# FOOD PRODUCERS RESEARCH

**SOUTH AFRICA**

**Listed Food Producers' Sector**

# Tiger Brands Ltd (JSE:TBS)

## Company Results Update

Wednesday, June 7, 2023

## Supply constraints throw 'just in time' systems out the window forcing working capital to increase for 'just in case'

### Diverse range of product lines are not 'less risky' when supply chains are impacted, - it becomes costlier and increasingly difficult to source and maintain raw inputs and ingredients from diverse suppliers

**We update our estimates to a HOLD** as the company is likely to struggle to grow volumes while all Revenue growth is inflation driven. We forecast a **12 month target price of R154.7, revised up (R144.5 on 10/01/2023) as significant Rand weakness is factored into the target price from a USD perspective.**

**TBS revenue will stagnate in a low inflationary environment.** FY22 & H1-23 revenue growth 9.9% and 16% respectively) was driven solely by price inflation and 1% volume declines. As inflation slows down (As we see in SAFEX) the trending volume declines will have a more pronounced impact on long term sustainability of earnings. Volumes have been declining consistently at c.-3.5% per annum for the 5YR average likely being driven by consumers buying down into cheaper substitutes. A concern is that people are creatures of habit, thus they will get used to and build trust in cheaper substitutes and private labels even if there is an economic upturn. We foresee TBS having to cut their premium to remain competitive long term. The most concerning volume loss has been in milling and baking (FY22 -11%; FY21 -6.4%; FY20 -3%) which is made up 32% of group revenue in the last 5 years.

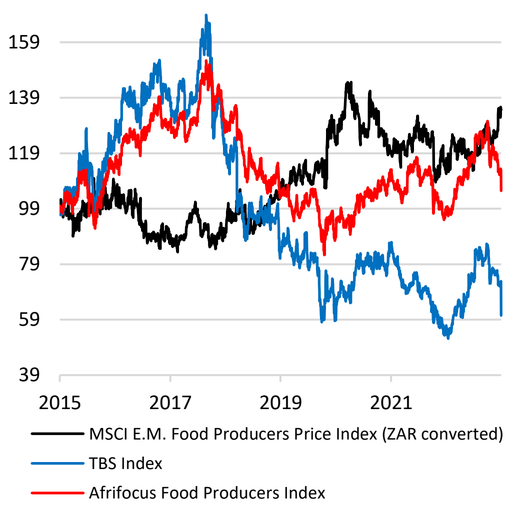
**Plan to dispose of deciduous fruit segment is prudent but will likely incur impairments.** The deciduous fruit export segment despite increasing 32% in FY22 revenue, has consistently incurred operating losses (c.336 million total in the last 5 years). Given that the segment is loss making it is likely that the company also incurs an impairment on disposal. Langeberg & Ashton Foods Pty (Ltd) stated shares at cost are R85.8 mill (AFS 2022: pg 72). Based on historic profits and current discount rates we estimate the fair value to be R48.64 (Re 15.1%; Tm. growth rate 6.1%; R46.5m total profit over the last 11 years). This implies a possible impairment of R37 mill if sold in FY23. The disposal will also reduce group diversification in exports (37% of 5YR Export Revenue) and further restrict TBS to the SA economy and Rand.

**Expensive protein and meat to drive cheaper carbohydrate consumption, but consumers have substitute options that offer the same energy and nutritional value for less Rands.** Loadshedding cycles should be impacting perishable foods in a big way (uncertainty in cold storage) which will change what consumers shop for. This supports the case for dry long life foods to grow. The biggest threat to premium brands is private label offerings. The decline of premium brands was first witnessed in developed nations such as USA where retailers such as Walmart and even Amazon brought in their own branded products at a huge discount to the premium brand offerings which dominated the market. We need to assume consumers are smart and efficient and will buy the cheapest product that offers the most value. Private label brands from PIK, SHP, WHL and SPP have been on the market for long enough for consumers to gain trust in the products. This is likely the driver of TBS volume declines as consumers buy down. Premium prices on staples in a stagnating economy is not a winning strategy long term. Diversification in terms of TBS providing retailers with private label goods might change this opinion.

**Risk of losing premium quality and perception.** Four themes that will put TBS premium quality at risk. **1) cost cutting measures** might lead to quality loss throughout the value chain, - as already seen in the past. **2) optimizing volume growth in a saturated market will sacrifice price premium** and put pressure on margins. **3) collapsing electricity grid** does not allow suppliers to keep up and production plants cannot run as they should and therefore quality might not be uniform throughout batches. **4) Collapsing road infrastructure and theft** threatens routes to market and therefore possible loss of brand presence. If TBS does not maintain superior quality delivery, then consumers will not pay a superior premium and opt for better per Rand value substitutes.

| | |
|---|---|
| **Recommendation:** | **Hold** |
| Afrifocus 12m Target Price (ZAR) | 154.7 |
| Upside | -1.0% |
| Dividend Yield | 5.8% |
| **Total Return** | 4.8% |
| 4-year IRR | 7.8% |

| | | | |
|---|---|---|---|
| Current Price | | | 156.3 |
| No. of share (Rm) | | | 164.8 |
| Market Cap. (Rbn.) | | | 25.8 |
| Free Float | | | 100.0% |
| **(Rm) Continuing operations)** | **FY2022** | **FY2023e** | **FY2024e** |
| Revenue FY2022 | 34029 | 35890 | 36737 |
| EBIT | 3960 | 4015 | 3366 |
| EBITDA | 4204 | 4882 | 4225 |
| EPS | 17.6 | 15.6 | 15.9 |
| HEPS | 17.0 | 16.5 | 16.8 |
| DPS | 9.7 | 9.1 | 9.3 |
| DY | 6.2% | 5.8% | 5.9% |
| P/E | 8.87 | 10.04 | 9.85 |
| ROE | 18.6% | 16.2% | 16.5% |
| ROIC | 18.2% | 19.7% | 16.7% |




** Indexed to 01/06/2015

*Afrifocus Food Producers Index is market cap. weighted constituting TBS, ARL, OCE, SHG, AVI, RFG, LBR, RCL, TON, PFG*deslisted, ILV*delisted*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| | | |
|---|---|---|
| **Shareholders:** | Silchester International Investors | 17.30% |
| | Public Investment Corporation | 15.00% |
| | Allan Gray (Pty) Ltd | 13.68% |
| | Ninety One | 3.91% |
| | Value Capital Partners | 3.33% |

**Peer Group Companies:**
Avi Ltd
Libstar Holdings Ltd
RCL Foods Ltd
RFG Holdings Ltd
Astral Foods Ltd

**Company Segments:**
| Groceries | Beverages | Snacks & Treats
| Home & Personal Care | Milling & Baking

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES ARE ON THE LAST PAGE**

## Investment Case

Tiger Brands largest threat are more affordable substitute products either in the form of competitor brands or private label brands. The company has significant brand presence and trust built over the last 100 years; however, the consistent volume declines are a sign that price premium is losing its place with consumers buying down, or buying less. The shift to now introduce Tier 2 products might help TBS target more lower LSM groups, fully use capacity that is available and compete in the same price bracket as cheaper substitutes. Key grain inputs are much lower now vs a year ago but might prove temporary with a much weaker Rand and El Nino around the corner (SA dryness that impacts farming yields).

*TBS below COVID lows in USD terms and we see a potential rally off these levels. TBS still up in ZAR terms as the Rand has depreciated significantly since the previous COVID low.*

**Figure 1: TBS Shares in USD trading below COVID low - level**


**Figure 2: TBS in ZAR trading at COVID low - ZAR appreciation**


**Costs, constrained consumer, and underutilized capacity from volume declines.**

TBS premium priced strategy might not be the way to go in a constrained and product saturated food market (evident in volume declines Fig 3). The lack of categorical management cuts off lower LSM consumers to serve the upper LSM, while the state of the economy is causing the upper LSM market to shrink. Even in the upper LSM tranches of the market there are substitutes, particularly private label substitutes from Woolworths for example that eats into the market share. TBS still trades above its NAV yet ROA has been declining long term and thus fair price could approach NAV.

