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ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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2025

التنمية
TANMIAH

# Tanmiah Food

## Major increase in production capacity to drive earnings growth which will be supported by reduction in prices of key feed inputs

Initiation Report | January 2025

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## On track to grow poultry production capacity by 40% in 2025, and deliver double digit medium term earnings CAGR of 14.0%

**Tanmiah is a direct beneficiary of Kingdoms long term plan of increasing food self-sufficiency. The company plans on increasing production capacity by more than 40% to 760k bpd by the end of 2025; and has long term plan to increase capacity to one million birds per day. Company has a manageable debt to assets ratio of 16.9% with times interest earned of 3.6x. Tanmiah posted net income of SAR 69mn in 9M-24, up 39.4% Y/Y, the growth was driven by increase in margins (due to better sales and channel mix) and improvement in sales across segments (especially feed). There is a major decline in prices of key animal feed raw materials, however due to doubling of sea freight rates (since start of the year) the benefit could not be seen in margins. We expect the positive effect to become more evident after de-escalation in regional geopolitical tensions. Tanmiah's franchise business has seen a 63% increase in sales driven by new restaurant openings, management expects momentum to continue in the near future. Overall, we expect the company to deliver topline CAGR of 14.9% over 2023-29, and a corresponding income CAGR of 14.0%. We initiate coverage of Tanmiah with "Overweight" rating with a TP of SAR 139.4/share.**

**Favorable macroeconomic environment and demographics to drive demand for poultry sector:** The poultry industry is poised for 3.8% CAGR over 2023-32, Tanmiah being a key player in Kingdom's poultry sector will be direct beneficiary of this growth. Key drivers for the aforementioned growth are kingdoms long term plans for food self-sufficiency, favorable demographics of large young population (63% of Saudis are under 30 years old), high GDP per capita of USD 34,454, increasing tourism both religious (Hajj and Umrah) and leisure, growing expatriate population due to heightened demand driven by Vision 2030 initiatives, rising per capita consumption of poultry, increasing popularity of fresh poultry among consumers, eating-out-of-home trend, and changing dietary patterns.

**Production capacity to increase by more than 40% to 760,000 birds per day in 2025; long term plan to grow capacity to one million birds per day:** Tanmiah's focus on its largest segment 'fresh poultry' remains intact, the company has expanded its processing capacity by 7% Y/Y to 535k bpd, its distribution routes by 19% to 385 and no. of farms by 7% to 128 by 9M-24. According to the management the total installed capacity is set to increase to 760k bpd by the end of 2025 from 535k bpd, for this the company has made a total capital expenditure of ~SAR 500mn. Key assets under construction include 40 MT per hour additional feed mill, additional processing capacity of 13,500 birds per hour, hatchery capacity of 140mn eggs and waste water management systems. Over the longer run Tanmiah plans to increase capacity to one million birds per day, for which an additional SAR 500mn capex would be needed. We expect capacity to reach 760k bpd by Q4-25 and utilization to reach 82% by Q4-27, moreover we remain conservative and expect capacity to reach 890k bpd by 2029.

**Prices of major poultry feed raw materials (corn, soya bean etc.) have significantly retreated from their highs; yet increase in freight is resulting in no major savings:** Record soya bean harvest and bumper corn crop in US have increased supplies and have resulted in prices of these key animal feed raw materials to fall significantly from their recent peak levels. United States Department of Agriculture (USDA) forecasts 2024/25 corn crop to be the third-largest in US history and corn ending stocks to be largest in six years. Corn prices are down 49% from their high while soya bean prices are down 54% from post pandemic peak prices. This softening of prices however has not resulted in improvement in margins for Tanmiah as freight charges have increased by 103% since the start of 2024. That said, margins should witness improvement once geo-political issues in the Middle East ease off.

| Recommendation | Overweight |
|---|---|
| Target Price (SAR) | 139.4 |
| Upside / (Downside)* | 21.7% |

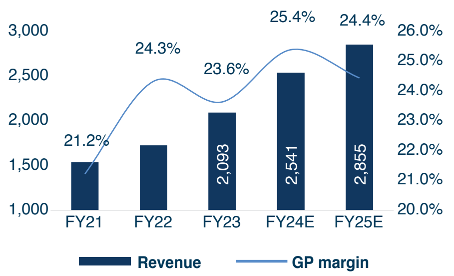
Source: Tadawul *prices as on 13th January, 2025

### Key Financials

| SARmn (unless specified) | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Revenues | 1,727 | 2,093 | 2,541 | 2,855 |
| Growth % | 12.2% | 21.2% | 21.4% | 12.3% |
| Gross Profit | 420 | 495 | 645 | 698 |
| Net Income | 187 | 76 | 94 | 108 |
| Growth % | 1278.0% | -59.3% | 23.7% | 15.1% |
| EPS | 9.34 | 3.80 | 4.70 | 5.40 |
| DPS | 3.50 | 2.00 | 2.25 | 2.75 |

Source: Company reports, AlJazira Capital Research

### Revenue (SAR mn) and GP Margin




Source: Company reports, Aljazira Capital Research

### Key Ratios

| | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Gross margin | 24.3% | 23.6% | 25.4% | 24.4% |
| Operating margin | 5.5% | 5.8% | 6.4% | 5.6% |
| Net margin | 10.8% | 3.6% | 3.7% | 3.8% |
| PE (x) | 13.7 | 26.9 | 24.3 | 21.1 |
| PB (x) | 3.9 | 3.0 | 3.1 | 2.9 |
| EV/EBITDA | 11.3 | 9.5 | 8.1 | 7.6 |
| Div yield (%) | 2.7% | 1.9% | 2.1% | 2.4% |

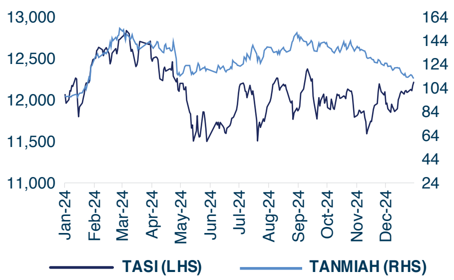
Source: Company reports, AlJazira Capital Research

### Key Market Data

| | |
|---|---|
| Market Cap (SAR bn) | 2.3 |
| YTD% | (5.3) |
| 52 weeks (High)/(Low) | 158/94.5 |
| Share Outstanding (mn) | 20 |

Source: Company reports, AlJazira Capital Research

### Price Performance



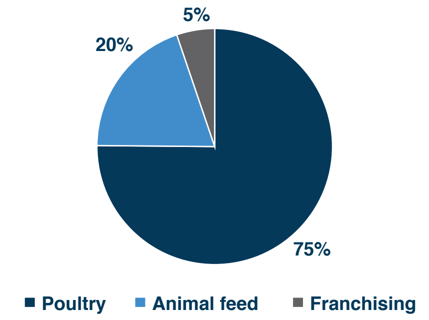

Source: Bloomberg, Aljazira Capital Research

**Popeyes expanded into Bahrain; new value added products showing better than expected results; growth in animal feed business is sustainable:** As part of its diversification and value addition strategy Tanmiah ventured into restaurant business as a franchisee for Popeyes, the company as of Q3-24 has 67 Popeyes outlets, and recently has successfully debuted Popeyes in Bahrain. Total sales for Popeyes are up 63% Y/Y while there is a 86% Y/Y increase number of restaurants in Q3-24. The company has not shared any concrete target for the number of restaurants, however, management has communicated that current growth momentum is expected to continue. We expect the company to expand restaurants at a medium term (2024-27) CAGR of 12.3% and correspondingly deliver a revenue CAGR of 19.4% (revenue contribution is expected to reach 5.7% by 2027). In addition to franchising, Tanmiah has also upgraded its existing product offerings and has launched new products in the value added range, in line with the changing consumer needs. Recently launched marinated tender breast line (which is the first such product in Saudi) has seen a very strong customer response supported by successful digital campaigns. Moreover, the company has renewed focus on external sale of animal feed products that is reflecting in the Q3-24 results, where the company saw a 68.5% Y/Y increase in segment revenue. According to the management the growth in animal feed business is sustainable, though margins are thin (low double digits) the company has a competitive advantage in quality and consistency.

