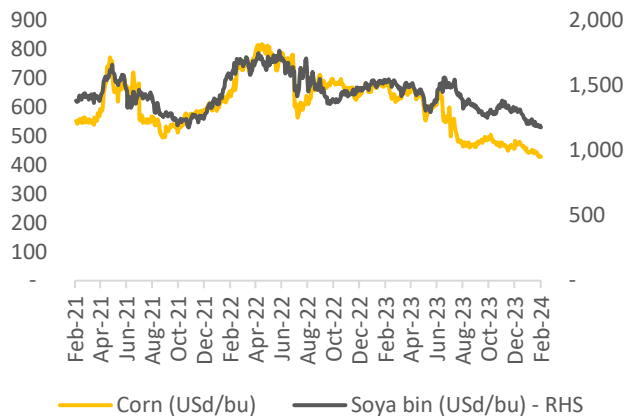
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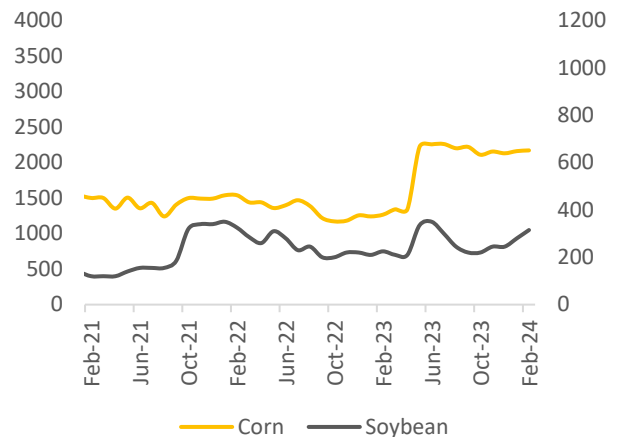
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Figure 2: Corn and Soybean price movement



Source: Bloomberg, GIB Capital

Figure 3: US corn and soybean inventories (SARmn)



Source: Bloomberg, GIB Capital

**4Q23 earnings beat on margin expansion:** Revenue grew by 20% y/y to SAR576mn, 4.3% higher than our estimates, mainly driven by healthy growth in the Fresh Poultry (+14% vs +11% expected) and Animal Health products (+16% vs +2% expected) segments. The Fresh Poultry segment performance (~80% of total revenue) is driven by a 15% increase in sales volume on better utilization amid stable production capacity (500k bpd), along with ~2% growth q/q in prices. The Animal Health products segment growth was mainly driven by its procurement agreement with Tyson foods, with the full impact realized in 4Q23. Further, Popeye's revenue rose by 62% y/y, aided by the store expansion (16 new stores added, reaching 52 vs. 20 locations in 4Q22). Accordingly, despite a stiff competition and likely lower subsidy, gross profit margin improved by 1.1ppts to 26.3% (22% in 3Q23), beating our estimate of 22%. We believe that this improvement is largely attributed to the growth in the Animal Health products segment, coupled with easing Corn/Soybean prices (-19%/-8% y/y). Higher gross profit margin helped increase net profit margin to 5.5% (vs. 4.7% in 4Q 2 and 3.8% in 3Q23). Consequently, recurring net income (adjusting for a one-off gain of SAR102mn in 4Q22), grew by ~39% y/y.

Figure 4: 4Q23 results summary

SAR 000	Q4 2023	Q4 2022	y-o-y	Q3 2023	q-o-q	GIBC Est.	vs. GIBC
Revenue	576,220	478,778	20.4%	533,735	8.0%	552,523	4.3%
GP	151,514	119,219	27.1%	117,365	29.1%	121,555	24.6%
GP margin	26.3%	24.9%		22.0%		22.0%	
Op. income	42,409	38,353	10.6%	31,229	35.8%	33,466	26.7%
Op. margin	7.4%	8.0%		5.9%		6.06%	
<b>Net profit</b>	<b>26,369</b>	<b>18,902</b>	<b>39.5%</b>	<b>17,171</b>	<b>53.6%</b>	<b>18,760</b>	<b>40.6%</b>
NP margin	4.6%	3.9%		3.2%		3.4%	

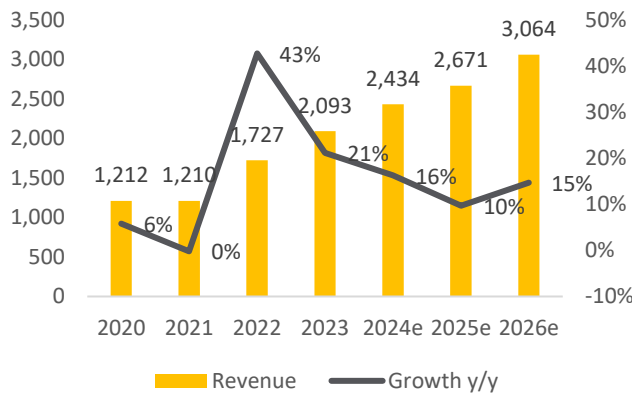
Source: GIB Capital, Company data

**Valuation and risks:** Post revision in our estimates, we revise our TP to SAR140/sh. based on DCF (10% Ke and 2.5% terminal growth) and P/E valuation (20x; still remain lower than its peers average due to lower margins and ROIC), implying an Overweight 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.