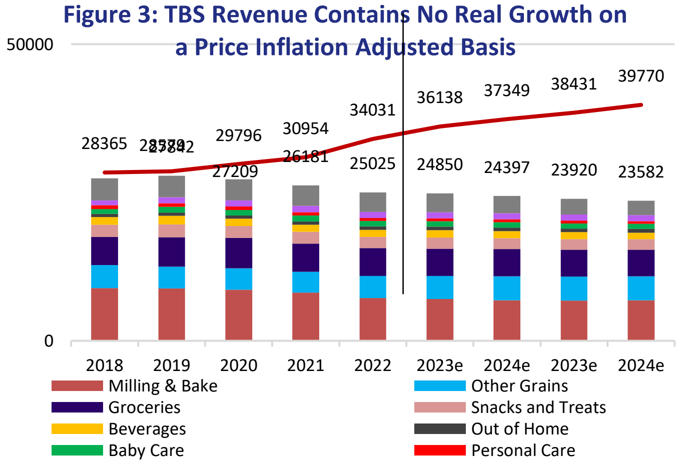
COGS and OPEX % of Revenue continues to squeeze long term which is a sign of concern (Fig 4), and likely to approach EBIT break even in the next 20 years. This could be inevitable unless the SA economy expands and employment increases rapidly, or heavy cost cutting, restructuring and unbundling's take place but opens up risks, i.e., premium quality, strikes, and impairments.

We view the margin trend as a reflection of the long term decline in consumer spending power as well as the entrants of cheaper substitutes, - particularly the strong presence and aggressive pricing of private label/DOB offerings. We compared a TBS basket of products to the 3 cheaper substitutes and found that a consumer can save 17% on average by not purchasing a TBS item.

Revenue growth has consistently come at the loss of volumes (Fig 3) and thus not fully utilizing production capacity. The diverse ranges of products also means that TBS has a large exposure to all commodities and input costs which are becoming difficult to source, - due to slow down in globalization, inefficient SA ports, weaker Rand, load shedding impacting suppliers.

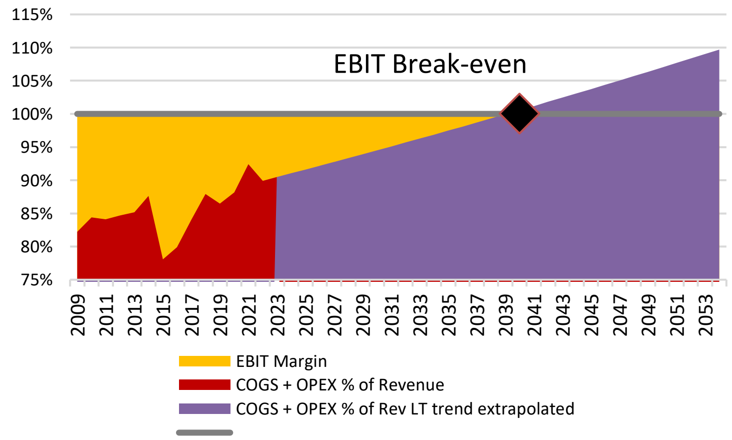
We do not see how costs can be meaningfully cut at a pace beyond what revenue will grow at. The squeezing margin trend is likely to continue, unless TBS heavily shifts to 2nd Tier products or supplying private labels, or the SA economy booms. It is difficult to cut costs at TBS's scale (20.5k employees) without losing premium quality or even facing labour pushback & boycotting.

**Figure 3: TBS Revenue Contains No Real Growth on a Price Inflation Adjusted Basis**




** Red line above indicates actual reported revenue, where as the bars indicate the segmental revenues on an inflation adjusted basis in order to highlight the impact of consistent volume declines

**Figure 4: Costs % Revenue trend could lead to break even in the long run unless costs are cut, - cost cutting puts quality at risk**



## Key drivers over the short-medium term

- **Much lower SAFEX prices on key inputs now vs H1-22** like wheat, maize, sunflower, soybeans, however higher Thai rice, Sorghum
- **Premium perception**, great tasting products and diversity in most grocery segments will drive continuation of the business.
- **New and improved bread recipe in Albany** that has been trialed in Belville and will be rolled out.
- **Increasing promotional activity in Pasta** moving forward. We suspect lower wheat prices to be helping margins in this area, and as pasta is a substitute for rice it drives some of the demand out of rice and into pasta. We also view that imported private label pasta is more competitive than TBS options thus the promotions are needed to drive volume growth.
- **Most of the volume growth was driven by consumers shifting out of meat** and protein and into cheaper carbohydrates, albeit private label and cheaper substitutes also fill this demand at a much lower price point than TBS products.
- **Introduction of Tier 2 products to target lower LSM**. We noted that TBS cannot jeopardize their All Gold, Cross and Blackwell recipe and the glass bottle packaging to cut costs as consumer perception with be negatively impacted (TBS tried PET packaging in the past and noted consumers shifting away). This being the case, TBS is now on the innovation path to create second tier products in mayo and tomato sauce that will target the lower LSM. This is a change in direction as TBS historically did not implement categorical management and primarily focused on their premium brands only. This shift is needed given the constrained consumer environment that cannot afford higher priced products, and by doing so they can shift away from glass packaging that is costly. The second-tier products will also allow TBS to tap into unused plant capacity that was underused given the year-on-year volume declines. This may lead to a reduction in fixed unit costs if more volume output is achieved.
- **Continuation of Government grants to 7.5 million South African's** of which majority goes towards food staples.
- **Expecting a recovery in HPC which has underperformed in summer months over the last 3 years** due to plenty rain and humidity in SA. Expecting this to revert back to historical trends where roughly c.84% of HPC revenue came from H1 (summer months) prior to 2021.

## Key risks over the short-medium term

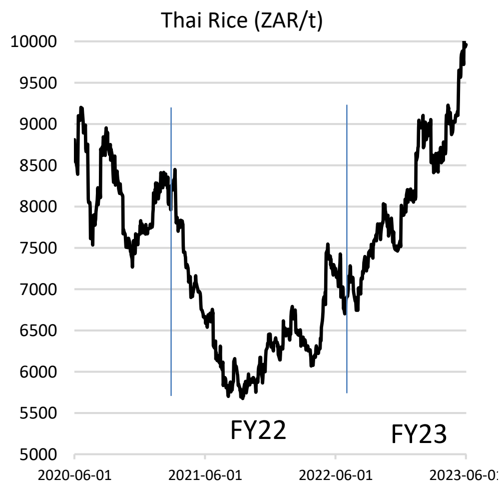
- **Weak consumer market with real disposable incomes at all time lows** limiting the ability for consumers to have freedom of choice, - forced to buy cheaper.
- **TBS diversification is not necessarily a positive attribute since their value chain relies on a more diverse range of inputs** from various sources. Load shedding has been heavily impacting supply on raw materials, packaging and ingredients which throws 'just in time' systems management out the window as working capital increases for 'just in case'. TBS has the capital capabilities to ensure that they are shielded from blackouts, however, suppliers and vendors do not necessarily have this option and thus creates shortages in inputs (notable vinegar and packaging). TBS has power independence, but the entire supply chain from the farmers and packaging does not and there are vacuums of supply as a result.
- **Payables up sharply is a concern as customers (retail & wholesale) face their own liquidity crunch.** Supply chain disruptions induced by load shedding leading to less efficient cash cycles which is exacerbated by higher interest rates (prime overdraft at 11.75%). Likely that products sit on the shelves for longer as selling prices have risen sharply over the last year, forcing the need to run promotions at a loss to clear stock.
- **Thai and Indian rice price divergence**, coupled with a weaker Rand is costing more to import rice and se expect margins in other grains to squeeze for the remaining FY23.
- **International sugar prices are 34% YTD in USD terms and exponential in ZAR terms** which we view to heavily impact Snack and Treats that had favourable price and volume growth in H1-23. Sugar trading close to 2010 highs as there are concerns on the Indian production.
- **Quality raw peanut supply is an issue for Black Cat.** Peanuts are sourced locally, from Africa and from other international markets, however, ensuring a consistent supply and quality is a challenge, often peanuts need to be returned which comes at a cost and a loss on planned labour that was ready to receive the raw peanuts for conversion.
- **6.5% volume decline in Baby volumes** because of consumers using regular products for the whole family rather than specifically buying baby products which tends to be higher priced.
- **Rice category was overly discounted and as a result we suspect that too much rice was sold at too low of a price** (justified by the sharp increase in rice market share). As stated in the interim report there was poor price/volume management and by the time billing which is lagged came to attention there was a gap between what TBS was selling rice for vs the Thai rice spot prices.
- **Sorghum price increases adversely impacting sorghum-based beverages** as sorghum trades at twice the level of maize per ton given the drop in farmers planting sorghum.
- **Load shedding costs for the remainder of FY23 expected to be the same as H1-23 at R76m** but could be much more if there is load shedding above Stage 6.

