



Recommendation: **BUY**
 Rating at a Target Price of
MNT 635.69
 Upside:
 7.60%

Overview

Ticker:	TUM
Industry:	Poultry farm
Target Price:	MNT 635.69
Last close:	MNT 590.78
Market Cap:	MNT 118.16 billion
52 Week Low	MNT 156.10
52 Week High	MNT 592.65
Daily Range	MNT 547.00 – 595.00
Shares Out.	200,000,000
EPS	22.57
P/E	9.69

Figure 1. Stock Price History



Source: MSE

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INTRODUCTION

“Tumen Shuvuut” JSC (or the “Company”) commenced its operations as a food manufacturing company in 2004 and since became a major egg producer in Mongolia, supplying over 30% of the total domestic egg consumption. The Company got listed on MSE in February 2019, offering 50 million shares or 25% of the company to the public at nominal price of MNT 200. Today, “Tumen Shuvuut” JSC is listed as a Class I security and included in the TOP 20 index on MSE.

INVESTMENT HIGHLIGHTS

Prospering in the pandemic – “Tumen Shuvuut” JSC’s gross revenue and net income has increased by 74% and 127% respectively in the Q2 of 2021 compared to the same period of previous year, despite the overall restrictions put by the Government in order to contain the Covid-19 spread.

Dividend payout – The Company has approved the decision to distribute 40% of the net profit of 2020 in the late January of 2021 and distributed a total of MNT 1.6 billion, MNT 8 per share to its shareholders in the Q2 of 2021.

Development of new facilities – The Company’s new poultry farm started operations in Songinkhairkhan district in 2020, with capacity of producing 500 liters of liquid egg an hour.

Continuation of Tumen Shuvuut 2 – “Tumen Shuvuut” JSC produced 75 million eggs in 2020 and is planning to increase the current capacity by 35 million through Tumen Shuvuut 2 project. In the phase 2 of the project, the Company is planning to build 5 blocks of facility.

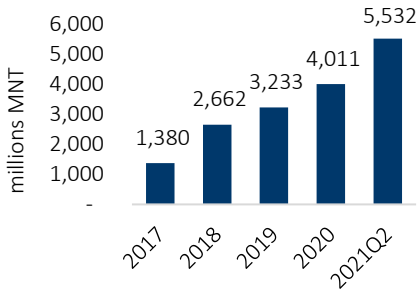
Poultry industry outlook remains positive – The egg industry is one of the highest growing industries in Mongolia, with an average growth of 10-20% per year. The revenue in the eggs segment is equal to USD 50 million in Mongolia and the market is expected to grow by 28% between 2021 and 2026 per Statista data.

Table 1. Key historical financials 2018 – 2021.II

MNT million	2018	2019	2020	2021.II
Income Statement				
Sales	17,321	20,106	25,393	20,317
COGS	16,011	13,994	18,139	13,770
S/marketing Expense	710	1,213	1,323	1,039
G/A Expense	996	1,085	1,287	550
Net Profit	2,612	3,233	4,012	4,514
Balance Sheet				
Total Current Assets	6,921	12,586	12,238	15,951
Total Non-current Assets	10,642	18,110	21,705	21,658
Total Current Liabilities	2,642	5,627	7,024	6,280
Total Non-current Liabilities	3,040	2,150	1,550	1,550
Total Equity	11,881	22,919	25,369	29,778
Ratios				
Revenue Growth	N/A	16%	26%	N/A
EBITDA Margin	18%	19%	19%	25%
ROA	15%	11%	12%	12%
ROE	22%	14%	16%	15%

Source: MSE

Figure 2. Net profit 2017-2021Q2



Source: "Tumen Shuvuut" JSC

Figure 3. "Tumen Shuvuut -2" project plan figure



Figure 4. "Tumen Shuvuut" JSC ownership structure

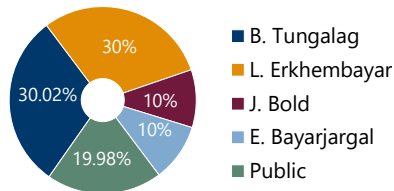
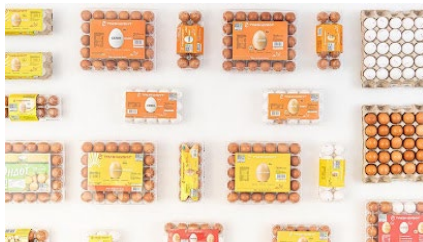