**Debt levels are manageable and provide ample room for further capacity expansions; there is good progress in working capital management:** Despite the massive addition in capacity Tanmiah's debt levels are manageable with total debt to assets standing at 16.9% as of Q3-24 (total debt to equity 59.8%) and times interest earned of 3.6x. We estimate the company to generate operating cash flow of SAR 129mn in 2025, which translates to SAR 6.5 per share, hence we see the company making a dividend payment of SAR 2.25 per share in 2024, which corresponds to dividend yield of 2.1%. Tanmiah has shown good progress in working capital management since the start of the year, as payable days have increased by 27 to 113 days, while there is a nominal 5 and 4 day increase in receivable and inventory days, respectively.

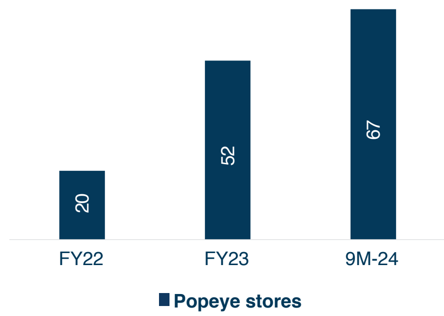
**9M-24 earnings driven by improved product, client and channel mix; earnings are expected to grow at medium term CAGR of 14.0%:** Tanmiah posted net income of SAR 69mn in 9M-24, up 39.4% Y/Y. The improvement in earnings is driven by 270bps Y/Y increase in gross margins to 25.3% and 23.8% Y/Y increase in revenue. Margins expanded due to better product, client and channel mix. The company saw improvement in revenues across business lines, poultry saw an 16.4% Y/Y increase in revenues due to higher capacity, animal feed saw a 62.0% Y/Y growth as company had renewed focus on external sales while franchising business underwent a 54.8% Y/Y increase driven by new restaurant launches. Operating margins improved by 116bps Y/Y to 6.3%, which resulted in operating income growing by 51.6% Y/Y in 9M-24. Tanmiah delivered revenue CAGR of 20.0% over 2020-23 and net income CAGR of 0.7%. We expect it to deliver topline CAGR of 14.9% over 2023-29, and a corresponding net income CAGR of 14.0%. We expect gross margins to expand by 64bps over 2023-29, driven by higher mix of value-added products and more contribution by franchise business. Going forward, operating and net margins are likely to see some pressure due to i) higher S&D spends for scaling up Popeyes stores and increase in capacity of poultry business, ii) diesel prices being elevated. However, from FY27 onwards margins will improve due to economies of scale and ramping up of production.

**Segment break-up**



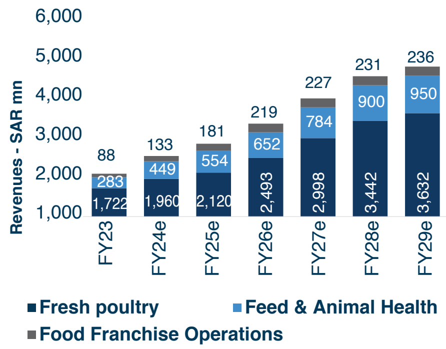

Source: Company reports, Aljazira Capital Research

**Popeye Stores**




Source: Company reports, Aljazira Capital Research

**Segment wise revenues**




Source: Company reports, Aljazira Capital Research

**Investment thesis and valuation:** Tanmiah is set to benefit from favorable demographics of large young population, increasing tourism, growing expatriate population and increase in HORECA industry. Our liking for the company is premised on, 1) the company is in the process of increasing poultry capacity by more than 40% in 2025, and 2) it is expanding franchise business and value-added product business. In this backdrop, we expect the company to deliver topline CAGR of 14.9% over 2023-29, and a net income CAGR of 14.0%. However, withdrawal or change in terms & conditions of existing master franchise agreement, Increase in feed costs, and changes in government policies are key risks to our investment thesis

We value Tanmiah assigning 50% weight to DCF (2.5% terminal growth and 7.5% WACC), while we assign 50% weight to EV/EBITDA (10.5x based on FY25E EBITDA). Overall, trading at 2025E PE of 21.1x, we initiate coverage on Tanmiah with an "**Overweight**" rating a target price of **SAR 139.4/share**, implying 21.7% upside.

## Company Overview

Tanmiah Food Company (TFC) has evolved from being a sole proprietor to one of Middle East's leading poultry products providers and fast-food franchisee operator. It is involved in production, processing and distribution of various poultry products which are sold across KSA, UAE, Bahrain, Oman, Jordan and Kuwait. Over 60 years of its presence, it has built vast poultry network consisting of 128 farms, 6 hatcheries, 2 feed mills, 4 slaughterhouses. This network has enabled it to drive its production capacity to i) 535K birds per day, ii) 415K tons of annual feed, iii) 648K daily egg hatchings. Further its master franchise and development agreement with Popeyes enabled it to expand its operations and broaden its presence beyond domestic borders, with its 67 stores as on 9M-24. Its omni-channel presence enables it to cater its end customers, by distributing its products through a network of wholesalers, retailers, food service outlets and directly online.

## Segment Overview

1. **Fresh poultry: (79% of 9M-24 revenues)**

This business is conducted by its subsidiary Agriculture Development Company (ADC) with a focus on chicken production, operating feed mills and hatcheries, handling processing, logistics and chicken meat sales. Its products are sold in KSA, UAE, Bahrain and Kuwait, under Tanmiah brand name, primarily to hyper & supermarkets, food service providers and other retailers. ADC's strategic partnership with one of the largest poultry players in the US – Tyson Foods has enabled Tanmiah to leverage on the strategic support received from Tysons and boost its exports. This business has been a significant revenue contributor and has grown its share from 72% in FY20 to 79% in 9M-24. The revenues increased significantly at 25.6% CAGR over FY20-23, driven by i) increased production capacity (up from 268K birds per day in FY20 to 535K in 9M-24), ii) bolstering distribution network (126 farms and 342 routes as on FY23), iii) sustained focus on improving channel management.

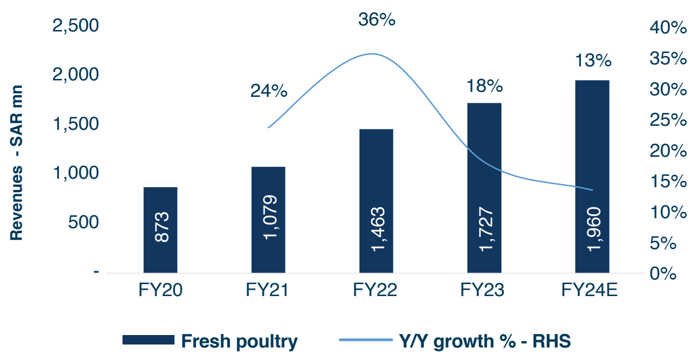
Apart from its products spread across fresh whole birds and fresh chicken cuts, Tanmiah in 2023 harnessed the increasing preference for healthier food options, by foraying into healthier poultry option under the brand Tanmiah Life. These products are naturally enriched with plant-based Omega-3, which aids in reducing the risk of chronic disease, which is increasing significantly in KSA.

