

# TOMC

We recommend to subscribe the IPO at Rs.20

Equity Research | Food & Personal Care Products | Friday, 3 July, 2020

We recommend to subscribe the IPO at Rs.20 with a DCF based Jun-21 TP of Rs.27 which provides an upside potential of 35%

The registration of eligible investors will commence at 9:00 am on 30<sup>th</sup> Jun 2020 and will close at 3:00 pm on 7<sup>th</sup> Jul 2020

Bidding dates are from 3<sup>rd</sup> Jul 2020 to 7<sup>th</sup> Jul 2020 (From 9:00 am to 5:00 pm)

Dates of public subscription are from 14<sup>th</sup> Jul 2020 to 16<sup>th</sup> Jul 2020 (both days inclusive) from 9:00 am to 5:00 pm

## Company Overview

The Organic Meat Company Limited is a Halal meat processor and exporter. The company commenced its operations with two products fresh chilled beef and mutton and frozen boneless beef in 2011. Currently, the product line of the company includes the fresh chilled category, frozen category, fresh chilled vacuum pack category, and offal (chilled & frozen).

## Purpose of the Issue

The company wants to raise Rs720mn by issuing 40mn shares at the floor price of Rs18 per share. The principal purpose of the issue is to increase its current product output through the utilization of IPO funds as well as set up 2 (two) new facilities for the processing of Offal. First facility would be set up at Korangi Industrial Area Karachi for processing of locally procured raw offals while the second facility would be set up at the Export Processing Zone, Port Qasim Karachi for processing of imported raw offal with the purpose of re-export.

Following is a brief break-up of the utilization of the IPO proceeds:

Particular	PKR (mn)	Usage	PKR (mn)	%
IPO Proceeds	720	Working Capital and Expansion in Product Line	448	62
		Facility for local Offal in Korangi	167	23
		Facility in EPZ for imported offal for re-export	104	15
<b>Total</b>	<b>720</b>	<b>Total</b>	<b>720</b>	<b>100</b>

## Industry Overview

Muslim population constitutes 30 percent of the total world population. The volume of overall Halal products is estimated to have reached \$3 trillion and halal meat and beef worth \$3.35 bn in the world. Pakistan is now ranked at number 18 in the global halal meat exports. Increasing the Muslim population and the growing awareness among consumers in Asia Pacific countries such as Pakistan, India, and Bangladesh, Indonesia, Singapore, and the Philippines are expected to drive the global market.

The population growth and export opportunities are fueling the demand for livestock and livestock products in Pakistan. The country's meat industry is vibrant and has seen rigorous developments during the last decade as the government has also shown interest in boosting livestock production and processing facilities to meet increasing local and global demand. Pakistan barely exports 4 percent of beef and veal produced in a year as absence of livestock policy hinders tapping of potential overseas markets and gives the unorganized sector a leeway to fleece consumers. This is despite the fact that the country is among the top 10 beef and veal producers in the world. The country annually produces 1.8 million tons of beef and veal.

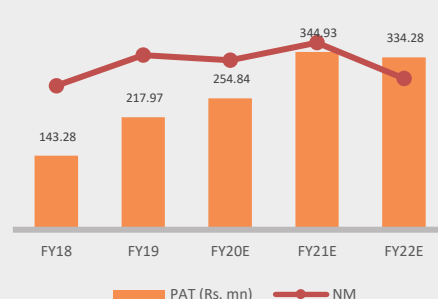
## Key Statistics

Symbol	TOMC
TP - Jun 21	27.00
Floor Price	18.00
Subscribe at	20.00
Upside	35%
Free Float (mn)	40
Market Cap. (Rs.mn)	2,013

Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



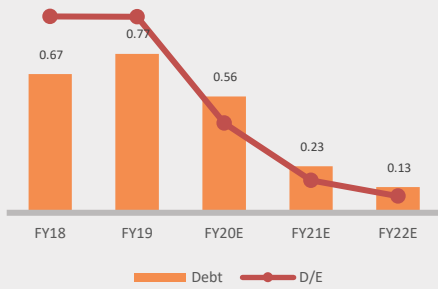
Sources: ACPL Research, Company Financials, PSX,

**M. Fawad Naveed**

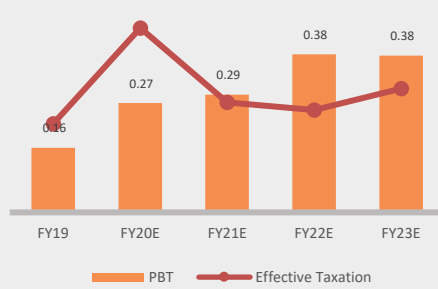
Phone: (+92) 42 38302028; Ext: 117  
Email: fawad@abbasiandcompany.com

Key Statistics

Debt (Rs'bn) vs D/E



PBT (Rs'bn) vs Effective Taxation



Sources: ACPL Research, Company Financials,

Exports of meat and meat preparations amounted to \$242.799 million in the last fiscal year, up 7.61 percent over the preceding fiscal year. The exports accounted for merely 1.1 percent of the country’s total exports of \$22.979 billion in FY2019.

