

Insight alpha

TOMCL PA: From pastures to plate & beyond

The Organic Meat Company Limited is one of the largest processor of red meat and other related meat by products in Pakistan. The company offers extensive product portfolio of meat and offal products. TOMCL is the first company from Pakistan to get approval from GACC (General Administration of Customs of China) to export cooked beef to China and has become the first company from South Asia to export cooked beef to China.

To highlight, in 8MFY24 meat export posted a growth of 29% YoY to clock in at US\$333mn vs. US\$259mn in SPLY. To highlight, country meat/meat products exports has recorded a 3 year CAGR of ~18%. We believe that TOMCL is the best proxy in listed space for gaining exposure to the expanding meat export industry, given the substantial growth potential in this sector. Our liking for the stock stems from following facts: i) Diversified product portfolio, ii) Expansion into high margin business (offal products), iii) Dollarized revenue stream, iv) Access to more export destinations than peers, v) Largest animal fattening facility and v) Approval from GACC to export cooked beef to China.

The stock is currently trading at TTM P/E & P/S of 5.9x & 0.5x, compared to the respective since listing averages of 8.2x and 0.7x. Moreover, company's topline has depicted a 3-year dollarized CAGR of ~15%. Considering historical evidence and the newly launched product offering cooked beef to China, the company can achieve a topline of ~PKR14.5bn in NTM. Considering average net margin of ~8% and by assigning sub par P/E & P/S multiple of 5.0x & 0.4x, TOMCL target prices comes at ~PKR38.9/sh providing an upside of 39%. Following page contains earnings sensitivity for next 12 months, based on dollarized growth and net margins.

Key risks to our valuation thesis include i) Demand slowdown, ii) Entry of new players, ii) Appreciation of PKR, iv) Changes in regulatory regime and v) Spread of disease in livestock.

Brief introduction of TOMCL

The Organic Meat Company Limited started off its operation in 2010 as private limited company. TOMCL is now one of the largest Halal meat processor and exporter. The company showcases a diverse portfolio of meat and offal products, encompassing an extensive range of product categories including fresh chilled meat, frozen meat, vacuum-packed meat, M.A.P. vacuum-packed chilled meat, cooked meat, private labeling, fresh/frozen and salted white & red offal, and dehydrated/baked pet chews. Company's slaughtering and processing facility are situated at Gadap, Korangi and export processing zone in Karachi having slaughtering capacity of 149,760 heads. Currently, company can fulfill ~10% of its demand via its own herd and TOMCL plans to take this number to 25% by the end of this year, shielding it from abrupt price hike in livestock prices.

The Organic Meat Company

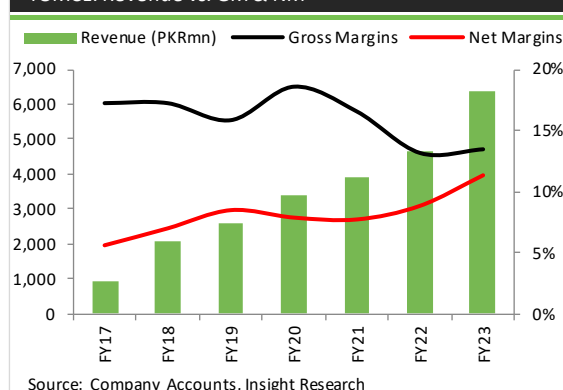


BUY	HOLD	SELL
Current Price	PKR/sh	28.0
Market cap	PKR bn	4.2
Market cap	US\$ mn	14.9
Free Float Market cap	US\$ mn	7.4
30-day Avg. turnover	mn Shares	3.3
30-day Avg. turnover	PKR mn	82.5
52 week range	PKR/sh	18.6 - 31.7
Shares Outstanding	m	148.5
Free float	%	50%
Major Sponsors	Faisal Hussain	
Bloomberg Ticker	TOMCL PA	