**Fig 1. Over the years Tanmiah significantly upscaled its operational parameters**

| Parameters | FY20 | FY21 | FY22 | FY23 | 9M-24 |
|---|---|---|---|---|---|
| Revenue share (%) | 72.0 | 70.1 | 84.7 | 82.5 | 79.2 |
| Birds/day (000s) | 268 | 370 | 456 | 500 | 535 |
| Hatchings/day (000s) | *NA | 428 | 648 | 648 | NA |
| Farms | 84 | 91 | 108 | 126 | 128 |

Source: Company, Aljazira Capital Research. *NA means Not Available

**Fig 2. Strong double digit revenue growth aided by capacity & distribution expansion**

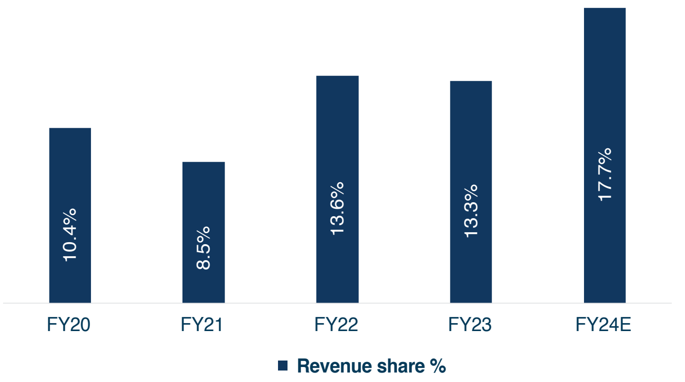



Source: Company, Aljazira Capital Research

2. **Feed & Animal Health: (16% of 9M-24 revenues)**

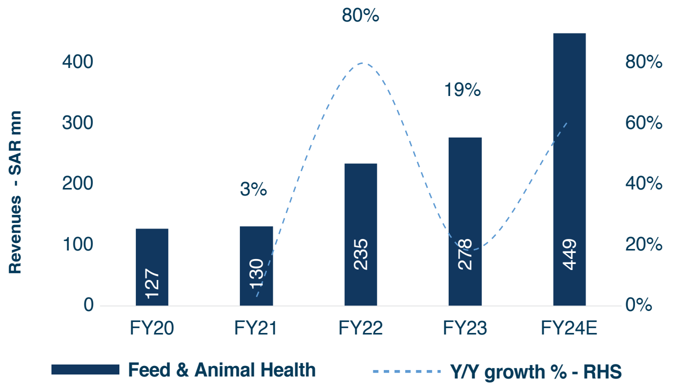
Tanmiah offers products in this segment through Desert Hills Veterinary Services (DHV), who is a leader in equipment, feed and veterinary services. It represents leading brands and is engaged in the business of providing medicines, vaccines and feed additives for the poultry, dairy, ruminant, pets and equine sectors. This business has been the fastest growing segment for the company with its share increasing from 10% in FY20 to 16% in 9M-24. The revenues increased significantly at 30.0% CAGR over FY20-23, driven by i) significant increase in capacity utilization (90%), ii) new customer acquisitions through active marketing campaigns, iii) macro tailwinds supported by KSA's target of achieving food security and self-sufficiency.

**Fig 3. Feed & Animal health is the fastest growing segment for Tanmiah**




Source: Company, Aljazira Capital Research

**Fig 4. Revenues driven by increasing capacity utilization, new customer acquisitions and sectoral tailwinds**

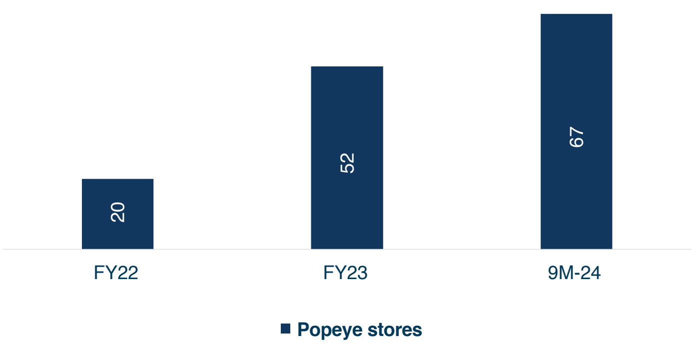



Source: Company, Aljazira Capital Research

3. **Food Franchise Operations: (5% of 9M-24 revenues)**

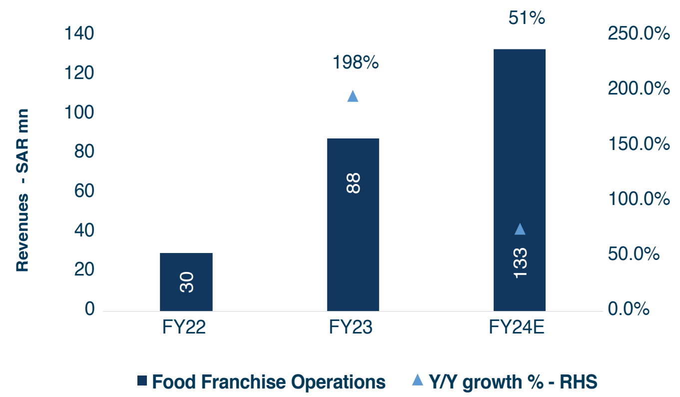
Tanmiah operates the globally renowned restaurant chain – Popeyes in KSA and Bahrain, under its subsidiary Fast Food Company. In December 2021, it signed a master franchise and development agreement with Popeyes, which helped the brand expand its footprint in KSA and now Bahrain. With Tanmiah's fresh locally produced chicken products as a major attraction, the company was able to leverage the growth for Popeyes, driven by already prevailing brand reputation, KSA's young demographics, and increasing consumer spending. The revenues from this segment more than tripled in FY23 since its launch in FY22 and aiding its revenue share to increase from 2% in FY22 to 5% in 9M-24. Going forward the company aims to expand its reach in KSA using its in-house bred poultry and build-upon the exclusive development agreement signed to operate Popeye restaurants in Kuwait and Bahrain.

**Fig 5. Adoption of aggressive store expansion for Popeyes locally and beyond domestic borders**




Source: Company, Aljazira Capital Research

**Fig 6. Revenue growth due to brand reputation, KSA's young demographics and rising consumer spending**

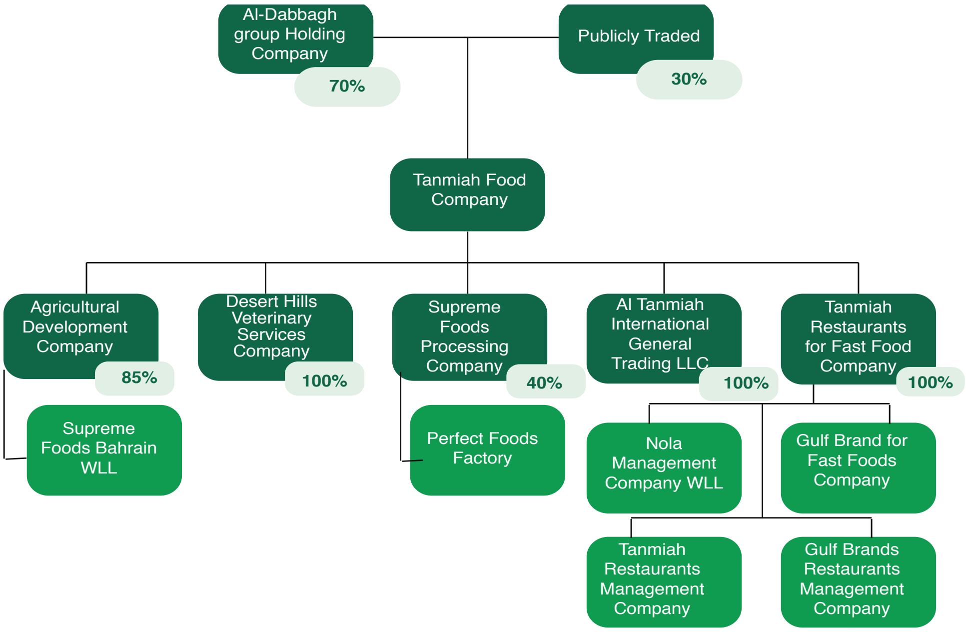



Source: Company, Aljazira Capital Research

## Group Structure

The company holds multiple direct and indirect ownership interests in domestic and foreign subsidiaries, through which it operates its business segments. Meanwhile 70% stake of the company is held by Al-Dabbagh Group Holding company and the balance 30% is publicly traded.