**Financial Performance**

TOMC has a promising track record of financial performance with consistent growth in revenues and profitability. The company has successfully able to grow its revenues and earnings at a 4-year CAGR of 28% and 48% respectively in FY19. However, on the other hand, the revenues and earnings of the only listed competitor of the company “Al Shaheer Corporation Limited (ASC)” contracted by a 4-year CAGR of 4% and 1% respectively during the same period.

Going forward, we expect the revenues and earnings of the company to grow at a 4-year CAGR of 19% and 23% respectively on account of planned expansion in the product portfolio, continuous devaluation of the rupee and exploration of new export markets post Covid-19 crises.

**Investment Rationale**

Around 95% revenue of the company is exports based. Therefore, the continuous devaluation of the PKR against USD would make the company’s products more competitive in the global market.

The Company is associated with various international organizations such as Swiss Assessments AG and Saudi Food and Drug Authority (SFDA) and has certifications reflecting compliance with international standards of hygiene, quality control, and after-sales.

TOMC is the only player dealing in the Offal export segment, thereby giving it a unique edge over other competitors. It is the first Company to provide full carcass as well as deboned meat in Vacuum packaging. Vacuum packaging extends the shelf life of fresh chilled meat products by five times and also preserves its quality and taste, thereby enabling the Company to use the economical sea-route as opposed to the expensive air-route.

Furthermore, owing to the large demand of the Company’s offal product, TOMC plans to set up an offal processing facility at Export Promotion Zone, Port Qasim Karachi where the Company will import raw offal from Ukraine, CIS region, Germany, Italy and another one at Korangi, Karachi where raw offal will be processed for exports to Vietnam, Hong Kong Thailand and Myanmar. Furthermore, once the Chinese market opens up for Pakistani food products, the Company plans to export directly to the vastly lucrative Chinese market for meat and offal. The management is currently also exploring new destinations for importing raw offal as this is a specialized product with higher margins and ample demand.

**Valuation**

As described earlier, the superior performance of the company allows it to trade at a premium multiple as compared to its listed competitor. However, the FY21E PE of TOMC stands at 5.84x at a floor price of Rs.18 as compared to ASC FY21E PE of 32x. Therefore, we recommend to **SUBSCRIBE** the IPO at Rs.20 with a DCF based Jun-21 TP of Rs.27 which provides an upside potential of 35%.

**Key Risks to Valuation**

- Failure in getting export approval from China
- Failure in finalizing agreements with European suppliers to procure offals
- Prolonged Covid-19 scenario
- Appreciation of PKR

## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	962	1,203	922	2,053	2,578	3,104	3,805	4,560	5,233
Cost of sales	- 849	- 1,001	- 763	- 1,699	- 2,170	- 2,443	- 3,037	- 3,766	- 4,210
<b>Gross profit</b>	<b>113</b>	<b>203</b>	<b>159</b>	<b>354</b>	<b>408</b>	<b>660</b>	<b>768</b>	<b>794</b>	<b>1,023</b>
Administrative expenses	- 60	- 48	- 35	- 44	- 54	- 65	- 76	- 100	- 122
Distribution cost	- 7	- 10	- 17	- 62	- 136	- 127	- 176	- 201	- 232
<b>Profit from operations</b>	<b>47</b>	<b>145</b>	<b>108</b>	<b>248</b>	<b>218</b>	<b>468</b>	<b>516</b>	<b>493</b>	<b>669</b>
Finance cost	- 32	- 39	- 37	- 57	- 71	- 83	- 64	- 30	- 21
Other (Expense)/income	38	- 5	- 17	- 34	119	- 100	- 69	- 83	- 94
<b>Profit before income tax</b>	<b>53</b>	<b>100</b>	<b>55</b>	<b>157</b>	<b>265</b>	<b>285</b>	<b>383</b>	<b>380</b>	<b>554</b>
Income tax expense	- 8	- 11	- 1	- 13	- 47	- 30	- 38	- 46	- 52
<b>Profit for the year</b>	<b>45</b>	<b>89</b>	<b>54</b>	<b>143</b>	<b>218</b>	<b>255</b>	<b>345</b>	<b>334</b>	<b>502</b>
EPS	<b>0.41</b>	<b>0.80</b>	<b>0.48</b>	<b>1.28</b>	<b>1.95</b>	<b>2.28</b>	<b>3.08</b>	<b>2.99</b>	<b>4.49</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue		25.1%	-23.4%	122.7%	25.6%	20.4%	22.6%	19.8%	14.8%
Cost of sales		17.9%	-23.8%	122.8%	27.7%	12.6%	24.3%	24.0%	11.8%
<b>Gross profit</b>		<b>79.0%</b>	<b>-21.5%</b>	<b>122.3%</b>	<b>15.2%</b>	<b>62.0%</b>	<b>16.3%</b>	<b>3.4%</b>	<b>28.9%</b>
Administrative expenses		-19.4%	-28.3%	28.0%	21.0%	21.5%	16.4%	32.4%	22.0%
Distribution cost		45.3%	70.9%	274.8%	119.8%	-6.5%	38.3%	14.2%	15.1%
<b>Profit from operations</b>		<b>209.3%</b>	<b>-25.4%</b>	<b>129.1%</b>	<b>-12.0%</b>	<b>114.7%</b>	<b>10.3%</b>	<b>-4.6%</b>	<b>35.9%</b>
Finance cost		22.2%	-7.3%	56.4%	24.3%	16.7%	-22.8%	-53.4%	-29.8%
Other income		-113.1%	231.5%	102.2%	-451.7%	-184.1%	-30.7%	19.9%	13.7%
<b>Profit before income tax</b>		<b>89.5%</b>	<b>-45.3%</b>	<b>185.8%</b>	<b>69.3%</b>	<b>7.5%</b>	<b>34.3%</b>	<b>-0.8%</b>	<b>45.9%</b>
Income tax expense		47.2%	-88.6%	952.0%	252.0%	-35.9%	25.1%	19.8%	14.8%
<b>Profit for the year</b>		<b>96.7%</b>	<b>-39.9%</b>	<b>167.4%</b>	<b>52.1%</b>	<b>16.9%</b>	<b>35.4%</b>	<b>-3.1%</b>	<b>50.1%</b>
EPS		<b>96.7%</b>	<b>-39.9%</b>	<b>167.4%</b>	<b>52.1%</b>	<b>16.9%</b>	<b>35.4%</b>	<b>-3.1%</b>	<b>50.1%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	11.77	16.85	17.27	17.24	15.82	21.28	20.19	17.41	19.56
NP Margin	%	4.71	7.40	5.81	6.98	8.46	8.21	9.07	7.33	9.59
OP Margin	%	4.87	12.04	11.73	12.06	8.46	15.08	13.57	10.80	12.79
ROE	%	18.62	26.80	13.88	22.81	21.20	12.72	15.25	13.31	17.37
ROCE	%	15.26	22.32	13.29	14.54	20.57	14.13	15.60	13.15	16.47
ROA	%	4.87	7.25	4.00	6.14	8.49	7.25	10.16	9.11	12.50
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.00	1.09	1.22	1.25	1.42	2.61	4.07	4.42	5.51
Quick	x	0.60	0.46	0.58	1.00	0.89	2.31	2.71	3.56	3.84
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	12.84	9.23	5.40	12.94	13.08	13.08	13.08	13.08	13.08
Inventory Days		28.43	39.54	67.64	28.22	27.90	27.90	27.90	27.90	27.90
Receivables Days		76.44	71.74	124.29	107.18	118.47	117.00	117.00	117.00	117.00
Payables Days		15.29	21.00	42.50	31.02	28.46	35.00	35.00	35.00	35.00
Operating Cycle		89.58	90.28	149.43	104.37	117.92	109.90	109.90	109.90	109.90
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Div. Yield	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Cover	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retention	%	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Payout	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
No. of Shares	('m)	111.82	111.82	111.82	111.82	111.82	111.82	111.82	111.82	111.82
EPS		0.41	0.80	0.48	1.28	1.95	2.29	3.09	3.01	4.50
BVPS		4.07	4.87	5.35	12.64	14.50	23.23	25.55	27.80	31.17
P/E	x	44.43	22.59	37.57	14.05	9.23	7.85	5.83	5.98	4.00
Sales per share		8.61	10.76	8.24	18.36	23.05	27.76	34.03	40.78	46.80
P/BV	x	4.42	3.70	3.37	1.42	1.24	0.77	0.70	0.65	0.58
P/S	x	2.09	1.67	2.18	0.98	0.78	0.65	0.53	0.44	0.38
Solvency Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Total Debt to Equity	x	0.97	1.12	1.10	0.48	0.48	0.22	0.08	0.04	0.04
L.T Debt to Equity	x	0.31	0.21	0.19	0.07	0.03	0.00	0.00	0.00	0.00
Total Debt to Assets	x	0.47	0.50	0.49	0.29	0.30	0.16	0.07	0.03	0.03
L.T Debt to Assets	x	0.15	0.09	0.08	0.04	0.02	0.00	0.00	0.00	0.00
Interest Cover	x	2.64	3.54	2.50	3.74	4.73	4.44	6.98	13.72	27.42

Source: ACPL Research, Company Financials

## DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While 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. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited 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 needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

### VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

### DEFINITION OF TERMS

<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

### RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

### RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited 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 email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

### OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. 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 is not and was not involved in issuing of a research report on any of the subject company's associated companies

#### RESEARCH DEPARTMENT

6 - Shadman, Lahore  
Phone: (+92) 42 38302028; Ext 116, 117  
Email: research@abbasiandcompany.com  
web: www.abbasiandcompany.com

#### HEAD OFFICE

6 - Shadman, Lahore  
Phone: (+92) 42 38302028  
Email: info@abbasiandcompany.com  
web: www.abbasiandcompany.com

#### BRANCH OFFICE

42 - Mall Road, Lahore  
Phone: (+92) 42 37320707  
Email: info@abbasiandcompany.com  
web: www.abbasiandcompany.com