### Major TBS Raw Commodity Price Trends - Current Average FY23 vs Average FY22

**c.10.8% Increase in SAFEX White Maize**


**c.2.7% Increase in SAFEX Wheat**


**c.29.5% Increase in Thai Rice Price**



## Valuation

# Discounted Cash Flow Model

We value the firm using a Discounted Cash Flow Valuation Model on the 5 year forecast of the Free Cash Flows to the Firm. Based on this primary analysis we expect a fair value of R143.18. The DCF model is sensitive to the following inputs:

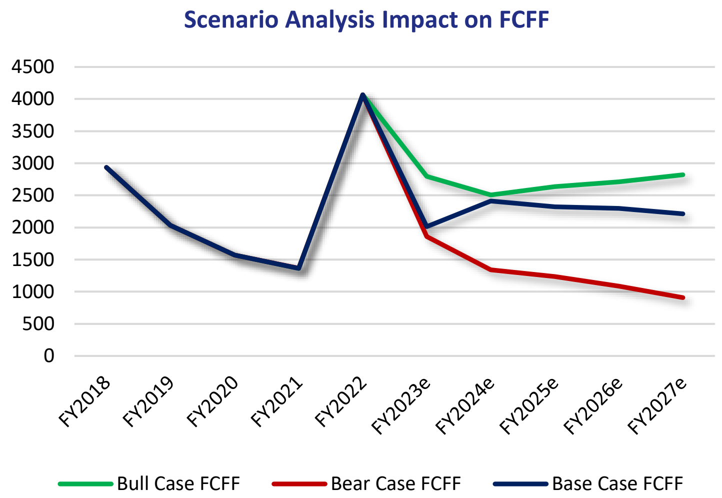
- **EBT -** Earnings before tax is determined in our comprehensive income statement forcasts. A summary of this is on the next page.
- **Depreciation, Ammortization and CAPEX -** Based on the companies historical opening balances of intagibles and PPE, as well as the historical ratio's of additions to opening balances. **Working Capital Changes** -based on the forcasted yearly balancesheet changes in inventories, biological assets, trade and other recievables, and trade and other payables. Inventories, recievables and payables are forcasted inline with historical efficiency ratios in the forecast summary.

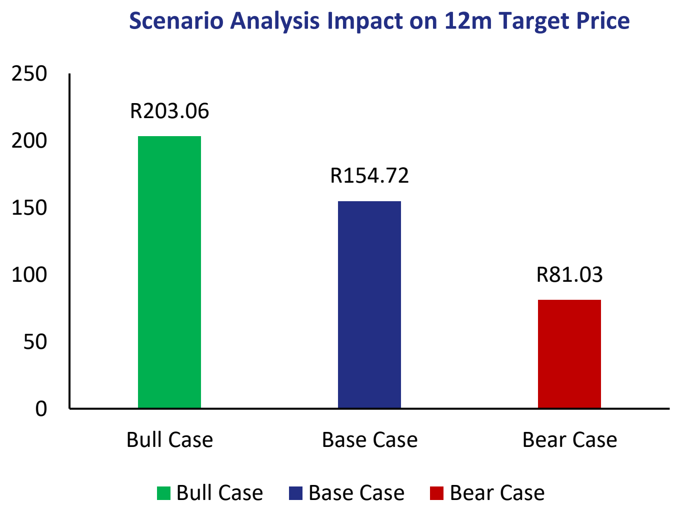
| DCF- Tiger Brands | | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23e | FY24e | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Profit EBIT** | | 4,524 | 3,289 | 3,170 | 2,478 | 2,236 | 3,431 | 3,424 | 3,366 | 3,283 | 3,210 | 3,096 |
| Tax Rate | | 28.9% | 24.7% | 18.1% | 32.7% | 24.9% | 26.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% |
| **NOPLAT** | | 3215.4 | 2476.8 | 2595.9 | 1666.4 | 1679.4 | 2537.2 | 2499.8 | 2457.0 | 2396.7 | 2343.6 | 2260.3 |
| Depreciation & Amortisation | | 574 | 603 | 631 | 789 | 808 | 861 | 867 | 859 | 855 | 854 | 856 |
| Increase In Working Capital (Balance Sheet) | | 745 | (573) | 91 | (53) | 110 | (1,630) | 318 | (139) | (118) | (150) | (158) |
| Capital Expenditure | | (919) | (720) | (1,104) | (937) | (1,014) | (961) | (1,035) | (1,040) | (1,048) | (1,049) | (1,061) |
| *Capex/ sales %* | | *-2.9%* | *-2.5%* | *-3.8%* | *-3.0%* | *-3.3%* | *-2.8%* | *-2.9%* | *-2.8%* | *-2.8%* | *-2.7%* | *-2.7%* |
| **Free Cash Flow to Firm** | | 2124.8 | 2933.3 | 2032.5 | 1571.1 | 1363.5 | 4067.2 | 2013.4 | 2414.8 | 2321.4 | 2298.5 | 2212.8 |
| Period | | | | | | | | 0.32 | 1.32 | 2.32 | 3.32 | 4.32 |
| WACC | | | | | | | 13.8% | 14.5% | 14.3% | 14.5% | 14.4% | 14.4% |
| Discounting factor | | | | | | | | 0.96 | 0.84 | 0.73 | 0.64 | 0.56 |
| **Present Value of Cash Flows** | | | | | | | | 1929.5 | 2024.8 | 1696.2 | 1472.8 | 1239.7 |
| Levered Beta | | | | | | | 1.00 | 1.02 | 1.00 | 0.98 | 0.98 | 0.99 |
| Cost of debt | | | | | | | 5.97% | 15.83% | 13.98% | 17.11% | 14.21% | 14.2% |
| NAV per Share | 83.90 | 94.32 | 101.94 | 104.96 | 92.48 | 94.81 | 94.36 | 95.66 | 94.55 | 94.77 | 95.00 | 95.24 |
| Cost of Equity | | | | | | | 14.7% | 14.8% | 14.8% | 14.7% | 14.7% | 14.7% |
| Equity Weight | | | | | | | 91.2% | 89.1% | 90.7% | 93.2% | 93.1% | 92.9% |
| Debt Weight | | | | | | | 8.8% | 10.9% | 9.3% | 6.8% | 6.9% | 7.1% |

| | |
|---|---|
| Terminal Value | **25985** |
| Sum of PVFCF | 8363 |
| Present value of terminal value | 14558 |
| **Enterprise value** | **22920** |
| Add: Cash | **2732** |
| Less: Debt | **1907** |
| Less: Minorities | 142 |
| **Equity value** | **23603** |
| Wanos | 165 |
| **Fair value per share- DCF** | **143.18** |
| Cost of equity | 14.4% |
| Dividends payable per share (ZAR) | 9.12 |
| **Target price per share (ZAR)** | **154.72** |
| Closing Price Date | 2023-06-06 |
| Current price (ZAR) | **ZAR 156.3** |
| Gain | -1.0% |
| Dividend yield | 5.8% |
| **Total Returns** | **4.8%** |
| Recommendation | ***Hold*** |

# Scenario Analysis

A scenario anaysis was conducted to determine a bull case and a bear case for the freecash flows to the firm. The methodology is based on historical standard deviations in the finacial statement line items, and using those statistics to forecast the upper and lower levels. The bull case is determined by improving the income statement and balancesheet componentsby 10% of one standard deviation in the 5 year historical line items, and vice versa for the bear case. Thus for example, bull case revenue is 10% of its own standard deviation above the base case revenue, and the bear case is 10% of its standard deviation below. The scenarios below show an intrinsic value 12M target price range for Tiger Brand's share price.




# Valuation Inputs

## CAPM and WACC Determination

- The Risk free rate is kept inline with the current fair value of SA's risk free rate at 9.9%.
- The equity risk premium is compiled using the 28 year excess returns of the JSE All Share above the Risk free rate which comes to 4.9%.
- The Beta is based off of the methodology below, however ,an unlevered beta is calculated for each year based on the equity and debt weightings.
- WACC is calculated for each respective year in the forcast and is different each year due to the changes in the equity and debt weightings.