**Fig 7. Group structure**




Source: Company, Aljazira Capital Research

## Competitive Advantages

1. **Operation in defensive sector with favorable market dynamics**

   Tanmiah operates in a sector which is defensive and is crucial to the food security goals of the Kingdom. The poultry industry is poised for 3.8% CAGR over 2023-32, supported by i) expanding population and number of tourists, ii) rising per capita consumption of poultry, iii) increasing popularity of fresh poultry among consumers, iv) eating-out-of-home trend, and v) changing dietary patterns.

2. **Strong entry barriers for foreign players, which Tanmiah can leverage through its 60+ years of presence in KSA and successful journey in other GCC nations**

   Tanmiah operates in a sector with restrictive entry for new entrants due to robust support provided by the KSA government to the domestic producers in form of i) subsidies, ii) stringent import norms, iii) tariffs on frozen poultry imports, iv) requirement of food products to be Halal compliant. Tanmiah has the potential to leverage this entry barrier due to its 60+ years of presence in KSA and successful expansion beyond the domestic borders to other GCC nations. Further its brands for its numerous product portfolios are common and trusted brand within Saudi households.

3. **Integrated operations and asset light business model drives customer service and business efficiency**

   Tanmiah currently operates all its critical production stages, in-house, allowing it to streamline its operations, reduce production costs, ensure optimal breeding and feeding decisions, which benefits it in maintaining consistent high quality products. Its wide self-operated distribution network ensures timely deliveries to the customer outlets and maintaining exceptional customer service. Further its strategy to lease-out the farms and other facilities enables it to scale-up by adding new assets quickly in the preferred locations without incurring major capex.

4. **Partnerships with diversified and global giants**

   The company's customer base is characterized by strong, long-term partnerships with leading global companies, which represent some of the largest accounts in the Kingdom. Tanmiah's leadership in cultivating long-standing strategic partnerships is evidenced by its 5+ years of average length of relationships with its top 10 customers as on FY20. This arsenal of eminent companies provide a depth to Tanmiah's relationships with new customers and also provides a foundation for recurring revenues.

## Industry Overview

Although Tanmiah operates in 3 business segments, each having a separate industry structure in KSA. In the following sections we have deep dived into the poultry industry and the QSR industry.

1. **Poultry industry**

KSA's poultry industry, valued at **USD 18.3bn** in 2023, is among the largest and fastest-growing sectors. Poultry accounts for the largest share of KSA's F&B market, with KSA being one of the top global consumers. This is evident from a stark rise in poultry production from 900K MT in 2020 to 910K MT in 2021. Despite high production, local supply doesn't meet demand, thereby necessitating imports. However, over the years, import dependency has decreased due to government policies for self-sufficiency and regulatory changes. Some of the eminent local players include Almarai group, Tanmiah, Intaj, Aseer Co-op, Radwa, Golden Chicken, and other smaller players.

Chicken meat dominates KSA's poultry industry, as it accounts for 90% of the total market volume. While whole chickens are traditionally preferred, demand for chicken parts has surged due to the expanding food catering industry, fast-food outlets, informal restaurants, and increased hotel demand. Poultry's importance is expected to grow in the future, thereby driving the market size to USD 25.6bn by 2032, implying a 3.8% CAGR from 2023 to 2032. This growth will be driven by a confluence of the following factors.

- **Rising population and tourism, increase in westernized eating habits and changing dietary patterns:** The growing young population in KSA (63% of Saudis are under 30-years) is driving increased demand for food, especially poultry. This demographic is adopting westernized eating habits, favoring chicken as a versatile, affordable protein source. Additionally, there's a shift towards protein-rich, locally produced, and health-focused foods.

- **Rising disposable income and tourism to drive consumer spending:** The per-capita disposable income in KSA is poised to grow from SAR 40K in 2022, to SAR 45K by 2027e. This growth of 2.4% is expected to be partially driven by rising women participation in the workforce. This will in a way also be the key reason for increase in consumer spending, which is expected to reach SAR 1.85tn by 2027e (3.7% CAGR over 2022-27e). Further the boom in leisure and religious tourism (1.4x tourist growth and 2.2x pilgrims expected over 7 years) is likely to be an additional catalyst for the demand of poultry products in KSA.

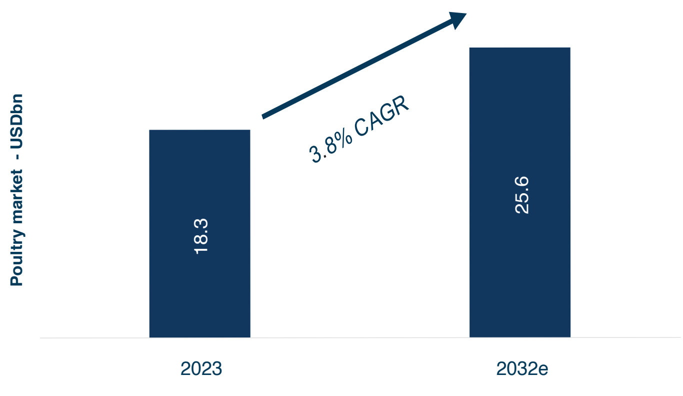
- **Rising government support and investments:** Aligned with Vision 2030's goals of food security and self-sufficiency, the government is implementing measures to boost the sector's global competitiveness and attract foreign investment. The Kingdom plans to invest USD 20bn in the food industry by 2035 to ensure sustainable growth.

**Fig 8. KSA is one of the top 10 countries based on per capita poultry consumption**

| Countries | Rank |
|---|---|
| USA | 1 |
| Malaysia | 2 |
| Peru | 3 |
| Australia | 4 |
| New Zealand | 5 |
| Brazil | 6 |
| Argentina | 7 |
| Chile | 8 |
| Canada | 9 |
| KSA | 10 |

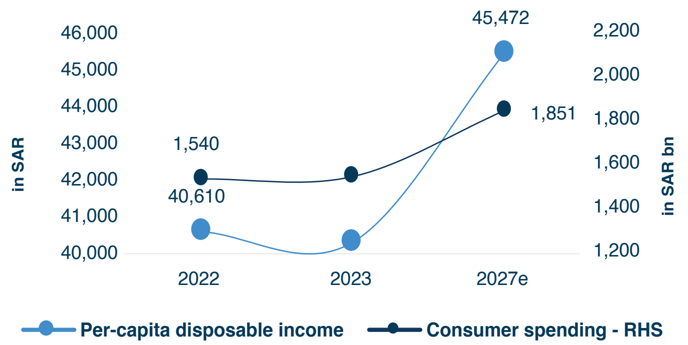
Source: Company Prospectus, Aljazira Capital Research. Based on 2019 data

**Fig 9. Rising population, dietary patterns, adequate government support to drive poultry industry in KSA**



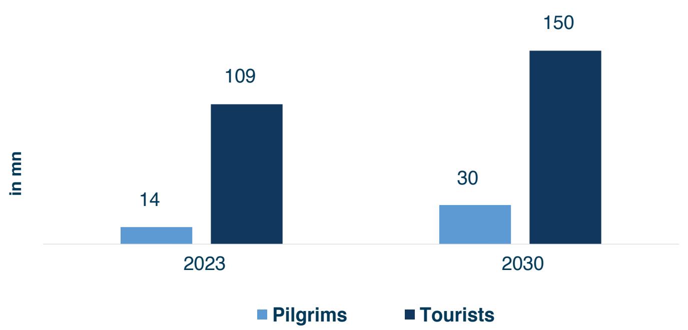

Source: IMARC group, Aljazira Capital Research.