Financials (PKR m)	FY21	FY22	FY23
Sales	3,928	4,658	6,365
Cost of sales	3,278	4,048	5,512
Gross Profit	650	610	853
Operating Profit	429	231	318
Profit Before Tax	341	456	788
Profit after Tax	304	412	721
Key Ratios	FY21	FY22	FY23
EPS	2.0	2.8	4.9
P/E	13.3	6.7	3.9
P/S	1.0	0.6	0.4
P/B	1.5	0.9	0.6
ROE	11%	13%	16%

Source: Company Accounts, Insight Research

TOMCL: Revenue vs. GM & NM



Source: Company Accounts, Insight Research

Cooked beef export to China to stimulate topline growth

TOMCL is the first company from Pakistan to get approval from GACC to export cooked/heat treated frozen beef to china in Oct'23. By Dec'23, TOMCL successfully dispatched its inaugural consignment, securing its position as the first South Asian company to export cooked beef to China. To highlight, China is considered one of the largest meat importer, importing US\$14.2bn worth of beef in 2023, as per Statista. As per our interaction with channel checks, country can export US\$20mn worth of cooked meat in to china in next 12 months.

Forging ahead

In 1HFY24, the company witnessed a robust growth in its top-line, recording a remarkable 106% increase in revenue, clocking in at PKR5.2bn vs. PKR2.5bn in SPLY. Notably, company has maintained 3-year dollarized CAGR of 15%. While the country's meat exports experienced a growth of 23% YoY in 6MFY23, the company's dollarized revenue surged by 61%. To highlight, ~95% of company's revenue is derived from exports. Moreover, there has been an improvement in cash generation in the recent quarters, evident from the improvement in cash conversion cycle. This improvement is aiding the company in its goal to deleverage, providing further cushion to its bottom-line. To highlight, in 2QFY24 company's total debt declined to PKR0.95bn vs. PKR1.11bn in 3QFY23.

The company's remarkable growth can be attributed to its expansion into new markets, coupled with an increase in its product portfolio. In FY20, the company exported to 11 destinations, a number which has now increased to 19. Moreover, company has created niche space in US and Canadian market for the pet chews. Additionally, during Eid ul Adha, the company made its inaugural sale of self-fattened animals in the local markets, further diversifying its offerings. To meet the growing demands company is actively working on expansion plans. Recently the company has completed acquisition of MSMHL in Karachi export processing zone, aligning with the company's initial plan for the utilization of IPO proceed. MSMHL is a leading producer and exporter of natural sausage casing, animal offals, and by products. Moreover, the company has expanded capacities of existing meat chilling and freezing with the CAPEX of PKR600mn. This expansion would aid TOMCL to meet the growing demand of boneless frozen and cooked/heat treated frozen beef specifically arising from Middle East and China.

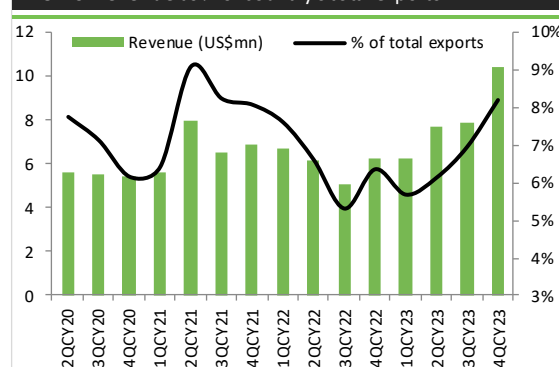
TOMCL annualized EPS sensitivity

		Topline growth			
		20%	40%	60%	80%
US\$m		38.8	45.2	51.7	58.1
PKRmn		10,853	12,662	14,470	16,279
Net Margins	6%	4.39	5.12	5.85	6.58
	7%	5.12	5.97	6.82	7.67
	8%	5.85	6.82	7.80	8.77
	9%	6.58	7.67	8.77	9.87
	10%	7.31	8.53	9.74	10.96

