

Company Report

Wednesday, July 3, 2024

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Securities

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Coverage Initiation Report

COMPANY UPDATE

The Organic Meat Company Limited

Food & Personal Care Products

Recommendation	BUY
Target Price: Feb-25	48.70
Last Closing: 2-Jul-24	35.05
Upside (%):	39%
Valuation Methodology:	DCF

Market Data

Bloomberg Tkr.				TOMCL PA
Shares (mn)				148.49
Free Float Shares (mn)*				74.25
Free Float Shares (%)*				50%
Market Cap (PKRbn)				5.2
Market Cap (USDmn)				18.68
Exchange				KSE-100
Price info.	01M	03M	09M	12M
Abs. Return	-5%	12%	47%	63%
Low	32	28.6	18.6	18.6
High	41.4	41.4	41.4	41.4

Key Company Financials

Period End: Jun

PKRbn	FY23A	FY24E	FY25F	FY26F
Total Revenue	6,365	11,853	14,681	18,233
Net Income	722	546	821	1,042
EPS (PKR)	4.86	3.67	5.53	7.02
DPS (PKR)	-	-	1.0	2.0
Total Assets	5,815	6,278	6,978	7,590
Total Equity	4,540	5,085	5,758	6,502

Key Financial Ratios

ROE (%)	19%	11%	15%	17%
P/E (x)	7.21	9.54	6.34	5.00
P/B (x)	1.15	1.02	0.90	0.80
DY (%)	0%	0%	3%	6%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research. * Free float as reported by PSX

IGI Research

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Food & Personal Care Products

Navigating Frontiers: TOMCL's path to Diversified Success

- We initiate coverage on TOMCL with a buy rating and target price of PKR 48.7/share offering 39% upside from last close. The Company is one of the largest processor and exporter of red meat and related meat by-products in Pakistan offering a wide range of product portfolio with access to a large network of export destinations.
- The company has also embarked on a significant expansion plan of its existing meat chilling and freezing capacities at Gadap facility, which is expected to be completed by November 2024.
- TOMCL has demonstrated strong growth in recent years, with impressive compound annual growth rates (CAGRs) of 25% and 35% between FY19-FY23 in revenue and profit respectively. With its wide range of product offerings, introduction of new products, capacity expansions and entry into new export markets, which is likely to lead to higher growth in revenues in the coming years.
- Using DCF, we have a 'BUY' rating on TOMCL with a Jun-25 target price of PKR 48.7/share offering a ~39% upside from the last closing price of PKR 35.1/share (2-Jul-24). TOMCL offers FY25E FCF yield of ~17%.

Initiating Coverage on The Organic Meat Company Limited (TOMCL) with "BUY" Rating

We initiate coverage on TOMCL with a buy rating and target price of PKR 48.7/share offering 39% upside from last close. The Company is one of the largest processor and exporter of red meat and related meat by-products in Pakistan offering a wide range of product portfolio with access to a large network of export destinations.

We base our investment thesis on a) strong growth in revenues and profit, b) Large export network with entry into new markets, c) recent capacity expansion amid strong demand to fuel growth, d) dollarized revenues, e) Largest animal fattening facility which is expected to boost local sales, and f) Export of cooked beef to China to increase revenues.

Recommendation: We have a 'BUY' rating on TOMCL with a Jun-25 target price of PKR 48.7/share offering a ~39% upside from the last closing price of PKR 35.1/share (2-Jul-24). The Company is currently trading at FY25/26 P/E of 6.34/5.00x.

Key Catalyst: Key catalyst include a) USD 4 million contract with UAE, b) Acquisition of MSMHL in KEPZ and, c) Growth in private labelling business.

Key Risk: Key risks include a) PKR appreciation, b) fluctuations in demand, c) High inflation, d) disease outbreaks in animals, e) Trade barriers and regulatory changes and f) high reliance on few big customers.