# Valuation

## Equity Beta Determination

- The Equity Beta used in the CAPM model for determining cost of equity is determined by using the common-sense beta method. This involves ranking the key risks of Tiger Brands core business metrics in comparison to peer food producers. The market implied beta is c.0.39 based on the historic earnings yield and CAPM. We believe that this however is a low beta that does not fully factor in the downsides that exist within the local SA economy, constrained consumers and the impact this will have on buying habits in premium priced products. Out estimated Beta is 1.14 which is also more conservative than peer food producers. South African food producers have been under pressure in the last 5 years as the Rand trends, and global commodities prices have led to consistent SAFEX maize price inflation which subtracts from the bottom line of the food producers. Inputs on food producing are extremely cyclical and volatile therefore we do not want to assume that TBS is a safe haven in the market.

| Common Sense Beta Determination | | | Risk Level | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Weight | | Area of Risk | Low 1 | Average 2 | Substantial 3 | High 4 | Very high 5 | Weighted Risk | Comment |
| 9.1% | M | Management | | 2 | | | | 0.18 | Management has been behind the curve on revenue management but starting to invest into this area |
| 9.1% | A | Asset quality, Business & Industry | | 2 | | | | 0.18 | Consumer demand for majority of TBS staples is robust, assets are well maintained, however, risk of subsitutes |
| 9.1% | S | Strategy | | | 3 | | | 0.27 | Being a high priced premium brand might not be taken well by a constrained SA consumer environment |
| 9.1% | C | Country Risk | | | | 4 | | 0.36 | Compared to peers the company suffers the same contraints of contrained consumer spending, electricity and water supply |
| 9.1% | O | Operating Leverage | | 2 | | | | 0.18 | Variable costs can be volatile driven by grain commodities |
| 9.1% | F | Financial Leverage | | 2 | 0 | | | 0.18 | Low-no debt |
| 9.1% | L | Liquidity of investment | 1 | | | | | 0.09 | Liquid share with high market cap relative to peers |
| 9.1% | A | Access to sources of funds | 1 | | | | | 0.09 | Low debt and quality assets to pledge as security, the company has the capability of accessing various funds |
| 9.1% | P | Partners | 1 | | | | | 0.09 | Company has great loyalty from key retail customers & effective grain procurement |
| 9.1% | E | Exposure to other risks (currencies) | | | 3 | | | 0.27 | Rand strength drives SAFEX grain commodity prices, offset from exports revenue. |
| 9.1% | C | Cash Flow Stability | 1 | | | | | 0.09 | Stability built into the bread, rice and staple segments |
| Sum of the Risks | | | | | | | | 2.00 | |
| Common sense equity beta = | | | | 2.00 x | 0.5 | = | 1.00 | | |

## Terminal Growth Rate Determination

- SA terminal growth rate is weighted with 30% to the SA long run real GDP, and 70% to the SA long run inflation. More weight to inlfation as we are in a high inflationary environment and this will be the case in food stuff for the forseeable future as the Rand weakens and CBOT prices remain elevated fro mthe previous year.
- Long run real GDP is based on the growth rate in Real GDP per Capita growth and the forcasted peak population of SA at 76.6 million. We do not believe that food consumtion will out grow the population base of SA.
- SA long run inflation is the historical increase of M2 money supply less real GDP growth. Money supply is a big component of inflation.
- International Terminal growth is kept modest and inline IMF oulooks.
- The final terminal growth is weighted to the % of revenue of SA, and the % of revenue from the international/Other Africa markets

| Terminal growth rate calculation | |
|---|---|
| **Terminal growth rate** | 5.4% |
| **Sustainable Growth Rate (5Y ROE*RR)** | **4.60%** |
| SA long-run real growth rate | 1.21% |
| SA long-run inflation (based on M2 supply) | 8.23% |
| **SA terminal growth rate** | **6.12%** |
| Share of SA in total revenues | 88.1% |
| Africa long-run real growth rate | 3.5% |
| Africa long-run inflation | 3.2% |
| **Africa terminal growth rate** | **3.4%** |
| Share of Africa Total revenues | 11.9% |
| EBIT (5yr mean) | 12.4% |
| ROIC (5yr mean) | 18.7% |

## PE Valuation: Terminal Value Implied by Market PE (Sanity check)

- Regression between TBS Trailing PE and 1Y EPS Growth indicates that PE can be expressed as:
- PE = 13.7 + 14.3(LT EPS Growth)
- EPS Growth has been c.15% over the last 10 years however, we used the sustainable growth rate implied by ROE and Retention Ratio.
- Future terminal share price is R235.19 per share discounted back to present for a share price of R153.45.

| Long Term PE Implied Terminal Price | | DCF Model Terminal Price | |
|---|---|---|---|
| Linear Expression: PE = a + b*(LT EPS Growth) | | Terminal Value (incl FFCF's 5Y) | 34614 |
| Linear Expression: PE = 13.7 + 14.3*(LT EPS Growth) | | Add: Cash (terminal) | 4004 |
| a = PE constant = | 13.7 | Less: Debt (terminal) | 1198 |
| b = PE coefficient = | 14.3 | Less: Minorities (terminal) | 142 |
| LT EPS growth (5Y ave Sustainable growth rate) | 5.4% | Equity Value from Terminal | 37277.85 |
| Terminal EPS | 15.63 | | |
| **Terminal Share Price (PE Implied)** | **226.15** | **Terminal Share Price (DCF)** | **226.14** |
| Cost of Equity Terminal Year | 14.7% | Cost of Equity Terminal Year | 14.7% |
| Discount Period | 4.32 | Discount Period | 4.32 |
| Discount Factor | 0.63 | Discount Factor | 0.63 |
| **Current Fair Value of Terminal SP** | **143.19** | **Target price per share (ZAR)** | **143.18** |
| Cost of equity (current) | 14.4% | | *14.4%* |
| Dividends payable per share (ZAR) | 9.12 | *Dividends payable per share (ZAR)* | *9.12* |
| **Target Price in 12m (ZAR)** | **154.73** | | **154.72** |

## Financial Statement Summary

| Income Statement Forecast | FY2020 | FY2021 | FY2022 | FY2023e | FY2024e | FY2025e |
|---|---|---|---|---|---|---|
| **Revenue (Cont. Ops)** | 29,796 | 30,954 | 34,029 | 35,890 | 36,737 | 37,495 |
| Cost of Sales | (20,837) | (22,144) | (23,713) | (25,068) | (25,735) | (26,207) |
| **Gross Profit** | **10,147** | **8,930** | **10,316** | **10,887** | **10,994** | **11,091** |
| Sales and Distribution | (3,899) | (4,048) | (4,350) | (4,596) | (4,703) | (4,788) |
| Marketing Expenditure | (821) | (906) | (907) | (968) | (1,006) | (1,075) |
| Other Expenditure | (1,761) | (1,673) | (1,834) | (1,899) | (1,920) | (1,945) |
| Abnormal items | 34 | 27 | 28 | 56 | 56 | 56 |
| Impairments | -485 | -154 | -16 | -279 | -279 | -279 |
| **EBITDA** | **3,669** | **3,434** | **4,204** | 4,882 | **4,225** | **4,138** |
| D&A&I | 789 | 808 | 861 | 867 | 859 | 855 |
| **EBIT** | **2,879** | **2,626** | **3,960** | **4,015** | **3,366** | **3,283** |
| Net Interest | (57) | (63) | (29) | (268) | (191) | (161) |
| Other Income (Inv., Impairm. Disp.) | 250 | 353 | 501 | 534 | 580 | 630 |
| **Taxation** | **(727)** | **(597)** | **(1,020)** | **(936)** | **(954)** | **(953)** |
| Net Profit (Cont. Ops) | 1,493 | 1,802 | 2,895 | 2,532 | 2,579 | 2,577 |
| Weighted ave # shares basic | 165.69 | 165.74 | 162.55 | 162.55 | 162.55 | 162.55 |
| Diluted weighted ave # shares | 166.94 | 167.53 | 164.84 | 164.84 | 164.84 | 164.8447 |
| **EPS (ZAR)** | **6.1** | **10.7** | **17.6** | **15.57** | **15.86** | **15.85** |
| **HEPS (ZAR)** | **9.2** | **11.3** | **17.0** | **16.51** | **16.8** | **17** |
| **DPS (ZAR)** | **6.7** | **8.3** | **9.7** | **9.12** | **9.3** | **9** |
| % growth DPS | -36.9% | 23.3% | 17.8% | -6.3% | 1.9% | -0.1% |
| DPS/EPS payout ratio | 0.50 | 0.93 | 0.48 | 0.59 | 0.59 | 0.59 |