Table 2. "Tumen Shuvuut" JSC production

	2018	2019	2020	2021Q2
Egg /mln/	52.2	61.2	73.8	41.2
Animal Feed /thnd tons/	10.8	11.0	12.0	4.5

Source: "Tumen Shuvuut" JSC

Figure 5. "Tumen Shuvuut" JSC production



Source: "Tumen Shuvuut" JSC

COMPANY OVERVIEW

"Tumen shuvuut" JSC is one of the two main egg producers that supplies approximately 35% of domestic eggs. The Company started with 20,000 egg-laying hens in 2004, but now owns 18 hectares of land with a 13,000 square meters fully automated factory with state-of-the-art technology containing 350,000 laying hens, and an incubator workshop with a capacity of 80,000 chicks and 153,600 eggs per shift which is one of the highest among all poultry product producers in Mongolia. Even though, the main revenue source of "Tumen Shuvuut" JSC comes from egg production, Company also produces livestock animal feed, organic fertilizer, chick production, egg packaging and other activities. The Company's net profit has been steadily increasing for the past 3 years, from MNT 1,380 million in 2017 to 4,012 million in 2020. An advantage of "Tumen Shuvuut" JSC is that the Company fully recycles their wastes in every stage of hen's life span.

The Tumen Shuvuut 2 project, which aims to expand the Company, is scheduled to be fully operational by 2024, and will result in a capacity of 700,000 laying hens or double the current 350,000 laying hens. According to the management of the Company, "Tumen Shuvuut" JSC will construct 5 additional blocks by 2024, of which two blocks are expected to be completed in 2022. By completing the project, "Tumen Shuvuut" JSC will be able to make up 40% of domestic egg production.

Ownership Structure

Currently, 80.02% of the ownership is held by 4 major shareholders, including the CEO Bold Jigjid owning 10% of the Company. The remaining 19.98% is owned by retail investors.

Products and Services

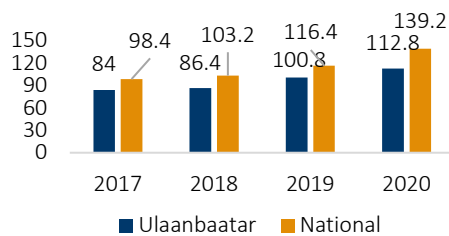
The Company operates within four business divisions which are egg-laying hens, animal feed production from different kinds of poultry feed to fodder for racehorses, egg packaging production, organic fertilizer production. "Tumen Shuvuut" JSC expanded product type by producing liquid egg products and started selling them in 10 kilograms and 20 kilograms packages since February 2020. As of 2021, 70% - 80% of the sales comes from the egg sales, 10% comes from livestock feed and the remaining amount accounts for the rest of the products. Egg products and organic fertilizer are sold through retail stores, wholesale stores and B2B while animal feed is sold in 11 aimag's retail centers as well as in 4 wholesale centers in Ulaanbaatar.

Table 3. Egg producers in Mongolia

	Eggs in million
Tumen Shuvuut JSC	62.5
NVTS LLC	70.0
Ugtuul Altai LLC	4.6
Baynuud LLC	4.2
Tutu Shuvuut LLC	2.1
Mogul Farm LLC	6.5
Ikh Morig LLC	9.0
Aj Ur LLC	2.8
Khaliudain Khuu LLC	5.0
Neonshell LLC	11.7
Total	173.2