Investment Thesis

1. Strong Growth in Revenues and Profit

TOMCL has demonstrated strong growth in recent years, with impressive compound annual growth rates (CAGRs) of 25% and 35% between FY19-FY23 in revenue and profit respectively. With its wide range of product offerings, introduction of new products, capacity expansions and entry into new export markets, which is likely to lead to higher growth in revenues in the coming years. Moreover, the Company anticipates margins improvement with recent expansion into pet chews and cooked beef segments as they exhibit higher margins.

Revision in tax regime through Finance Act 2024: Exporters were previously charged final tax of 1% of export proceeds which has been changed to normal tax regime and will be taxed at corporate tax rate (29%) plus applicable super tax (10%). As a result, we have incorporated corporate tax rate at 39% from FY25 onwards leading to a downward revision of nearly 32-34% in our earnings estimate for FY25-28 from previous profitability based on 1% minimum tax. Nevertheless, despite imposition of higher tax rate we expect TOMCL to post 3Yr earnings CAGR (FY24-FY27) of 34%.

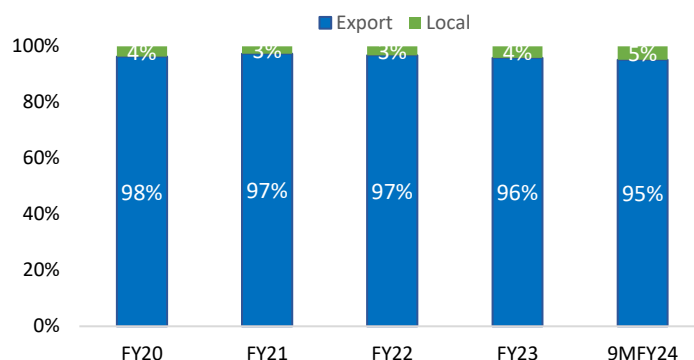
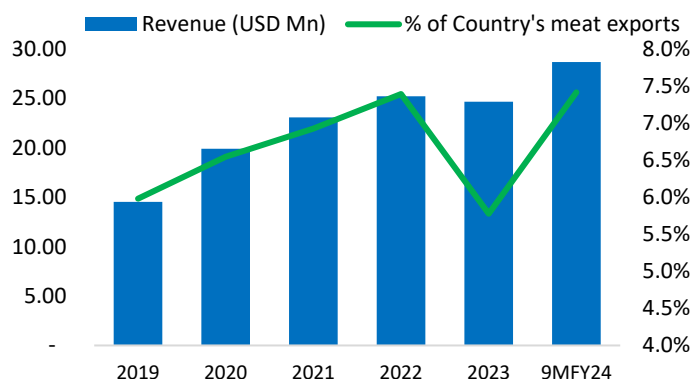
2. Large Export Network

Export sales contribute over 95% to the total sales mix as the Company enjoys the largest export network with access to over 19 export destinations including the GCC countries, CIS Region, China, Canada and USA amongst others.

Entry into New Export Markets: Over time, TOMCL has strived to enter new export markets by focusing on the development of new products strategically diversifying its product portfolio. The recent introduction of pet food raw material has proved to be a notable milestone for the Company as it has become the pioneer for exporting these products to USA & Canada. Moreover, TOMCL has also gained access to Uzbekistan for export of frozen meat.

Exhibit: TOMCL Revenues as a % of Country's Meat Exports

Exhibit: Export and Local Sales Break-up



Source: PBS, Company Accounts, IGI Research

3. Capacity Expansion to Fuel Growth

The company has also embarked on a significant expansion plan of its existing meat chilling and freezing capacities at Gadap facility which is expected to be completed by November 2024. The first phase of this expansion has already been completed in May 2024 which entails a 30% increase in its chilling capacity thus significantly improving its overall production capabilities. According to the estimates of the management, the Company's current run rate of monthly sales stand at USD 4mn which is expected to increase by over 90% to USD 7.5-8mn post expansion.