| Balance Sheet Forecast | FY2020 | FY2021 | FY2022 | FY2023e | FY2024e | FY2025e |
|---|---|---|---|---|---|---|
| Cash & cash equiv. | 1,790 | 2,162 | 1,116 | 2,732 | 2,696 | 3,095 |
| Other current assets | 8,828 | 9,200 | 11,287 | 10,615 | 11,301 | 11,569 |
| **Total Current Assets** | **10,618** | **11,362** | **12,403** | **13347** | **13,998** | **14,664** |
| PPE, GW & Intangibles | 8,003 | 8,390 | 8,596 | 8,630 | 8,698 | 8,800 |
| Other Non current assets | 2,877 | 3,080 | 3,022 | 2,921 | 2,942 | 2,963 |
| **Total Non Current Assets** | **10,880** | **11,470** | **11,617** | **11,552** | **11,640** | **11,763** |
| **Total Assets** | **21,917** | **22,832** | **24,020** | **24,899** | **25,638** | **26,427** |
| ST Borrowings | 141 | 168 | 1,167 | 2,808 | 2,723 | 2,644 |
| Other current liabilities | 4,610 | 5,815 | 6,269 | 5,166 | 5,272 | 5,372 |
| **Total Current Liabilities** | **4,751** | **5,984** | **7,436** | **7,974** | **7,995** | **8,016** |
| LT Borrowings | 197 | 399 | 327 | 386 | 433 | 462 |
| Other non current liabilities | 877 | 747 | 564 | 535 | 535 | 535 |
| **Total Non Current Liabilities** | **1,075** | **1,146** | **890** | **921** | **968** | **996** |
| **Total Liabilities** | **5,826** | **7,130** | **8,326** | **8,386** | **8,157** | **7,828** |
| Share Holder Equity | 15,469 | 15,408 | 15,408 | 15,443 | 15,480 | 15,518 |
| Non-controlling interest | 159 | 147 | 142 | 142 | 142 | 142 |
| **Total Equity** | **15,628** | **15,555** | **15,551** | **15,585** | **15,622** | **15,660** |
| **Total Equity & Liabilities** | **21,917** | **22,832** | **24,019** | **24,114** | **23,921** | **23,630** |

| Cash Flow Statement | FY2020 | FY2021 | FY2022 | FY2023e | FY2024e | FY2025e |
|---|---|---|---|---|---|---|
| **Cash flow from operating activities** | **2,953** | **3,955** | **2,641** | **4,636** | **4,115** | **4,135** |
| *of which: Net working capital chg.* | (53) | 110 | (1,630) | 318 | (139) | (118) |
| **Cash flow from investing activities** | **(797)** | **(856)** | **(998)** | **(745)** | **(750)** | **(758)** |
| *of which: Additions to PPE* | (937) | (1,014) | (961) | (1,035) | (1,040) | (1,048) |
| *of which: Disposal of PPE* | 50 | 31 | 3 | 18 | 18 | 18 |
| **Cash flow fron financing activities** | **(246)** | **(245)** | **(655)** | **(743)** | **(724)** | **(344)** |
| *of which: Dividends paid* | (741) | (1,684) | (1,386) | (1,497) | (1,611) | (1,610) |
| **Net change in cash** | **566** | **512** | **(1,049)** | **1,223** | **557** | **912** |

| Segmental Performance | FY2020 | FY2021 | FY2022 | FY2023e | FY2024e | FY2025e |
|---|---|---|---|---|---|---|
| Grains - Revenue | 13,920 | 14,590 | 15,496 | 16,638 | 17,257 | 17,712 |
| Grains EBIT | 1,236 | 1,369 | 1,272 | 1,855 | 1,555 | 1,517 |
| Consumer Brands - Revenue | 10,668 | 11,080 | 12,415 | 13,120 | 13,728 | 14,368 |
| Consumer Brands EBIT | 941 | 1,131 | 1,413 | 1,439 | 1,206 | 1,177 |
| Home And Personal Care - Revenue | 1,840 | 1,951 | 1,859 | 2,014 | 2,077 | 2,142 |
| HPC EBIT | 400 | 433 | 308 | 437 | 367 | 358 |
| Exports & International - Revenue | 3,367 | 3,588 | 4,261 | 4,367 | 4,287 | 4,209 |
| Exports & Int. EBIT | 103 | 96 | 350 | 283 | 237 | 232 |

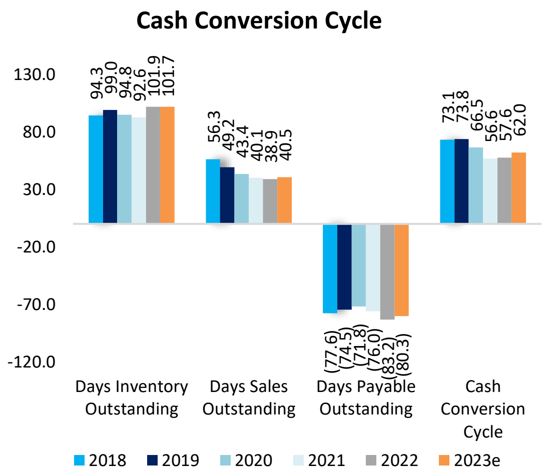
| Valuation Ratios | FY2020 | FY2021 | FY2022 | FY2023e | FY2024e | FY2025e |
|---|---|---|---|---|---|---|
| P/E ratio | 30.84 | 17.01 | 8.87 | 10.04 | 9.85 | 9.86 |
| P/BV ratio | 2.02 | 1.96 | 1.66 | 1.65 | 1.65 | 1.65 |
| P/Sales | 1.06 | 0.99 | 0.76 | 0.72 | 0.70 | 0.69 |
| EV/EBITDA | 8.99 | 9.34 | 6.04 | 5.45 | 6.36 | 6.70 |
| Dividend Yield | 3.5% | 4.5% | 6.2% | 5.8% | 5.9% | 5.9% |
| Return on Assets | 6.8% | 7.9% | 12.1% | 10.2% | 10.1% | 9.7% |
| Return on Equity | 9.6% | 11.6% | 18.6% | 16.2% | 16.5% | 16.5% |
| ROCE | 16.8% | 15.6% | 23.9% | 23.0% | 18.2% | 16.8% |
| ROIC | 13.5% | 14.0% | 18.2% | 19.7% | 16.7% | 17.3% |

| Financial Ratios | FY2020 | FY2021 | FY2022 | FY2023e | FY2024e | FY2025e |
|---|---|---|---|---|---|---|
| Profitability Ratios | | | | | | |
| Gross margin% | 34% | 29% | 30% | 30% | 30% | 29.6% |
| EBITDA Margin | 12% | 11% | 12% | 14% | 11% | 11.0% |
| EBIT Margin | 10% | 8% | 12% | 11% | 9% | 8.8% |
| Net Profit Margin | 5% | 6% | 9% | 7% | 7% | 6.9% |
| Liquidity | | | | | | |
| Current Ratio | 2.23 | 1.90 | 1.67 | 1.79 | 1.95 | 214.7% |
| Quick Ratio | 1.11 | 0.91 | 0.68 | 0.90 | 1.00 | 112.6% |
| Efficiency Ratios | | | | | | |
| Asset Turnover | 1.36 | 1.36 | 1.42 | 1.44 | 1.43 | 1.42 |
| Inventory turnover | 3.85 | 3.94 | 3.58 | 3.59 | 3.84 | 3.83 |
| Debtors turnover ratio | 8.40 | 9.11 | 9.39 | 9.01 | 8.63 | 8.24 |
| Payables turnover ratio | 5.08 | 4.80 | 4.39 | 4.55 | 4.81 | 4.84 |
| Net debt position | -1452 | -1595 | 378 | -825 | -1091 | -1958 |

*Source: TBS Financial Statements and Afrifocus Forecasts*

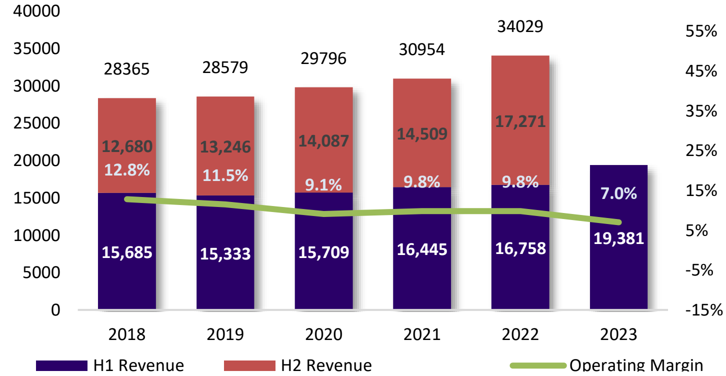
## Main Forecasting Assumptions (FY23e onwards)

- Expecting the trend in volume loss to be a theme going forward as a result of constrained consumers buying down into cheaper substitutes. The largest contributor to Revenue growth will be inflationary.
- Expecting profit margins to be in line with the historical averages, declining volume and not fully utilizing capacity will be offset by better revenue management on final goods.
- Expecting larger inventories and working capital as a result of the need for a safety net. Load shedding impacts continuous production therefore the company needs to maximize output during times when they can in order to cover the times when there is no electricity.
- Expecting load shedding to be a new normal along with increased distribution costs, - hence a decline in EBIT margins forecasted.
- Main driver of the outlook is consumers opting out of premium brands for private label substitutes. Should TBS decide to start using excess capacity to supply private label this opinion will change. Dry long life goods should outperform perishable foods in terms of volumes as there is a risk to all consumers if they stock up on refrigerated/frozen foods due to power outages.