**Fig 10. Higher disposable income will drive consumer spending, and boosting consumption of poultry products**




Source: AlMajed Prospectus, Aljazira Capital

**Fig 11. Increase in pilgrims and tourists to acts as additional sectoral tailwinds**




Source: Argaam, Vision 2030, AlJazira Capital research

2. **Quick-Service Restaurant (QSR)**

The QSR industry in KSA is currently pegged at **USD 9.4bn**, with meat based cuisines, forming the largest segment by cuisine type **(27.3%).** The cultural and religious importance of meat-based dishes linked with hospitality in KSA is driving consumers more towards meat-based dishes and being one of the key reasons for fueling its growth. This has pushed the incumbents to add more items relating to meat to their menu offerings. Based on food delivery orders, it is evident that fast food cuisine is popular across the Kingdom, followed closely by specialized burger joints. Shawarmas and Wraps take the third spot, while Desserts come fourth. Cafés and Traditional cuisine come in the fifth and sixth spot respectively. Meanwhile the favorite cuisines across cities are different and this diverse preference bodes well for Tanmiah and Popeyes, as Popeyes is present across all the major cuisine types, which are being embraced significantly by the key cities/regions in KSA. In terms of serving the customers, chained outlets (like Popeyes) have been the fastest growing segment, due to its ability to provide standardized quality, menu consistency and convenience to customers.

With already 85% of KSA's youth preferring fast food over home-cooked food, the surge in QSR restaurants is likely to be driven by the growing young population in KSA, who tend to be more open in trying new foods. Further as the number of smartphone owners increases in KSA from 72.8% of population, currently, this would benefit the industry through increased adoption of online and mobile ordering platforms. Finally, a surge in fast-food franchises is expected in KSA, due to the wide usage of facilities such as drive-thru,takeaway and home delivery. This is likely to lead to a surge in QST restaurants from 27.6K in 2023, to 33.8K by 2029e. Confluence of these factors should drive the market size from USD 9.4bn to USD 14.6bn by 2029e, implying a 7.7% CAGR.

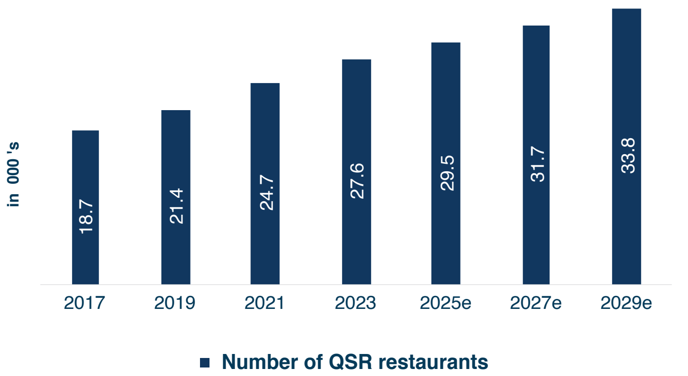
**Fig 12. Fast-food tops the cuisine type for food ordering habits in KSA**


Source: Jahez F&B Insights 2023, Aljazira Capital Research

**Fig 13. Diverse cuisine preference across major cities in KSA bodes well for Tanmiah as Popeyes is present across all major cuisines**

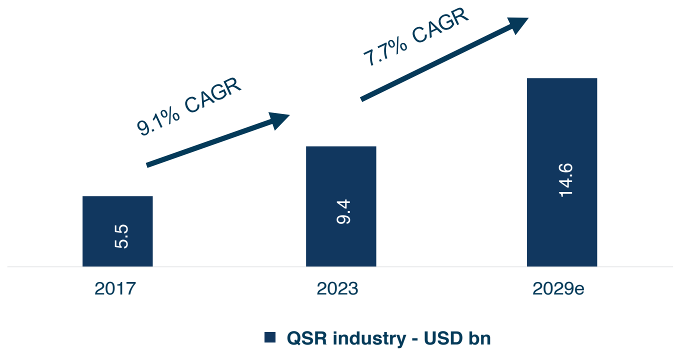

Source: Jahez F&B Insights 2023, Aljazira Capital Research

**Fig 14. Growing young population and their preference for fast-food over home-cooked food to drive surge in QSR chains in KSA**




Source: Mordor Intelligence, Aljazira Capital Research.

**Fig 15. Surge in QSR chains, mobile penetration and habituated to facilities like drive-thru, home delivery and takeaway to drive the QSR market size**




Source: Mordor Intelligence, Aljazira Capital Research.

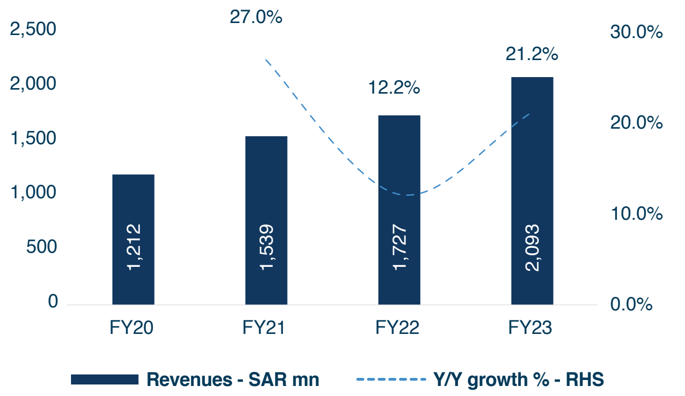
## Financial Analysis

### Sectoral tailwinds, scale-up in franchise operations and poultry business to drive the future growth for Tanmiah

Historically Tanmiah's revenues have grown from SAR 1,212mn in FY20 to SAR 2,093mn by FY23, implying a strong 20.0% CAGR. This growth was broad-based with Animal Feed and Animal Health segment leading the growth. However, going forward we expect the franchising operations under which it operates the QSR chain – Popeyes, to scale-up and build upon the plans of expanding its reach within KSA and build upon the exclusive development agreement signed to operate Popeye stores in Kuwait and Bahrain. We expect its revenues to grow at 18.6% CAGR over FY23-29e, to reach a revenue base of SAR 236mn from SAR 88mn in FY23. We expect Popeyes outlets to increase from 67 in 9M-24 to 102 by FY29e. Further it could benefit from the sectoral tailwinds poised within KSA's QSR sector, driven by i) growing young population and their preference for fast-food over home-cooked food, and ii) KSA population habituated to facilities like drive-thru, home delivery and takeaway. This should aid KSA's QSR industry to grow at a 7.7% CAGR over 2023-29e and to reach USD 14.6bn industry size. The poultry business too is poised for significant growth driven by rising population, increase in westernized eating habits and changing dietary patterns. We forecast the number of birds to increase from 37.5mn in Q3-24, to 64.1Mn by Q4-29e. This should drive the poultry revenues at 13.2% CAGR to reach a revenue base of SAR 3,632mn by FY29e. Meanwhile we expect the animal feed and animal health business to expand revenues from SAR 283mn in FY23 to SAR 950mn by FY29e.