Source: Company account, Insight Research

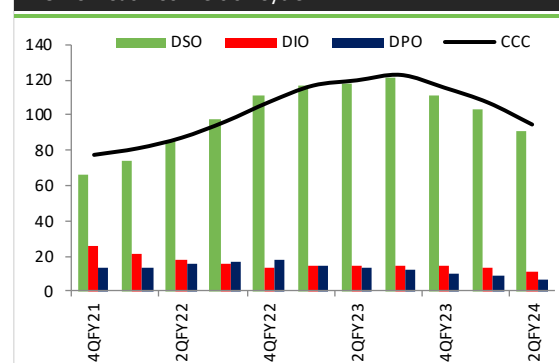
PKR/USD:280*

TOMCL revenue as % of country's total exports



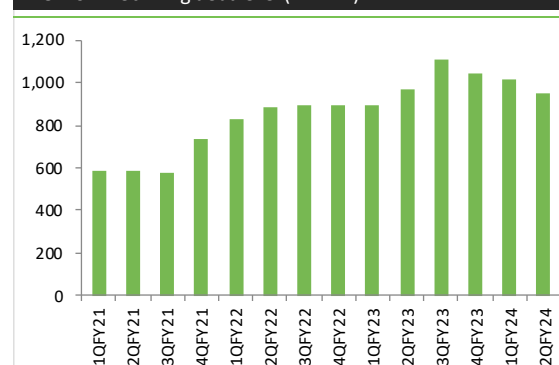
Source: Company Accounts, Insight Research

TOMCL: Cash Conversion Cycle



Source: Company Accounts, Insight Research

TOMCL: Declining debt level (PKRmn)



Source: Company Accounts, Insight Research

IMPORTANT DISCLAIMER AND DISCLOSURES

Disclaimer: This report has been prepared by **Insight Securities (Private) Ltd.**, hereinafter referred as 'ISL' and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Statements regarding future prospects may not be realized while all such information and opinions are subject to change without notice. ISL recommends investors to independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

Investments in capital markets are subject to market risk and ISL accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment or rely upon their own judgment and acumen before making any investment. The views expressed in this document are those of the ISL Research Department and do not necessarily reflect those of ISL or its directors.

ISL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their clients. ISL, as a full-service firm, has/intends to have business relationships, including investment-banking relationships, with the companies in this report. Investors should be aware of that the ISL may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision. This report may not be reproduced, distributed or published by any recipient for any purpose whatsoever without prior written approval by ISL. Action may be taken for unauthorized reproduction, distribution or publication.

ISL Stock Rating System: ISL employs a 3-tier rating mechanism i.e 'BUY', 'HOLD' and 'SELL', which is based upon the level of expected annualized return for a specific stock. When total annualized return (capital gain + dividends) exceeds 21.5%, a 'BUY' rating is assigned. A 'SELL' rating is issued whenever total annualized return is less than negative 5% and for return in between the 2 ranges, 'HOLD' rating is meted out. An 'Under Review' stance is given if ISL research stance depends upon the outcome of an uncertain event having significant impact on the valuations. Different securities firms use a variety of rating terms/systems to describe their recommendations. Similar rating terms used by other securities companies may not be equivalent to ISL rating system.

Time horizon is usually the annual financial reporting period of the company (unless otherwise mentioned in the report). Ratings are updated daily and can therefore change daily. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations.

Target price risk disclosures: Any inability to compete successfully in the markets may harm the business. This could be a result of many factors which may include (but not limited to) geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage/offset certain of these exposures.

Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES

Analyst Certification: The research analyst(s), if any, denoted by AC on the cover of this report, who exclusively reports to the research department head, primarily involved in the preparation, writing and publication of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst(s) which accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or its close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

Disclosure of Financial Interest: ISL or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities of the subject company) in the securities of the subject company. Under normal course of business, ISL, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issues described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. ISL or its employees may trade contrary to the recommendation given by ISL Research through this report or any other. ISL may be providing, or have provided within the previous twelve months, significant advice or brokerage services to the subject company. ISL may have, within the past twelve months, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all, the entities mentioned in this report or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company. Apart from this, ISL or any other of its officers and directors have neither served as a director/officer in any company under ISL research coverage in the past 3 years nor received any compensation from the subject company in the past 12 months.

ISL Research Dissemination Policy: ISL endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Insight Securities (Pvt.) Limited

Suite 509, Business and Finance Centre,

I. I. Chundrigar Road , Karachi, Pakistan

+92-21-32462541-44