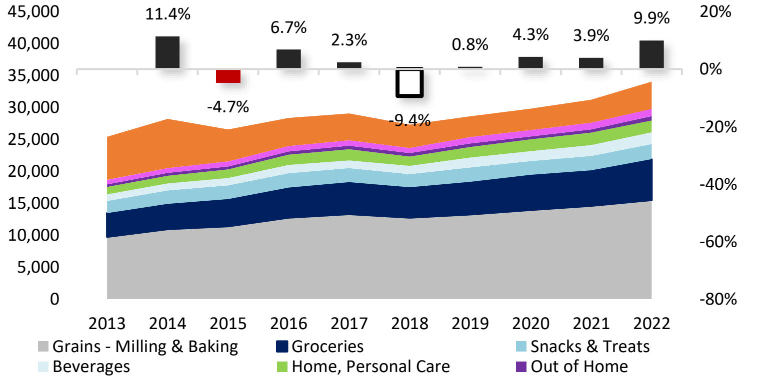


## Topline Synopsis

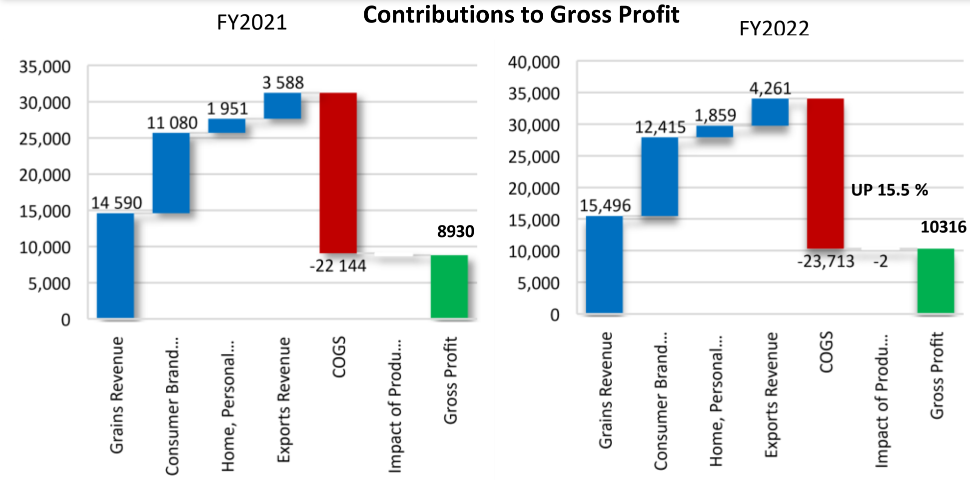
### Half-Year Contributions to Revenue



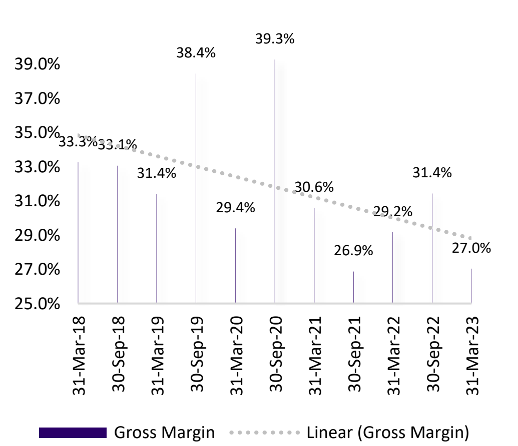

### Contributions to Topline Revenue



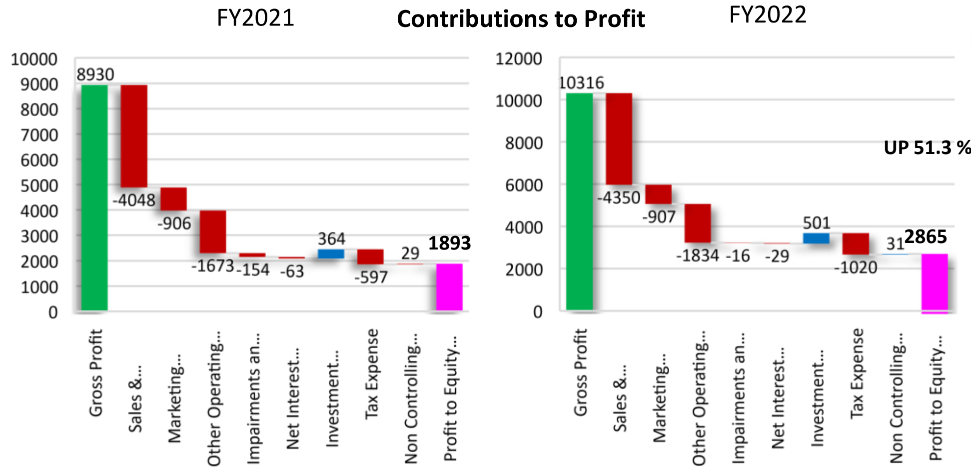

### Contributions to Gross Profit



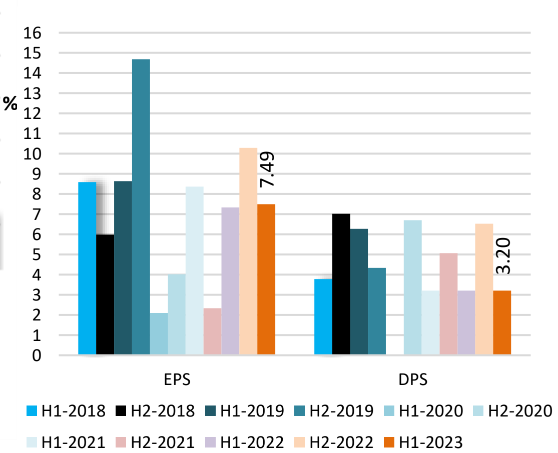

### Half-Year Gross Profit Margin Trends



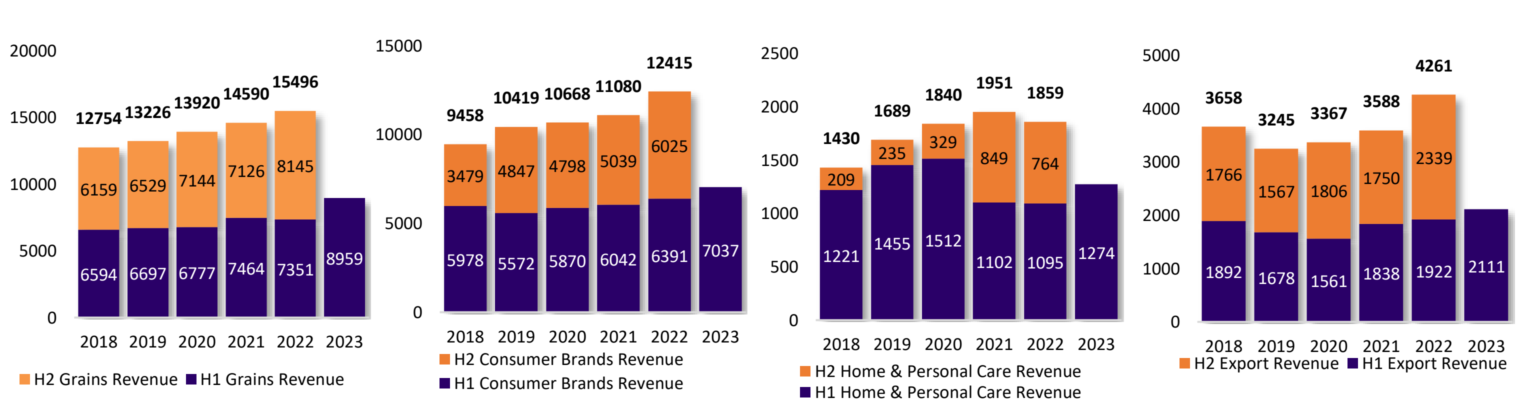

### Contributions to Profit




### Earnings and Dividends per Share

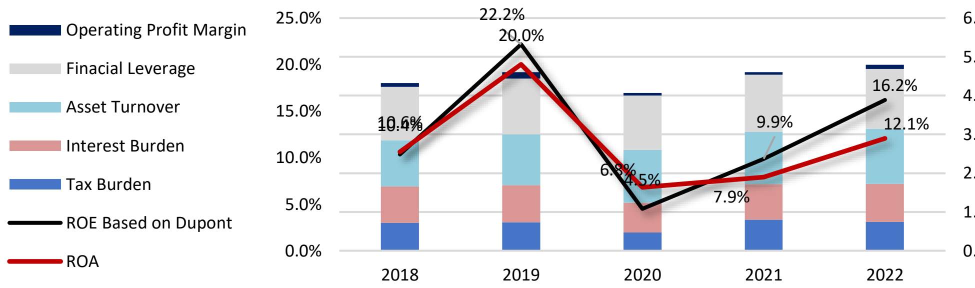


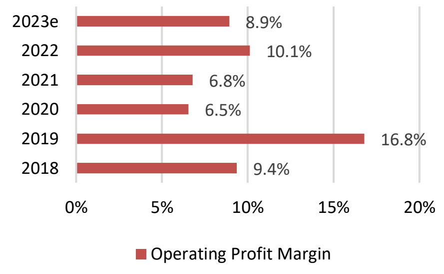

### Segmental Half-Year Contributions to Revenue



## Profit Synopsis

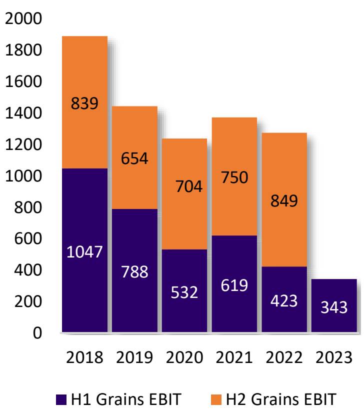
### Dupont Analysis on the Drivers of Return on Equity



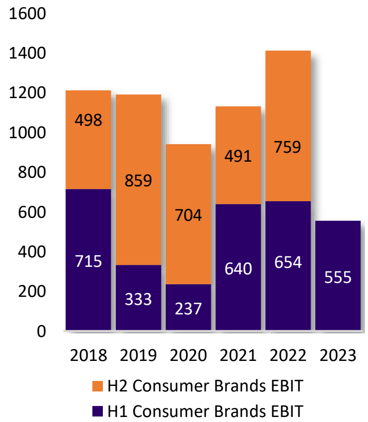




### Segmental Half-Year Contributions to Operating Profit

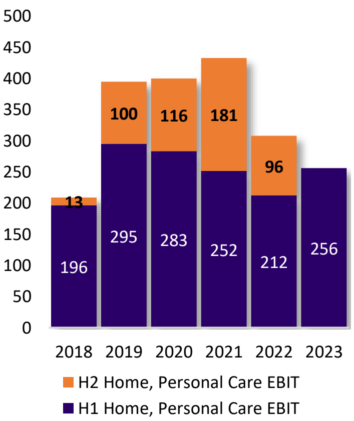
**Baking, Grains & Other Milling EBIT**



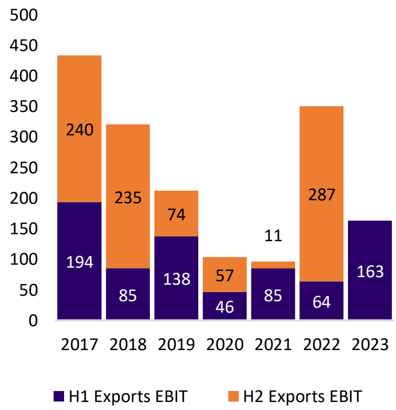

**Consumer Brands EBIT**




**Home & Personal Care EBIT**

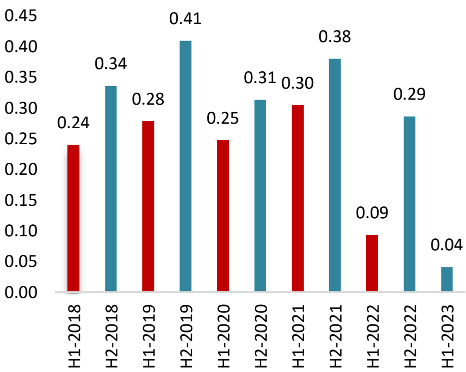



**Exports EBIT**



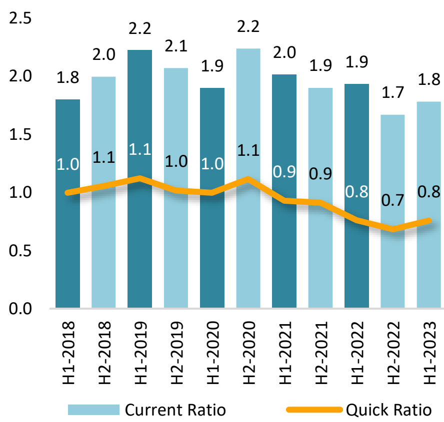

**Segmental Revenues are net of inter-segment revenue

### Operating Cashflow Liquidity Ratio

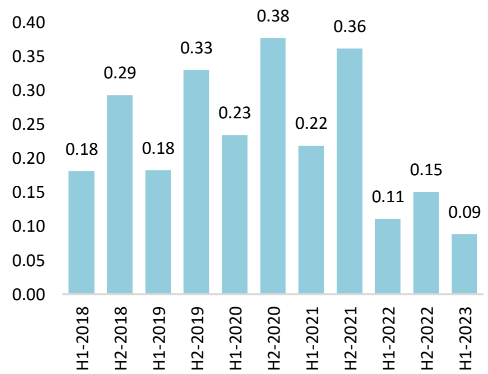



**Indicates how well a company can cover its short term liabilities from cash generated from core business operations

### Current & Quick Ratios

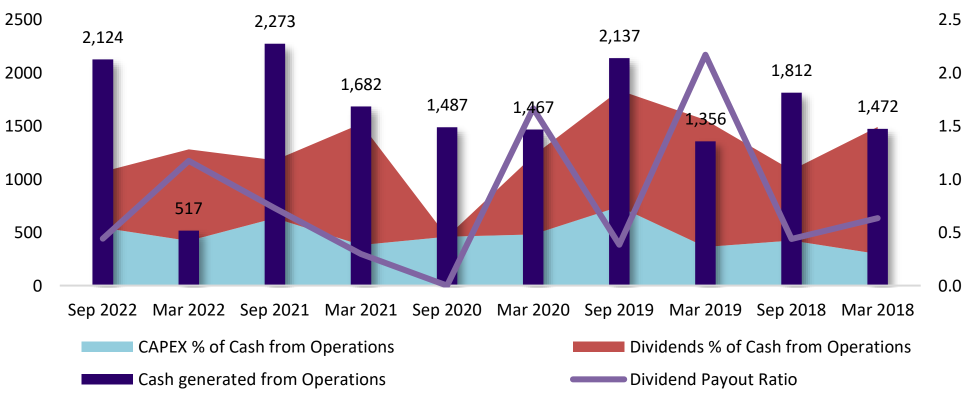



### Cash Ratio

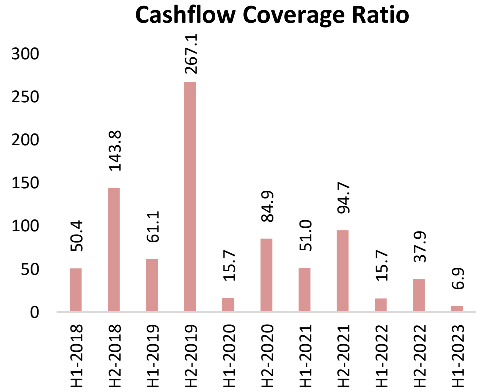