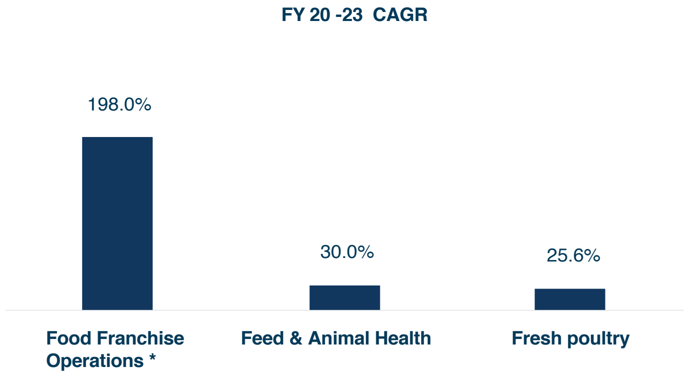
We believe Tanmiah will be the key beneficiary of the sectoral tailwinds poised for KSA's poultry and QSR industries due to its long operating history, deep penetration in the market through its integrated production facilities and growing partnerships with eminent global brands to expand its franchise operations. Further its brands for its numerous product portfolios are common and trusted brand within Saudi households. Accordingly, we expect the overall revenues to reach SAR 4,817mn by FY29e, implying 14.9% CAGR over FY23-29e.

**Fig 16. Historical revenues scaled-up from SAR 1.2bn to SAR 2.1bn at 20.0% CAGR**



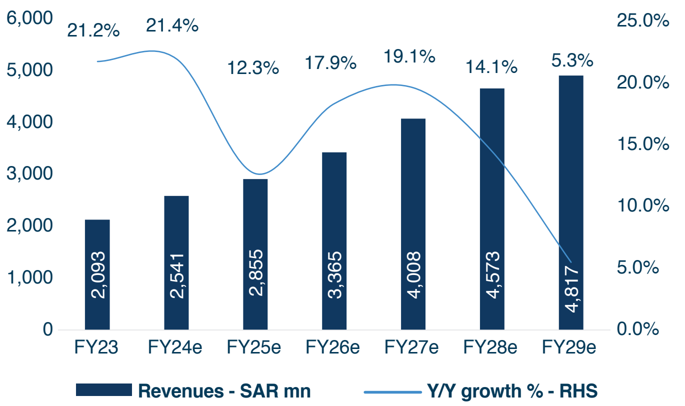

Source: Company, Aljazira Capital Research

**Fig 17. Animal Feed and Animal Health was the key growth driver over FY20-23, while franchise revenues tripled**



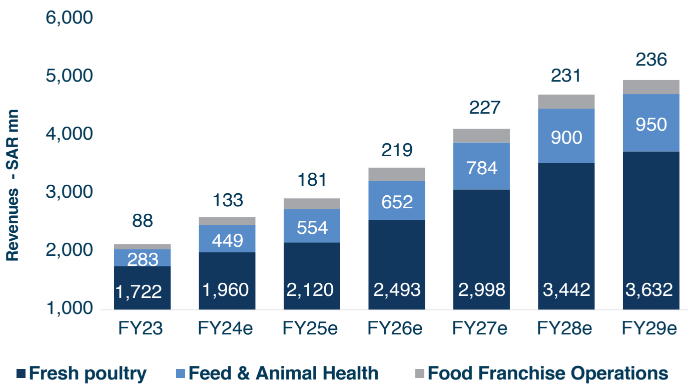

Source: Company, Aljazira Capital Research. *Y/Y growth

**Fig 18. Sectoral tailwinds to aid Tanmiah in driving overall revenues at 16.4% CAGR over FY23-29e**




Source: Company, Aljazira Capital Research

**Fig 19. Future revenues to be driven by all the three segments**

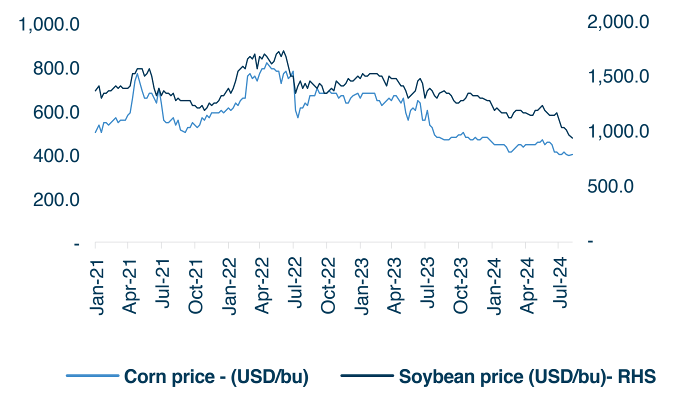



Source: Company, Aljazira Capital Research

## Higher share from value added products and franchise operations to be the core gross margin driver for Tanmiah, while higher S&D expenses for scale up of Popeye stores and elevated diesel prices to curb the operating margin trajectory

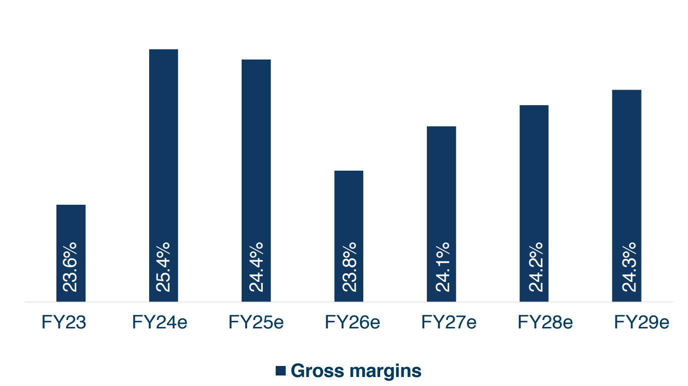
Tanmiah's gross margins expanded significantly from 21.2% in FY21 to 25.4% in 9M-FY24, aided by a sharp correction in the average international prices of corn and soybean, which form a crucial feedstock for Tanmiah. After reaching the peak in Q2-22, the average prices corrected due to easing of supply concerns and leading to a higher ending stock for these feeds. We expect gross/operating margins to contract in FY25/FY26 due to new capacity additions, higher S&D expenses for scaling-up Popeyes stores and the poultry business, along with elevated diesel prices. However, from FY27 onwards we see margin expansion due to i) expansion of restaurants, ii) up-gradation of existing product offerings, and iii) strategic expansion of value-added products.