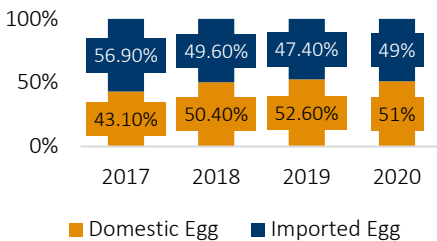
Source : Mongolian Customs

Figure 6. Egg consumption per capita 2017 - 2020



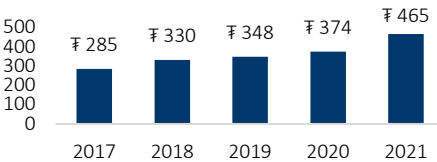
Source : NSO

Figure 7. Egg supply in percentage 2017 - 2020



Source: NSO

Figure 8. Average egg price 2017 - 2021



Source : NSO

Table 4. Egg consumption per capita by country, 2020

	Number of eggs
US	286
Mexico	363
Germany	239
Singapore	388
Finland	191

Source : Statista

MARKET OVERVIEW

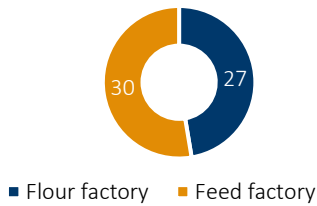
Global egg production has increased dramatically over the last ten years. According to FAO data, total egg production increased by 24 percent in ten years, from 61.7 million tons in 2008 to 76.7 million tons in 2018. Mongolian poultry, like the global market, has been steadily increasing. As of 2021, Mongolian poultry industry consists of 10 companies and some households raise their own laying-hens to meet their individual needs. As per the National Statistics Office, domestic egg production reached 8,482.5 tons in 2020. According to the Mongolian Customs' report, "NVTS" LLC and "Tumen Shuvuut" JSC accounted for approximately 71% of domestic egg production in 2019. In 2020, the average egg consumption per capita has reached 139 eggs per year, of which Ulaanbaatar city consumption accounted for 81%. Domestic poultry farmers are aiming to expand their capacity and meet 100% of domestic egg demand. The government of Mongolia (GoM) seeks to increase local production and the Ministry of Agriculture set a target of supplying 90% of its eggs domestically. The poultry industry is expected to grow by 28% between 2021 and 2026.

Egg Industry

Despite being not prevalent in the traditional Mongolian diet, egg has become a favorable addition to the Mongolian diet in the recent years. As National Statistics Office in Mongolia (NSO) claims, in 2020, Mongolian egg consumption reached 380 million, and egg consumption per capita in Ulaanbaatar raised to 112 eggs per year which is a 34.3% increase from 84 eggs per year in 2017. Moreover, even though domestic egg production has been increasing overtime, egg imports also have risen by 1.6%. This recent increase in production and consumption of eggs is due to the increase in household income as well as the growth of distribution of agricultural products into the city, and Covid-19 pandemic effects.

Average egg price in Mongolia has been increasing steadily with a CAGR of 10% from 2017-2021. Especially during the pandemic, when Russia and China has closed its borders with Mongolia, the egg import has stopped during the last winter, pushing the egg price to go up to MNT 500. Moreover, according to the Association of Poultry Farmers, the price of egg might go up again in 2021 winter as well. Furthermore, Mongolian domestic egg consumption increased by 9% per year in 2017-2020. Average developed countries' consumption, according to Statista in 2020, is 250 eggs per capita while Mongolian average egg consumption was 139 per capita which is 1.8 times lower than the global average. This indicates that the egg industry appears to have the potential to expand even further in the future.

Figure 9. Feed production factories 2019



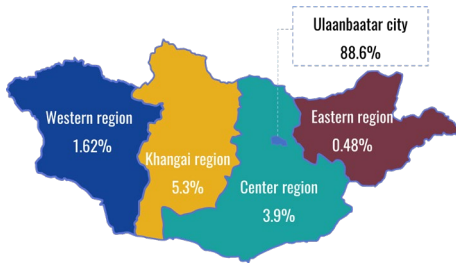
Source: MOFA

Table 5. Feed production factories 2019

Region	# of factories
Western region	6
Khangai region	25
Center region	12
Eastern region	3
Ulaanbaatar city	11

Source: MOFA

Figure 10. Feed production amount by region 2019



Source: MOFA

Figure 11. Egg production



Source: "Tumen Shuvuut" JSC

Compound Feed Industry

As per Ministry of Food, Agriculture and Light Industry, the number of livestock has more than doubled, reaching 67 million in 2020 from 30 million in 2000, reporting a CAGR increase of 4.07%. As the number of livestock increases, the demand for compound feed increases. Herders' fodder usage is forecasted to grow by 5% to 10% annually until 2023.