**Indicates how well a company can cover its current liabilities using its cash and liquid assets on hand.

### Cash Paid out and Reinvested




### Cashflow Coverage Ratio




**Indicates how well a company can cover its interest/finance costs using cash generated from core business operations

## Peer Group Comparisons

| Income Comparison | TBS | AVI | LBR | RCL | RFG | ARL | Average |
|---|---|---|---|---|---|---|---|
| Revenue | **34,029** | 13,845 | 11,772 | 34,907 | 7,255 | 19,334 | 20,190 |
| Market Share (based on rev) | **28%** | **11%** | **10%** | **29%** | **6%** | **16%** | 17% |
| EBIT | **3,431** | 2,540 | 498 | 1,209 | 619 | 1,385 | 1,614 |
| EBITDA | **4,292** | 3,094 | 759 | 2,185 | 863 | 1,691 | 2,147 |
| Net Income | **2,865** | 1,751 | (5) | 1,013 | 361 | 1,068 | 1,175 |
| EPS | **17.38** | 5.29 | (0.01) | 1.13 | 1.37 | 27.10 | 8.71 |

| Balance Sheet Comparison | TBS | AVI | LBR | RCL | RFG | ARL | Average |
|---|---|---|---|---|---|---|---|
| Cash & ST Investments | **1,116** | 191 | 455 | 1,590 | 10 | 723 | 681 |
| Current Assets - Total | **12,403** | 4,811 | 4,039 | 12,092 | 2,766 | 4,890 | 6,833 |
| Total Assets | **24,019** | 9,345 | 9,922 | 23,975 | 5,424 | 8,438 | 13,520 |
| Total Debt | **1,494** | 1,868 | 2,403 | 3,560 | 1,108 | 332 | 1,794 |
| Total Liabilities | **8468** | 4551 | 4719 | 12526 | 2400 | 3652 | 6053 |
| Net Debt | **-143** | 1676 | 1948 | 1970 | 1098 | -701 | 975 |
| Debt to Equity Ratio | **0.10** | 0.39 | 0.46 | 0.31 | 0.37 | 0.07 | **0.28** |