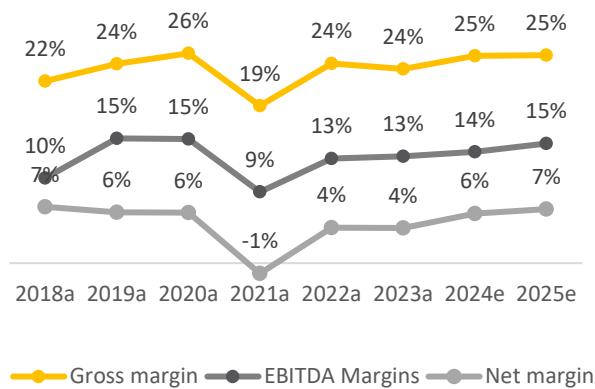
## Financial analysis in charts

Figure 5: Revenue growth



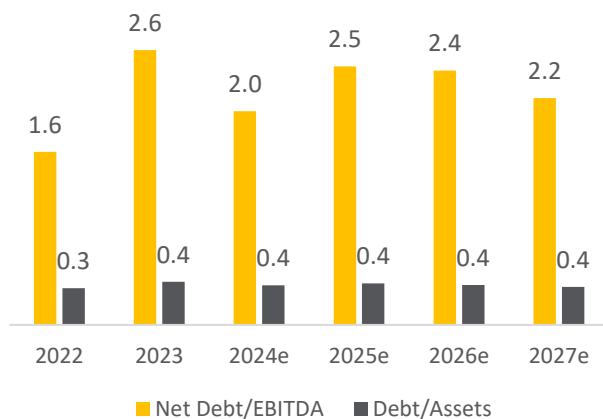
Source: the company, GIB Capital

Figure 7: Margins trend.



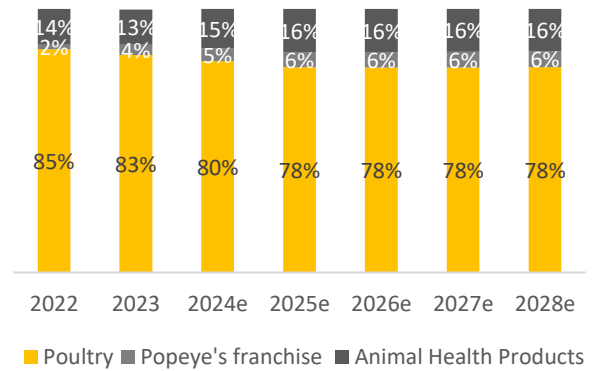
Source: the company, GIB Capital, 2022 DPS was high due t profits from selling 60% of SFPS.

Figure 9: Debt ratios



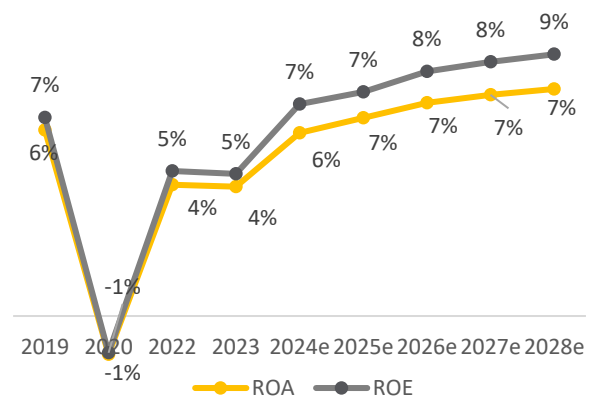
Source: the company, GIB Capital

Figure 6: Revenue breakdown (SARmn)