There are overall 57 feed producing entities operating in Mongolia producing 140,000 metric tons of livestock feed each year. Even though, Mongolia has a comparative advantage in livestock feed production because of favorable environment and the capacity to rehabilitate selected areas of abandoned cultivated ground for livestock feed production, the country still imports feed from other countries as the domestic feed production could not meet the local demand. In 2020, Mongolia imported 6,350 tons of livestock feed valued up to USD 3.6 million, which was 22% higher than the previous year.

According to MOFALI, Mongolia reports 65 to 70 thousand tons shortage of livestock feed per year and planning to develop 6 new feed mills in coming years. Development of an animal feed base is consistent with the GoM's vision for development of the agriculture sector. To meet the existing demand for livestock feed, the GoM has signed "Policy Agreement" with 83 companies to import 133.0 thousand tons of livestock feed from December 2020 to July 2021.

Risk Management

"Tumen Shuvuut" JSC takes three main steps in terms of managing risks associated with day-to-day operation of the Company, which are vaccination, sanitation and insurance. The management of "Tumen Shuvuut" JSC mentioned how a proper and good quality vaccination could prevent infectious diseases from an early stage and help to develop adequate antibody titer levels through hen lifetime. In addition, sanitation is also integral part of the poultry business as "Tumen Shuvuut" JSC has a closed hen facility where 40 thousands of hens stay together in one block. Also, as most businesses secure its operation from potential risk, insurance is one option as it can protect a company from possible loss incurred from unexpected hazards at workplace. For "Tumen Shuvuut" JSC, these can be mortality of hens, disease outbreak, system failure at farm and safety of the employees, which all can be insured by insurance companies.

Key Competitors

Nationwide, there are around 10 companies who conduct same or similar operation as “Tumen Shuvuut” JSC. From these, “Tumen Shuvuut” JSC and “NVTs” LLC of the companies make up approximately 75% of the total local egg production, according to the latest Parliament data.

Table 6 . Domestic egg producers' data (2019)

Company name	Tumen Shuvuut JSC	NVTs Group (Mon Egg LLC)	Neonshell LLC	Mogul Farm LLC	Ugtuul-Altai LLC
Founded	2004	1998	N/A	N/A	N/A
Location	Ulaanbaatar	Tuv province	Ulaanbaatar	Ulaanbaatar	Ulaanbaatar
Private or public	Public	Private	Private	Private	Private
Products and Services	Eggs, livestock feed, fertilizer	Eggs, poultry, organic feed	Eggs, poultry	Eggs, poultry	Eggs, poultry
Market share in egg production	35%	40%	6.5%	3.7%	2.6%
Hens /Thousands/	280	300	45	22.5	20
Use of total production capabilities	75%	75%	70%	50%	60%

Source: Mongolian Parliament

SWOT ANALYSIS

Table 7. SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • One of the market leaders in the egg market with 35% of the market share • Unutilized expansion potential in both the egg and compound feed industry • Support from the government of Mongolia as the country attempts to reduce the amount of egg imports • Smaller firms are expected to pose less of a threat to established companies like Tumen Shuvuut. 	<ul style="list-style-type: none"> • Lack of stable raw material sources domestically • Vulnerability to government regulations on egg prices during financial instable times like Covid-19 • Constant attention is required in terms of the storage temperature, ventilation, lighting and hygiene of hen facilities • Power outage affecting the ventilation system at the storage and farm resulting in mortality of hens
Opportunities	Threats
<ul style="list-style-type: none"> • Expected to benefit from the draft law on value-added tax exemptions to support agricultural entrepreneurs • Expand operation in order to replace the import eggs with a cheaper and more freshly produced eggs. • Diversify product options customized for consumers with different needs such as for fitness purpose, medical purpose, or commercial purpose. 	<ul style="list-style-type: none"> • Macroeconomic risk as continued lockdowns and high inflation rates threaten the purchase power of consumers • Border closure could affect the cost and availability of inputs in egg production and poultry operation such as the necessary medication, vaccine, fuel, feed, and machinery etc. • Cheap price of import eggs may force the local egg price to go down, affecting the profitability of domestic companies

Table 8. Valuation matrix

Valuation matrix	
Method	Share price
Implied COMPs Fair value	588.99
Implied Exit Multiple Fair Value	622.46
Implied Perpetuity Fair Value	695.63
Target price	MNT 635.69

VALUATION

We issue a BUY recommendation on “Tumen Shuvuut” (TUM) with a target price of **MNT 635.69**, representing a 7.60% upside from the closing price of MNT 590.78 per share of December 14th, 2021. The target price is based on a mix of the Discounted Cash Flow to Firm Model and Comparable Companies method using EV/EBITDA multiples.