Exhibit: Sales Mix as at Jun-23

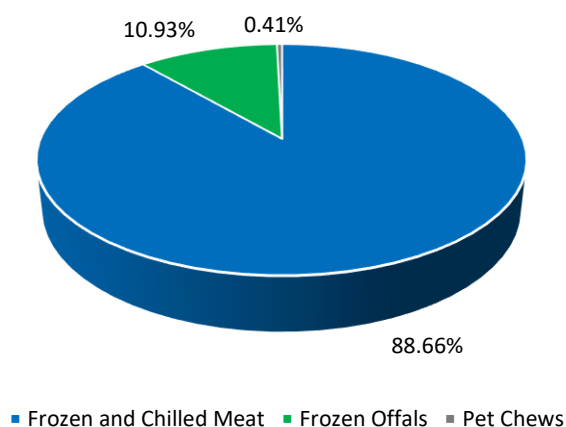
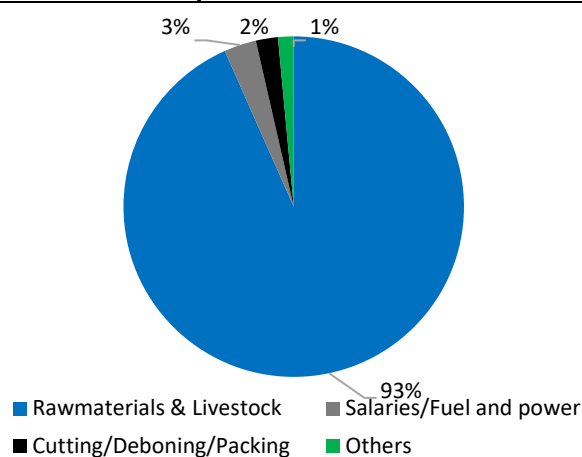


Exhibit: COGS Decomposition



Source: Bloomberg, Company Accounts, IGI Research

4. Dollarized Revenues

Majority of the Company's revenue is dollar-based, which serves as a hedge against PKR depreciation, thereby significantly reducing exposure to currency fluctuations. Over the past five years, it has maintained an attractive dollarized CAGR of 12% in revenues.

5. Largest Animal Fattening Facility

The Company has also established the largest back-end animal fattening farm at the corporate level with a capacity of housing up to 3000 animals. Currently, the Company is able to meet 10% of its raw material requirement from its own stock of animals, however it aims to take it up to 25%. From 2023, TOMCL has further started selling animals fattened on its farm in local markets during Eid-UI-Azha in addition to providing Qurbani services.

6. Export of Cooked Beef to China

TOMCL achieved a notable milestone by becoming the first company from South-Asia to have exported cooked/heat treated frozen beef to China. China is known as largest meat importer in the world, with 2.74 million metric tonnes of beef imported in 2023 (as per Statista). It is estimated that Pakistan has the ability to export approx. USD 20 million worth of beef in a year. TOMCL, being the only exporter of cooked beef in South Asia, will experience a notable increase in its revenues.

Future Outlook

Going Forward, the Company targets to achieve growth through measures aimed at increasing its market share by diversifying its product portfolio such as expanding its pet chew offerings, entering into the beef casings market to gain access to the EU market and introducing the sale of offals in the UAE market. The Company is also focused on promoting its private labelling business and integrating farm operations

Valuation

We have a 'BUY' rating on TOMCL with a Jun-25 target price of PKR 48.7/share offering a ~39% upside from the last closing price of PKR 35.1/share (2-Jul-24). TOMCL offers FY25E FCF yield of ~17%.

We have determined our target price using Discounted Cash Flow (DCF) valuations with a WACC of 23%, Cost of Equity of 24% and a terminal growth rate assumed at 3% based on cash flows projected for FY28. Our calculation includes a risk-free rate of 18%, a beta of 1.0, and an equity risk premium of 6%.

Sensitivity of Terminal Growth Rate and WACC on TP						
		Terminal Growth				
WACC		1%	2%	3%	4%	5%
	19%	49.7	51.4	53.3	55.3	57.5
	21%	47.6	49.2	51.0	52.9	55.0
	23%	45.5	47.0	48.7	50.5	52.5
	25%	43.8	45.2	46.8	48.6	50.5
	27%	42.0	43.4	44.9	46.6	48.4

Trading at significant discount to historic P/E

The company is currently trading at FY25F P/E of 6.34x significantly discounted to historic average of 9.98x.