**Fig 20. Corn/soyabean international prices down 11%/21% YTD, but have remained volatile in the past**



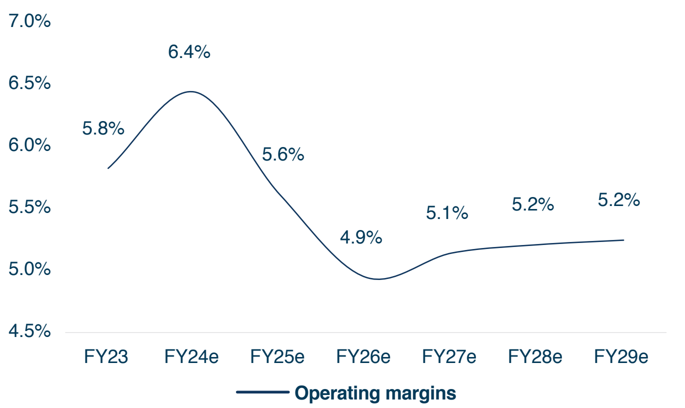

Source: Investing.com, Aljazira Capital Research

**Fig 21. Better efficiency and higher contribution of value added products to drive gross margin expansion**



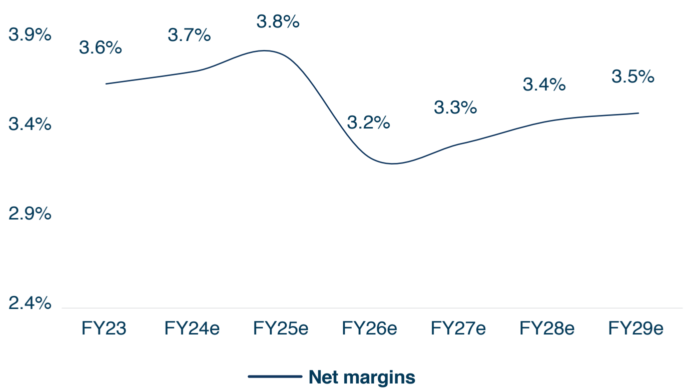

Source: Company, Aljazira Capital Research

**Fig 22. Operating margins to expand due to rising franchise operations and operating leverage at play**




Source: Company, Aljazira Capital Research

**Fig 23. Despite increase in gross margins, the impact of higher S&D expenses and diesel prices could drive contraction of 30bps in the net margins of Tanmiah**




Source: Company, Aljazira Capital Research

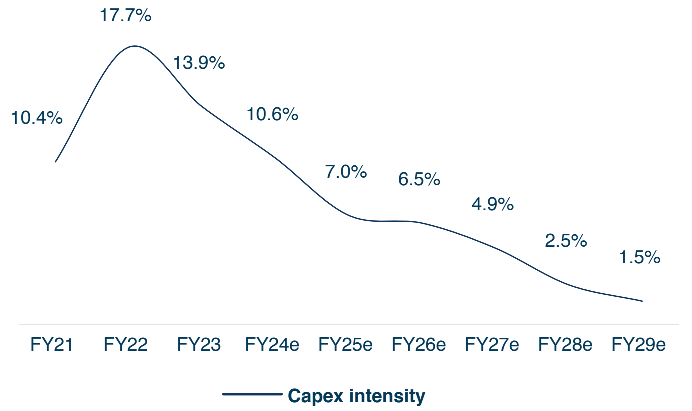
## May need additional debt for funding elevated capex; as capex normalizes shareholder payouts could elevate

The company has efficiently controlled its cash conversion cycle which reduced from 133 days in FY20 to 10 days in FY23. This was largely due to i) significant efficiency in collecting receivables (reduced from 142 days to 42 days), and ii) better payment terms to suppliers. This efficient control indicates Tanmiah's bargaining power. This robust framework ensures minimal working capital requirement for future cash flows in the medium to long term. Historically the company's capex intensity has been within 10-14% of revenues, with a sharp increase in FY22. However, going forward we expect the capex intensity to remain elevated till FY25e due to company's planned capex for;

- Expanding poultry business by increasing the production capacity to over million birds per day by FY25e.
- Expansion plans for fresh poultry in GCC and North Africa through fast-food services.
- Expanding Popeyes outlets in Kuwait and Bahrain alongside KSA.

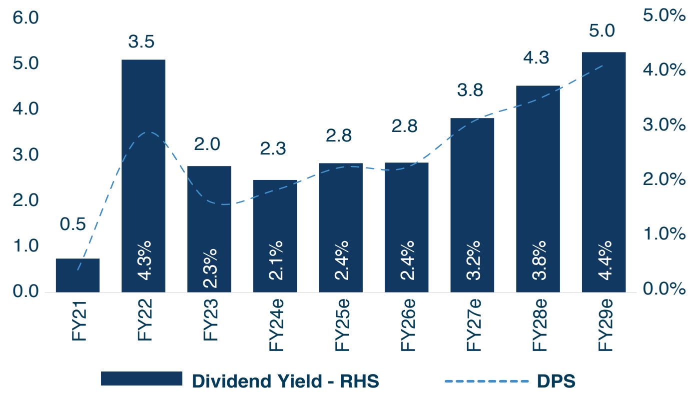
Post FY25e, we expect capex intensity to normalize and gradually decrease to 1.5% of revenues by FY29e. To support this expansion till FY25e, we expect company to increase its debt levels, thus keeping the debt/equity ratio within 0.60x to 1.40x levels over FY23-29e. Efficient working capital requirement and low capex intensity to ensure consistency in cash generation, which can aid it in elevating shareholder payouts. We estimate the payouts to increase from SAR 2.00 per share in FY23 to SAR 5.00 per share by FY29e. This could drive the dividend yield from 2.3% in FY23 to 4.4% by FY29e.

**Fig 24. Capex intensity was elevated historically, but to normalize by FY29E**




Source: Company, Aljazira Capital Research

**Fig 25. Efficient working capital requirement and easing capex intensity to drive higher shareholder payouts**




Source: Company, Aljazira Capital Research

## Valuation Methodologies

We have performed 50% DCF and 50% EV/EBITDA based valuation on our forecasts for the next six years. We assumed risk free rate of 4.25%, market risk premium of 6.25% and beta of 0.90 to arrive at WACC of 7.5%. Terminal growth rate is assumed at 2.5%. Our valuation of Tanmiah based on DCF yielded an enterprise value of SAR 3.2bn and a fair value to equity shareholders of SAR 2.7bn, which translated into a target price of SAR 136.2 per share. We also have valued Tanmiah using a relative valuation method based on EV/EBITDA multiple of 10.5x and applied it to our FY25e EBITDA estimates. Based on the EV/EBITDA valuation our value is SAR 142.7 per share. Further assigning 50% weightage to DCF and 50% to EV/EBITDA based valuation methodology, we have arrived at a weighted target price of **SAR 139.4 per share**.

**Fig 26. Discounted Cash Flow model**

| | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E | TV |
|---|---|---|---|---|---|---|---|
| **EBITDA** | **197** | **205** | **228** | **274** | **309** | **324** | **--** |
| Change in working capital | 60 | -33 | -65 | -90 | -84 | -41 | -- |
| Capex | -270 | -199 | -218 | -196 | -116 | -72 | -- |
| **FCFF** | **-14** | **-27** | **-55** | **-11** | **109** | **212** | **4,320** |
| **Present value of FCFF** | **-14** | **-26** | **-48** | **-9** | **82** | **148** | **3,015** |
| Debt / (Debt+Equity) | 38% | 40% | 43% | 44% | 44% | 43% | |
| WACC | 7.4% | 6.9% | 6.9% | 7.5% | 7.4% | 7.5% | 7.5% |
| Enterprise Value | | | | | | | 3,162 |
| Less: Debt | | | | | | | (573) |
| Add: cash | | | | | | | 134 |
| Equity value to common shareholders | | | | | | | 2,723 |
| No of outstanding shares (mn) | | | | | | | **20** |
| **Fair value per share** | | | | | | | **136.2** |

Source: Aljazira Capital Research

### Fig 27. Relative valuation using EV/EBITDA multiple

| | |
|---|---|
| EV/EBITDA ratio (x) | 10.5 |
| FY25 EBITDA (SAR mn) | 350.4 |
| **TP** | **142.7** |

Source: AlJazira Capital research

### Fig 28. Weighted valuation summary

| | TP (SAR) | Weight | Weighted TP |
|---|---|---|---|
| DCF | 136.2 | 50% | 68.1 |
| P/E | 142.7 | 50% | 71.4 |
| **Total** | | | **139.4** |

Source: AlJazira Capital research

## Risk Factors

- **Withdrawal or change in terms & conditions of existing master franchise agreement:** Company has entered into master franchise agreement with Popeyes, to operate the stores in KSA, Bahrain and Kuwait. Any change in terms and conditions or withdrawal of the franchise agreement with Tanmiah, can impact its overall revenues and margin profile. Further occurrence of any sensitive events that impacts the brand reputation of Popeyes, can drive revenue declines for Tanmiah.