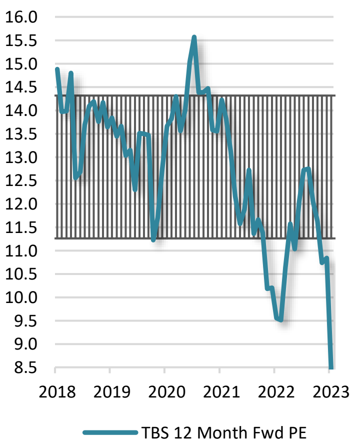
| Cash Comparison | TBS | AVI | LBR | RCL | RFG | ARL | Average |
|---|---|---|---|---|---|---|---|
| Capital Expenditure | **961** | 406 | 299 | 1,301 | 260 | 281 | 585 |
| Cash from Operating Activities | **516** | 2,236 | 529 | 2,531 | 427 | 1,198 | 1,239 |
| Capex % of Cash from Operations | **186%** | 18% | 57% | 51% | 61% | 23% | 47% |
| Capex % of Revenue | **3%** | **3%** | **3%** | **4%** | **4%** | **1%** | 3% |
| Cash from Investing Activities | **(998)** | (388) | (388) | (1,256) | (308) | (179) | (586) |
| Cash from Financing Activities | **(655)** | (1,856) | (484) | (606) | (113) | (613) | (721) |

| Peer Group Multiples | TBS | AVI | LBR | RCL | RFG | ARL | Average |
|---|---|---|---|---|---|---|---|
| EV / EBIT | **10.66 x** | 9.87 x | 10.42 x | 9.79 x | 5.30 x | 4.99 x | 8.50 x |
| EV / EBITDA | **8.52 x** | 8.10 x | 6.83 x | 5.42 x | 3.80 x | 4.08 x | 6.13 x |
| EV / Sales | **1.08 x** | 1.81 x | 0.44 x | 0.34 x | 0.45 x | 0.36 x | 0.75 x |
| Price / Earnings | **11.51 x** | 12.84 x | (795.64)x | 9.86 x | 6.02 x | 6.28 x | (124.86)x |

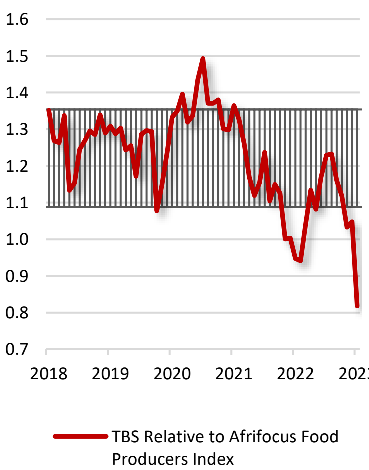
| Profit and Debt Ratios | TBS | AVI | LBR | RCL | RFG | ARL | Average |
|---|---|---|---|---|---|---|---|
| Return On Equity | **18.42%** | 38.09% | (0.07)% | 9.14% | 12.51% | 23.56% | 16.94% |
| Return On Assets | **12.36%** | 19.25% | (0.05)% | 4.22% | 6.87% | 12.96% | 9.27% |
| Gross Margin | **30.31%** | 38.56% | 20.75% | 25.57% | 22.62% | 20.79% | 26.43% |
| Net Profit Margin | **8.42%** | 12.65% | (0.03)% | 2.90% | 4.97% | 5.44% | 5.73% |
| Long Term Debt to Equity | **2.10%** | 7.39% | 40.15% | 19.82% | 20.31% | 4.83% | 15.77% |

| Forward Looking Consensus Multiples | AFF TBS Forecast | TBS | AVI | LBR | RCL | RFG | ARL | Average |
|---|---|---|---|---|---|---|---|---|
| EBIT NTM | 4015.0 | 3731.9 | 2807.4 | 812.5 | 1607.2 | 672.7 | 1137.0 | 2112.0 |
| EBITDA NTM | 4881.6 | 4744.0 | 3408.0 | 1241.0 | 2775.6 | 954.0 | 1368.2 | 2767.5 |
| SALES NTM | 35889.7 | 38621.5 | 15494.3 | 12755.8 | 44733.4 | 8470.8 | 22726.3 | 25527.4 |
| HEPS NTM | 16.5 | 18.0 | 5.7 | 0.8 | 1.1 | 1.6 | 20.2 | 9.1 |
| EV / EBIT NTM | **6.75 x** | 7.26 x | 8.20 x | 5.67 x | 6.43 x | 5.44 x | 4.78 x | **6.36 x** |
| EV / EBITDA NTM | **6.75 x** | 5.71 x | 6.75 x | 3.71 x | 3.72 x | 3.84 x | 3.98 x | **4.92 x** |
| EV / SALES NTM | **0.75 x** | 0.70 x | 1.49 x | 0.36 x | 0.23 x | 0.43 x | 0.24 x | **0.60 x** |
| PE NTM | **11.75 x** | 8.40 x | 11.03 x | 4.91 x | 8.27 x | 6.03 x | 7.10 x | **8.21 x** |

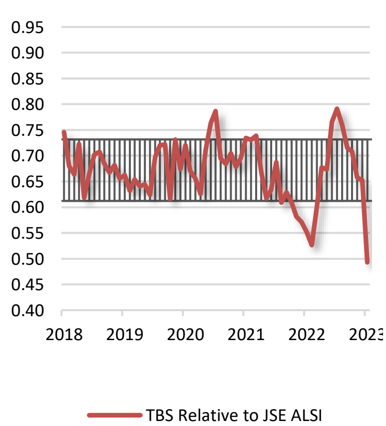
**TBS 12 Month Forward PE**



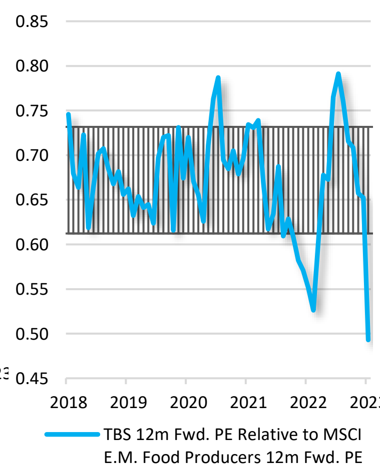

**TBS 12 Mnth. Fwd. PE Relative to Afrifocus Food Producers 12m Fwd. PE**




**TBS 12 Mnth. Fwd. PE Relative to JSE ALSI**




**TBS 12m Fwd. PE Relative to MSCI E.M 12m Fwd. PE**




*Afrifocus Food Producers Index is market cap. weighted constituting TBS, ARL, OCE, SHG, AVI, RFG, LBR, RCL, TON, PFG*deslisted, ILV*delisted*

## Research disclosure

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## Recommendation system

Afrifocus Securities uses an absolute recommendation system. This means that each stock is rated on the basis of a total return, measured by the upside potential (including dividends and capital reimbursement) over a twelve-month horizon.

The Afrifocus Securities spectrum of recommendations comprises five categories: Buy, Accumulate, Hold, Reduce and Sell. In specific cases, and for limited periods of time, analysts may have to rate the stocks as Recommendation suspended (RS) or Not rated (NR), as explained below.

### Meaning of each recommendation:

**Buy:** the stock is expected to generate a total return of over 20% during the subsequent twelve months.

**Accumulate:** the stock is expected to generate a total return of 10% to 20% during the subsequent twelve months.

**Hold:** the stock is expected to generate a total return of 0% to 10% during the subsequent twelve months.

**Reduce:** the stock is expected to generate a total return of 0 to -10% during the subsequent twelve months.

**Sell:** the stock is expected to generate a total return below -10% during the subsequent twelve months.

**Suspended:** the rating is suspended due to a capital operation (takeover bid, SPO, etc.) where Afrifocus Securities or a related party of Afrifocus Securities is or could be involved or to a change of analyst covering the stock.

**Not rated:** there is no rating for a company being floated (IPO) by the issuer or a related party of the issuer.