Exhibit: Relative Price Performance

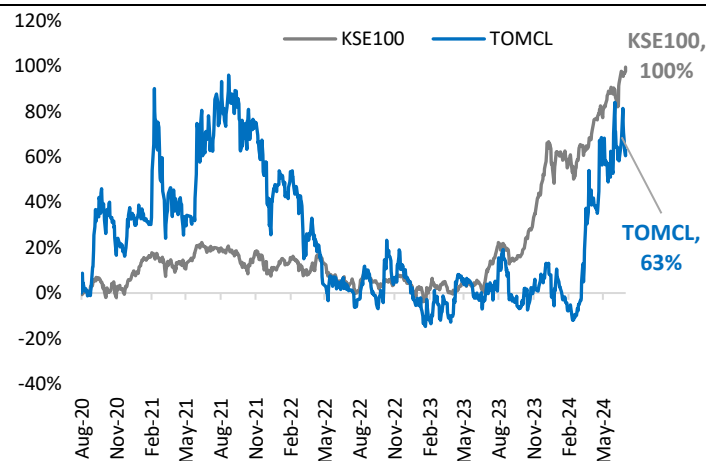
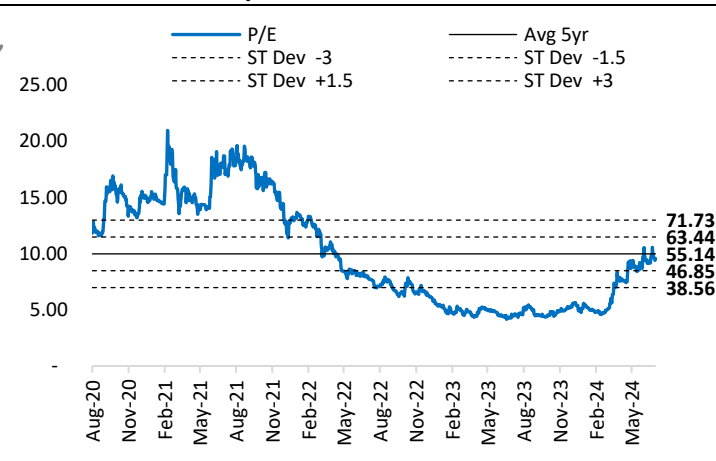


Exhibit: Historical P/E & Standard Deviation



Source: PSX, Company Accounts, IGI Research

Risk to Rating

1. **PKR Appreciation:** As TOMCL revenues are dollar-based, appreciation of PKR against the USD can lead to lower revenues and exchange gains.
2. **Fluctuations in Demand:** Changes in global demand for meat products due to shift in consumer preferences towards plant-based diets or health concerns related to meat consumption can greatly impact the Company's revenues.
3. **Inflation:** High inflationary pressures leading to increase in prices of raw materials and packing materials thus making it difficult for the Company to retain margins.
4. **Disease outbreaks:** Outbreak of diseases in livestock animals such as foot and mouth disease can lead to export bans or restrictions from importing countries.
5. **Trade Barriers/Tariffs and Regulatory Changes:** Imposition of tariffs/trade barriers/Quotas or changes in international regulations related to food safety etc.
6. **High reliance on few big Customers:** UAE and Saudi Arabia account for more than 80% of the total export sales. In the year 2023, UAE accounted for about 57% of the export sales followed by KSA at 23%. Any shift of preference to other meat exporters can greatly impact our assessment.