- **Increase in feed costs:** The prices of local and imported chicken in Saudi Arabia have historically been fluctuating, in-line with the global inflationary trends. Any further increase in the prices of feed such as corn and soybean, could materially impact the company's cost drivers, as feed accounts for more than 50% of the COGS.

- **Susceptible to change in government policies:** The poultry industry in KSA is regulated by the KSA government in form of direct/ indirect subsidies to domestic producers, import tariffs and other policies. Any change in government policies or reduction in subsidies might impact the company's ability to drive margins.

## Key Financial Table

| Amount in SARmn, unless otherwise specified | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E |
|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | |
| Revenues | 1,727 | 2,093 | 2,541 | 2,855 | 3,365 | 4,008 | 4,573 | 4,817 |
| *Y/Y* | *12.2%* | *21.2%* | *21.4%* | *12.3%* | *17.9%* | *19.1%* | *14.1%* | *5.3%* |
| Cost of Sales | (1,307) | (1,598) | (1,896) | (2,157) | (2,563) | (3,043) | (3,467) | (3,648) |
| Gross profit | 420 | 495 | 645 | 698 | 802 | 965 | 1,106 | 1,170 |
| **Gross margin** | **24.33%** | **23.64%** | **25.39%** | **24.44%** | **23.83%** | **24.07%** | **24.19%** | **24.28%** |
| Selling, distribution and employee expenses | (218) | (252) | (318) | (359) | (427) | (513) | (590) | (626) |
| General and Administrative exp | (104) | (116) | (157) | (176) | (205) | (242) | (274) | (286) |
| **Operating profit** | **95** | **122** | **164** | **160** | **166** | **206** | **238** | **253** |
| *Y/Y* | *108.0%* | *28.5%* | *34.3%* | *-2.1%* | *3.9%* | *23.8%* | *15.6%* | *6.1%* |
| Financial charges | (31) | (31) | (59) | (43) | (52) | (68) | (76) | (80) |
| **Profit before zakat** | **93** | **86** | **107** | **122** | **122** | **149** | **177** | **188** |
| Zakat | (8) | (10) | (13) | (14) | (14) | (17) | (20) | (21) |
| **Net income** | **187** | **76** | **93.9** | **108.1** | **108.2** | **132.3** | **156.6** | **167.1** |
| *Y/Y* | *1278.0%* | *-59.3%* | *23.7%* | *15.1%* | *0.1%* | *22.2%* | *18.4%* | *6.7%* |
| **EPS (SAR)** | **9.34** | **3.80** | **4.70** | **5.40** | **5.41** | **6.61** | **7.83** | **8.35** |
| **DPS (SAR)** | **3.50** | **2.00** | **2.25** | **2.75** | **2.75** | **3.75** | **4.25** | **5.00** |
| **Balance sheet** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash & bank balance | 267 | 111 | 104 | 128 | 157 | 162 | 236 | 276 |
| Inventory | 288 | 263 | 317 | 361 | 428 | 509 | 579 | 610 |
| Receivables | 198 | 239 | 311 | 349 | 412 | 490 | 559 | 589 |
| Other current assets | 754 | 865 | 1,044 | 1,177 | 1,391 | 1,655 | 1,887 | 1,987 |
| Property & Equipment | 338 | 525 | 692 | 776 | 863 | 918 | 934 | 950 |
| Other non-current assets | 441 | 511 | 571 | 632 | 695 | 761 | 785 | 763 |
| **Total assets** | **1,801** | **2,012** | **2,411** | **2,713** | **3,105** | **3,496** | **3,842** | **3,976** |
| **Liabilities & owners' equity** | | | | | | | | |
| Payable | 241 | 401 | 623 | 709 | 843 | 1,001 | 1,140 | 1,199 |
| Total current liabilities | 747 | 781 | 866 | 989 | 1,170 | 1,363 | 1,532 | 1,592 |
| Long term debt | 41 | 123 | 315 | 369 | 442 | 486 | 535 | 535 |
| Total non-current liabilities | 391 | 551 | 818 | 943 | 1,100 | 1,238 | 1,345 | 1,353 |
| Paid -up capital | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 |
| Reserves | 414 | 419 | 466 | 520 | 574 | 633 | 704 | 770 |
| Total owners' equity | 663 | 680 | 727 | 781 | 835 | 895 | 965 | 1,032 |
| **Total equity & liabilities** | **1,801** | **2,012** | **2,411** | **2,713** | **3,105** | **3,496** | **3,842** | **3,976** |
| **Cashflow statement** | | | | | | | | |
| Operating activities | 182 | 14 | 197 | 129 | 112 | 116 | 148 | 204 |
| Investing activities | (306) | (292) | (270) | (199) | (218) | (196) | (116) | (72) |
| Financing activities | 86 | 180 | 66 | 94 | 135 | 84 | 42 | (92) |
| Change in cash | (38) | (98) | (7) | 24 | 29 | 5 | 74 | 40 |
| **Ending cash balance** | **267** | **111** | **104** | **128** | **157** | **162** | **236** | **276** |
| **Key fundamental ratios** | | | | | | | | |
| **Liquidity ratios** | | | | | | | | |
| Current ratio (x) | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 |
| Quick ratio (x) | 1.0 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Profitability ratios** | | | | | | | | |
| GP Margin | 24.3% | 23.6% | 25.4% | 24.4% | 23.8% | 24.1% | 24.2% | 24.3% |
| Operating Margins | 5.5% | 5.8% | 6.4% | 5.6% | 4.9% | 5.1% | 5.2% | 5.2% |
| EBITDA margin | 8.4% | 7.2% | 8.2% | 7.6% | 7.2% | 7.3% | 7.2% | 7.2% |
| Net Margins | 10.8% | 3.6% | 3.7% | 3.8% | 3.2% | 3.3% | 3.4% | 3.5% |
| Return on assets | 11.9% | 4.0% | 4.2% | 4.2% | 3.7% | 4.0% | 4.3% | 4.3% |
| Return on equity | 36.7% | 11.3% | 13.3% | 14.3% | 13.4% | 15.3% | 16.8% | 16.7% |
| **Market/valuation ratios** | | | | | | | | |
| EV | 2,597 | 2,340 | 2,626 | 2,678 | 2,755 | 2,813 | 2,808 | 2,768 |
| EV/EBITDA (x) | 11.3 | 9.5 | 8.1 | 7.6 | 7.1 | 6.2 | 5.5 | 5.2 |
| Market price (SAR) | 127.8 | 102.0 | 114.0 | 114.0 | 114.0 | 114.0 | 114.0 | 114.0 |
| Market-Cap (SAR mn) | 2,556 | 2,040 | 2,280 | 2,280 | 2,280 | 2,280 | 2,280 | 2,280 |
| Dividend yield | 2.7% | 1.9% | 2.1% | 2.4% | 2.4% | 3.2% | 3.8% | 4.4% |
| P/E ratio (x) | 13.7 | 26.9 | 24.3 | 21.1 | 21.1 | 17.2 | 14.6 | 13.6 |
| P/BV ratio (x) | 3.9 | 3.0 | 3.1 | 2.9 | 2.7 | 2.5 | 2.4 | 2.2 |

Source: Company reports, AlJazira capital Research

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RESEARCH DIVISION

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1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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