Discounted Cash Flow (DCF) Analysis – Intrinsic value

Since “Tumen Shuvuut” JSC’s cash flow is stable with increasing sales, we used Free cash flow to firm (“FCFF”) methodology to arrive at the intrinsic value of the Company. We expect the terminal growth rate to stabilize at 4.5% after 2025 contingent on the increasing population and the consumption of egg. The beta used for the calculation of the DCF model was estimated by regressing the volatility of MSE 20 index shares prices and Tumen Shuvuut’s share price. The risk-free rate which was used in the DCF model was based on the latest Government bond with an interest rate of 5.125%. According to the perpetuity growth and exit multiple methods, the implied share values are MNT 622.46 and MNT 695.63, respectively.

Table 9. DCF projection

Line Items	MNT million			
	2022E	2023E	2024E	2025E
Net sales	49,450	55,080	76,500	85,680
% growth	45%	11%	39%	12%
COGS	37,534	39,054	53,242	59,630
% of sales	76%	71%	70%	70%
Gross profit	11,916	16,026	23,258	26,050
EBITDA	9,273	10,711	15,094	16,961
% margin	19%	19%	20%	20%
Depreciation & amortization	250	255	261	267
% of sales	1%	2%	2%	2%
EBIT	9,022	10,455	14,833	16,694
% margin	18%	19%	19%	19%
Taxes	1,356	1,714	2,808	3,274
EBIAT	7,667	8,741	12,025	13,421
Plus: Depreciation	250	255	261	267
Less: CAPEX	4,945	2,203	3,060	1,714
Less: Changes in NWC	1,705	(2,998)	(4,525)	(3,736)
Unlevered FCF	1,268	9,791	13,751	15,710
Discount period	0	1	2	3
Discount factor	1.00	0.84	0.71	0.60
PV of FCF	1,268	8,254	9,772	9,412

Table 10. Sensitivity analysis

WACC		Exit multiple				
		4.0	5.0	6.0	7.0	8.0
17.6%	607	636	666	695	725	
18.1%	592	621	650	679	708	
18.6%	579	607	636	664	693	
19.1%	566	594	622	650	678	
19.6%	554	581	609	637	664	

Peer companies' analysis – Relative Valuation

As of today, “Tumen Shuvuut” JSC is the only listed company on Mongolian Stock Exchange (MSE) which operates in Poultry industry. Therefore, we have chosen 10 companies operating in Asia and Pacific region that have been operating for over 20 years. The peer group consists of poultry farming public companies that conduct similar type of business as Tumen Shuvuut JSC. We identified Enterprise Value (“EV”) to Earnings before Interest, Tax, Depreciation and Amortization (“EBITDA”) as the most appropriate multiple to compare “Tumen Shuvuut” JSC to its peers due to the nature of its business model. According to relative valuation, the implied share price is MNT 588.99.

Table 11. Peer companies' analysis

Peer companies	Ticker	Country	P/E (LTM)	Price/Sales (LTM)	EV/EBITDA (LTM)	TotDebt /EBITDA (LTM)
Springsnow Food Group	SHSE: 605567	China	25.7	1.5	18.6	2.1
Leong Hup International Berhad	KLSE:LHI	Malaysia	20.4	3.6	9.7	6.1
National Feed Mill Limited	DSE: NFML	Bangladesh	35.7	0.5	16.1	3.9
Morn Sun Feed Mill Corp.	TPEX:1240	China	13.2	0.7	13.2	4.4
Fujian Sunner Development Co., Ltd.	SZSE:002299	China	46.5	2.0	17.9	2.3
SKM Egg Products Export	NSEI:SKMEGGPROD	India	15.6	1.57	9.5	3.0
HF Foods Group Inc	HFFG	China	-1.14	0.55	13.85	3.61
Eggculture Foods Ltd	8609.HK	Singapore	27.00	0.39	22.13	5.29
CAB Cakaran Corporation Berhad	KLSE:CAB	Malaysia	NA	0.21	19.10	10.38
PWF Corporation Bhd.	KLSE:PWF	Malaysia	119.50	0.29	19.00	15.50
Mean			33.6	1.1	15.9	5.7
Median			25.7	0.6	13.9	4.2
Tumen Shuvuut JSC	MSE:TUM	Mongolia	9.69	3.47	12.74	0.47