Key Catalyst

1. **USD 4 million Contract with UAE:** In April 2024, TOMCL entered into a new contract with First Quality Food Stuff LLC for the export of frozen boneless beef to the UAE. With this contract in hand, the Company is expected to post above noted revenues within the next six months.
2. **Acquisition of Mohammad Saeed Mohammed Hussain (MSMHL) in Karachi Export Processing Zone (KEPZ):** MSMH is a key player in the export of animal offals and sheep casings operating through its agricultural production facility located in KEPZ. Its acquisition is a strategic move by TOMCL which will lead to expansion of market share, diversity of its product portfolio and enhancement of operational efficiency. The Company also plans to expand into sheep and beef casings market in EU as well as UAE.
3. **Growth in Private Labelling Business:** TOMCL is the only company in Pakistan to provide private labelling of meat products to its international clients which has gained significant acceptance in the middle east countries like Saudi Arabia, UAE and Kuwait. Going Forward, the Company aims to make it the key focus eventually expanding into the fast food production segment.

3QFY24 Financial Performance

TOMCL announced its 3QFY24 results and reported earnings of PKR 156mn (EPS 1.05/share) down by 66%/y/y. The net sales were reported at PKR 3.33bn compared to PKR 1.63bn (up by +2xy/y) during the same period last year. The sales revenue increased on the back of 62% surge in export volumes led by inaugural sale of cooked beef to China and uptake in offal business. The gross margins of the company were down by ~100bps y/y, which is likely due to high inflation leading to high costs. The other income also declined significantly by 93%/y/y likely due to stable PKR during the period compared to last year, which led to lower exchange gains.

Exhibit: TOMCL Quarterly Financial Highlights - 3QFY24					
PKRmn	3QFY24	3QFY23	Y/Y	2QFY24	Q/Q
Net Sales	3,334	1,629	105%	2,949	13%
Gross Profits	424	229	86%	439	-3%
Admin & selling	215	129	67%	177	22%
Other Income	31	426	-93%	-37	-184%
EBIT	239	520	-54%	222	7%
Finance cost	53	51	5%	61	-13%
Profit before tax	186	470	-60%	162	15%
Taxation	30	15	95%	28	5%
Profit after Tax	156	454	-66%	134	17%
EPS*	1.05	3.06	-66%	0.90	17%
DPS	-	-	-	-	-
Gross Margins	13%	14%	-1%	15%	-2%
EBIT Margins	7%	32%	-25%	8%	0%
Effective tax	16%	3%	13%	17%	-1%
Net Margins	5%	28%	-23%	5%	0%

Source: Company Accounts, IGI Research, *Number of shares (mn): 148.5

Financial Summary

The Organic Meat Company Limited (TOMCL)

Current Price (PKR): 35.1 Target Price (PKR): 48.7 Upside: 39% Recommendation: **BUY**