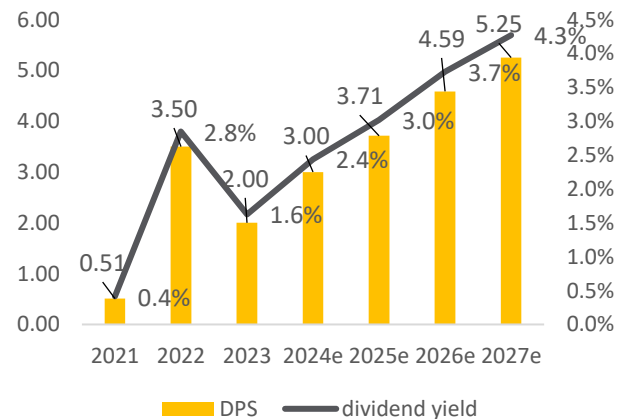
Source: the company, GIB Capital

Figure 8: ROA and ROE



Source: the company, GIB Capital

Figure 10: Dividend yield



Source: the company, GIB Capital

## Financials

Figure 11: Financial statement

Income statement	2022a	2023a	2024e	2025e
<b>Revenue</b>	<b>1,727</b>	<b>2,093</b>	<b>2,434</b>	<b>2,671</b>
revenue y/y	43%	21%	16%	10%
COGS	1,307	1,598	1,819	1,994
<b>Gross Profit</b>	<b>420</b>	<b>495</b>	<b>615</b>	<b>676</b>
Gross Profit margin	24.3%	23.6%	25.3%	25.3%
Sales & Marketing	218	252	293	318
G&A	89	116	134	145
<b>Operating profit</b>	<b>114</b>	<b>130</b>	<b>193</b>	<b>220</b>
Operating margin	7%	6%	8%	8%
Finance costs	(31)	(31)	(36)	(36)
Other income	3	15	15	16
<b>PBT</b>	<b>82</b>	<b>99</b>	<b>156</b>	<b>184</b>
Zakat/tax	(8)	(10)	(9)	(9)
<b>Net income before minority</b>	<b>75</b>	<b>89</b>	<b>147</b>	<b>175</b>
Net margin	4%	4%	6%	7%
y/y	0%	0%	0%	0%
<b>Net income after minority</b>	<b>187</b>	<b>76</b>	<b>125</b>	<b>148</b>
<b>EPS after minority</b>	<b>3.6</b>	<b>3.8</b>	<b>6.3</b>	<b>7.4</b>
DPS	3.5	2.0	3.0	3.7
Payout	97%	53%	48%	50%
<b>EBITDA</b>	<b>220</b>	<b>272</b>	<b>330</b>	<b>406</b>
Net debt (w/o lease liabilities)	41	300	213	364
Net debt (w/ lease liabilities)	362	710	669	994

Source: Company, GIB Capital

Balance Sheet	2022a	2023a	2024e	2025e
Inventories	288	263	324	355
Cash and cash equivalents	267	111	153	2
Biological assets	129	143	147	169
Contract assets	11	22	22	22
Trade receivables and other debtors	198	239	254	279
Prepayments and other receivables	128	198	170	187
<b>Total Current Assets</b>	<b>1,021</b>	<b>976</b>	<b>1,070</b>	<b>1,014</b>
Property, plant and equipment	338	525	543	748
Right-of-use assets	349	423	497	687
<b>Total Non-Current Assets</b>	<b>779</b>	<b>1,036</b>	<b>1,123</b>	<b>1,515</b>
<b>Total Assets</b>	<b>1,801</b>	<b>2,012</b>	<b>2,193</b>	<b>2,528</b>
Current Liabilities	747	781	878	942
Non-current Liabilities	391	551	528	685
Equity	663	680	787	902
<b>Total Equity and Liabilities</b>	<b>1,801</b>	<b>2,012</b>	<b>2,193</b>	<b>2,528</b>
BVPS	33.1	34.0	39.4	45.1

Cashflow	2022a	2023a	2024e	2025e
Cashflow from Operations	53	116	311	317
Cashflow from Investing	116	-215	-45	-237
Cashflow from Financing	-75	-68	-224	-231
<b>Total Cashflows</b>	<b>94</b>	<b>-168</b>	<b>42</b>	<b>-151</b>

Source: Company, GIB Capital

Figure 12: Key ratios

Key ratios	2022a	2023a	2024e	2025e
<b>Profitability ratios</b>				
RoA	4%	4%	7%	7%
RoE	11%	13%	19%	19%
Sales/Assets	96%	104%	111%	106%
Net margin	4.3%	4.3%	6.0%	6.5%
<b>Liquidity ratios</b>				
Current Assets/ Current Liabilities	1.4	1.3	1.2	1.1
Debt to Total Equity	0.9	1.2	1.0	1.1
Receivable Days	44	38	38	38
Inventory Days	70	63	65	65
Payable days	61	51	51	51
Cash conversion cycle	53	50	52	52
<b>Debt ratios</b>				
Net Debt/EBITDA	1.6	2.6	2.0	2.5
Debt/Assets	0.3	0.4	0.4	0.4
<b>Valuation ratios</b>				
P/E	33.9	32.4	19.7	16.6
P/B	3.7	3.6	3.1	2.7
EV/EBITDA	16.9	13.6	11.2	9.2
Div. yield	2.8%	1.6%	2.4%	3.0%
FCF Yield	1.9%	-6.7%	6.2%	-2.4%

Source: Company, GIB Capital

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