Source: Capital IQ

Peer companies	MNT million
EV/EBITDA	15.9
EBITDA (2021 TTM)	7,563
Enterprise value (“EV”)	120,305
Less: Total debt	3,550
Plus: Cash and cash equivalent	1,043
Net debt	2,507
Equity value (“Market Cap”)	103,671
Outstanding shares	200,000,000
Price per share (MNT)	588.99

INVESTMENT RISKS

Market risk

As the industry is in growth stage, where domestic egg producers doesn't meet local demand, new entrants to the market with competitive price may pose a risk for the local producers. This risk is tied to the possibility of new firms entering the market, forcing price fluctuation and squeezing profitability margin.

Moreover, hens have to be in proper diet and care in order to lay a nutritious and good quality eggs. Therefore, an increase in expenses, such as medication, labor, electricity, and feed may reduce the gross margin. The increase in costs could be affected by the border closures, inflation and increase in minimum wage. In addition, marginal increase in feed prices and rising gasoline price could put pressure on the Company's profitability.

Operational risk

Potential health hazards such as campylobacter and salmonella infections are among the most important food safety hazards, which account for more than 90% of all reported cases worldwide. These kinds of cases are related to the consumption of poultry products, commonly in egg sector. High cost of medication and vaccines, insufficient fund by most farmers, low quality of feed, adverse weather conditions lead to low quality eggs, mortality rate of birds, poor sanitary environment in egg production. These risks must be modified by the biosecurity measures practiced on-farm relating to these inputs.

CONCLUSION

"Tumen Shuvuut" JSC is one of the oldest and established egg producers in Mongolia which has been operating for over 15 years. The Company accounts for 35% of the local egg production and one of the few successful food producing company that have gone public. Although "Tumen Shuvuut" JSC's main operation is to sell eggs domestically, the Company also has other business operations such as producing livestock feed, fertilizer, as well as selling chicks to other companies. "Tumen Shuvuut" JSC produces strategically important food which is considered an essential addition to Mongolia's diet, given its nutritional value and health benefits. For the past 2 years, the Covid-19 restrictions to contain the spread of the virus have had directly or indirectly affected thousands of businesses in Mongolia. However, despite all of this the Company managed to increase its revenue by 16% and 26% respectively in 2019 and 2020. In the first 6 months of 2021, the Company has managed to earn revenue of MNT 20.3 billion, which is 74% higher than the same period from the previous year.

"Tumen Shuvuut" JSC's target prices was derived by a mix of DCF model and Comps. As per MICC analysis, the Company is currently undervalued, and we have BUY rating as a target price of MNT 635.69. The Company's goods, which once was considered not essential diet ten years ago, has become accessible and essential everyday necessity for low to high income households in Mongolia. As per MICC analysis, the current average price of egg will remain stable and "Tumen Shuvuut" JSC will report a stable growth.

ABOUT MICC

Mongolia International Capital Corporation (MICC) was established in 2005 as the first investment banking firm in Mongolia. Mongolia's rapid economic development and favorable financial environment present unique prospects for investment opportunities and growth potential for companies. In order to enable our clients and investors to take full advantage of these opportunities, MICC offers investment banking, asset management, securities underwriting, and brokerage services. In addition, we conduct periodic macroeconomic research, develop analyses of domestic industries and review equities listed on the Mongolian Stock Exchange.

MICC continues to make history in the Mongolian financial sector. We serve leading companies in the mining, manufacturing, financial, retail trade, airline, and construction sectors, and prize our close and long-standing working relationships with our clients. Our goal is to assist both local and international companies to realize their strategic goals by offering innovative and efficient financing solutions.

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Disclosure

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