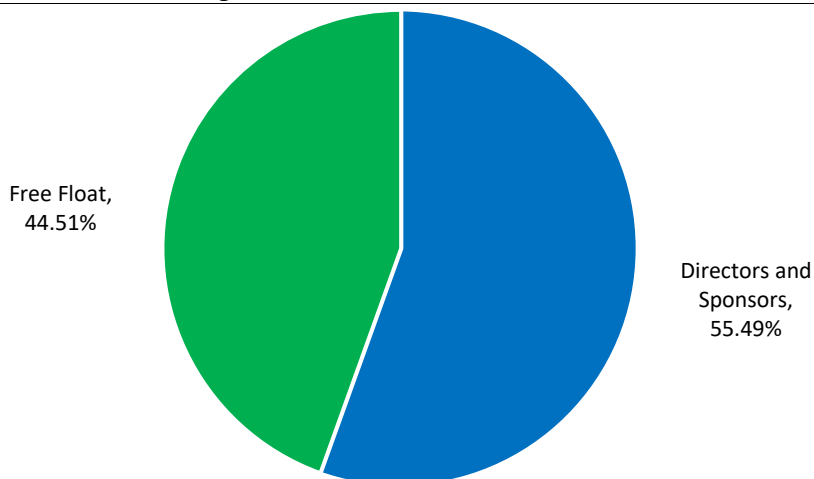
PKRmn	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	
Income Statement								Per Share							
Net Sales	3,384	3,928	4,658	6,365	11,853	14,681	18,233	EPS	1.8	2.0	2.8	4.9	3.7	5.5	7.0
Gross Profit	622	650	610	853	1,511	2,006	2,566	DPS	2.0	-	-	-	-	1.0	2.0
Operating Profit	373	416	197	313	782	1,171	1,617	BVPS	12.7	18.5	21.2	30.6	34.2	38.8	43.8
EBIT	391	454	571	988	911	1,565	1,886	Growth rates & Margins							
EBITDA	505	579	712	1,121	1,116	1,807	2,148	Sales Gr. %	0%	16%	19%	37%	86%	24%	24%
Finance Costs	90	89	88	181	200	149	81	EPS Gr. %	0%	14%	36%	76%	-24%	50%	27%
Profit Before Tax	284	340	455	789	664	1,346	1,708	Gross Margin	18%	17%	13%	13%	13%	14%	14%
Taxation	17	37	44	67	119	525	666	EBIT Margin	12%	12%	12%	16%	8%	11%	10%
Profit After Tax	267	303	411	722	546	821	1,042	Net Margin	8%	8%	9%	11%	5%	6%	6%
Balance Sheet								Valuation							
Inventory	239	188	117	245	260	377	465	P/E	19.5x	17.2x	12.7x	7.2x	9.5x	6.3x	5.0x
Receivables	702	912	1,598	2,266	2,016	2,391	2,785	DY	6%	0%	0%	0%	0%	3%	6%
Current Assets	1,310	1,816	2,404	3,299	2,836	3,373	3,843	P/B	2.8x	1.9x	1.6x	1.1x	1.0x	0.90x	0.80x
PP&E	1,420	1,827	1,859	2,505	3,432	3,594	3,737	Op. Cf Yld	0%	2%	3%	6%	25%	13%	17%
Total Assets	2,731	3,643	4,268	5,815	6,278	6,978	7,590	ROE	14%	13%	14%	19%	11%	15%	17%
Payables	76	89	150	144	326	473	582	ROA	10%	10%	10%	14%	9%	12%	14%
Current Liabilities	843	870	1,027	1,205	1,136	1,188	1,082	P/EBITDA	10.3x	9.0x	7.3x	4.6x	4.7x	2.9x	2.4x
LT Loans	-	30	83	67	56	31	3	EV/EBITDA	11.3x	9.8x	8.2x	5.4x	5.3x	3.2x	2.6x
Total Liabilities	843	900	1,113	1,276	1,193	1,221	1,088	Volumetric Sales (MT)							
Paid Up Capital	718	1,118	1,230	1,350	1,485	1,485	1,485	Export	6,238	6,592	6,275	6,170	9,128	10,422	11,411
Total Equity	1,887	2,744	3,155	4,540	5,085	5,758	6,502	Total	6,238	6,811	6,502	6,404	9,370	10,676	11,677

Source: PSX, Capital Stake, Company Accounts, Bloomberg, IGI Research

About the Company

The Organic Meat Company Limited (TOMCL) is a high quality red meat processor and exporter that started its operations in 2011 with two initial products fresh chilled beef and mutton and frozen boneless beef. Today, the Company expertises in processing beef and mutton in various forms such as fresh-chilled, frozen, vacuum packed, MAP vacuum packed and heat treated products along with offals. It owns state-of-the-art plant and equipment located in Gadap and Korangi town of Karachi with an additional offal processing facility in the Karachi Export Processing Zone. Over time, the Company has focussed on developing new products to increase its product portfolio which differentiates the Company from its Competitors as well as drives growth in revenues and market share because of which TOMCL has the largest product range as well as market access from Pakistan’s meat export sector. Recently, the Company also started selling pet chews which has led the Company to gain access to the export markets of North and South America and Canada.

Exhibit: Shareholding Pattern As at Jun-23



Source: Company Accounts, IGI Research

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Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)

Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)

Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

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- Discounted Cash Flow (DCF)
- Reserve Based DCF
- Dividend Discount Model (DDM)
- Justified Price to Book
- Residual Income (RI)
- Relative Valuation (Price to Earning, Price to Sales, Price to Book)

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