



10 October 2017

Rishmac Production & Exports Co

High Gross Margin Beside Large Accumulated Earnings

- Liquorice (*Rishmac in Persian*) Powder and Distillates are the two products of the Company.** Liquorice is the root of *Glycyrrhiza glabra* from which a sweet flavour can be extracted. Most liquorice is used as a flavouring agent for tobacco, particularly US blend cigarettes, to which liquorice lends a natural sweetness and a distinctive flavour and makes it easier to inhale the smoke by creating bronchodilators, which open up the lungs. Liquorice flavours are also used as candies or sweeteners, particularly in some European and Middle Eastern countries. Liquorice extracts have a number of medical uses, and they are also used in herbal and folk medications.
- High Gross Margin.** Rishmac company has a 40% gross margin rate. Sales of the company are totally for exports, therefore the sales accomplish with Dollar rates, so the increase of UDS/IRR exchange rate could benefit. Also balance sheet states that, the company has about 57 Billion Rials in retained earning account by the end of July 2017. Based on this the company will have a stock split with an approximate 1:3 ratio.
- New Capacities is going to be added by the End of year.** Currently, the capacity of the company is about 1,600,000 kilograms of liquorice powder per year. Company is going to change its location from Shiraz to a new place, 45 kilometers out of Shiraz. The new plant will have a 3,000,000 kilograms capacity. As a result, next years profitability of the company should be much greater.

Key Data Forecasts

Key Forecasts	1393A	1394A	1395A	1395 H1	Budget 1396	1396E	1397E	1398E
Revenue (IRR Mn)	257,606	253,780	379,168	170,325	411,083	353,151	583,080	810,060
Gross profit (IRR Mn)	103,050	122,125	169,739	71,430	170,423	146,487	228,910	315,584
Net income (IRR Mn)	119,155	598,838	168,853	49,482	144,876	143,248	230,662	321,388
EBITDA (IRR Mn)	128,433	607,874	174,039	54,567	150,682	153,419	269,746	367,576
EPS (IRR)	1,037	5,211	1,469	431	1,261	1,246	2,007	2,796
DPS (IRR)	870	1,131	1,305	-	-	1,246	2,007	2,796
Gross margin (%)	40%	48%	45%	42%	41%	41%	39%	39%
Profit margin (%)	46%	236%	45%	29%	35%	41%	40%	40%

Recommendation: ★ ★ ★ ★ ★

Buy Initiated

Target Price: IRR 16,070

Target price is for 5 months

Produced by: Kardan Investment Bank

Stock data

Sector	Consumer Staples
Industry	Food Products
Sub Industry	Packaged Foods & Meats
Market Price	IRR 10,692
Market Cap.	Bn IRR 1,228
Investment Style	Small Cap/ Value Stock
Research Risk Level	Low
EPS ttm	IRR 1,406
EPS Estimate	IRR 1,246
EPS Budget	IRR 1,261
52W Range (IRR)	6,740 – 10,900
Trailing P/E	4.3
Forward P/E	7.6
EV/EBITDA	9.1
free float (%)	19%



Income Statement

Pro-Forma Income Statement

	1393	1394	1395	H1 1396	Budget 1396	1396	1397	1398
Million Rials								
Sales	257,606	253,780	379,168	170,325	411,083	353,151	583,080	810,060
Cost of goods sold	(154,556)	(131,655)	(209,429)	(98,895)	(240,660)	(206,664)	(354,170)	(494,476)
Gross profit	103,050	122,125	169,739	71,430	170,423	146,487	228,910	315,584
Administrative expenses	(16,596)	(21,473)	(20,319)	(11,716)	(24,475)	(23,433)	(26,948)	(30,990)
Profit from M&A	26,400	2,253	-	-	-	-	-	-
Operating expenses or other	12,080	(5,126)	12,295	(17,060)	(9,286)	13,839	18,021	26,186
Operating income	124,934	97,779	161,715	42,654	136,662	136,894	219,984	310,781
Financial expenses	(4,479)	(6,136)	(3,166)	(2,194)	(5,261)	(4,387)	-	-
Non operational expenses or other	2,919	508,513	10,837	9,021	14,020	10,741	10,679	10,608
Income before tax	123,374	600,156	169,386	49,482	145,421	143,248	230,662	321,388
Tax	(4,220)	(1,318)	(533)	-	(545)	-	-	-
Net income(loss) to be continue	119,155	598,838	168,853	49,482	144,876	143,248	230,662	321,388
Net income	119,155	598,838	168,853	49,482	144,876	143,248	230,662	321,388
Rials								
Earning per share	1,037	5,211	1,469	431	1,261	1,246	2,007	2,796
%								
Dividend Ratio	84%	22%	89%	97%	0%	100%	100%	100%
Rials								
Dividends per share	870	1,131	1,305	-	-	-	-	-
Million Rials								
Capital	114,928	114,928	114,928	114,928	114,928	114,928	114,928	114,928

Balance Sheet Statement

	Assets	21-Jun-17	Liabilities and owner's equity	21-Jun-17
IRR Mn	Cash	27,189	Trade Accounts Payable	31,532
IRR Mn	Short term Investments	94,999	non-Trade Accounts Payable	
IRR Mn	Trade Accounts Receivable	319,651	Tax Payable	5,553
IRR Mn	Non-Trade Accounts Receivable	-	Dividends Payable	30,953
IRR Mn	Inventories	182,909	Loans	47,157
IRR Mn	Prepays	4,036	Unearned Revenue	
IRR Mn	Total Current Assets	628,784	Total current liabilities	109,648
IRR Mn	Long-Term Accounts Receivable	1,892	Long term Liabilities	
IRR Mn	Long term Investments	4,891	Long term Loans	
IRR Mn	Intangible assets	1,103	Pension liabilities	13,807
IRR Mn	Tangible assets	190,728	Total non-current liabilities	
IRR Mn	Other assets			
IRR Mn	Total non-current assets	198,614	Total liabilities	123,454
IRR Mn			Common Stock	114,928
IRR Mn			Legal reserve	12,493
IRR Mn			Retained earnings	576,522
IRR Mn			Total Shareholder's equity	703,943
IRR Mn	Total assets	827,398	Total liabilities and shareholder's equity	827,398



Discounted Dividend Model Valuation

Required rate of return on equity	30.1%
Adjusted Systematic Risk	1.21
Risk free rate	18%
Equity Risk premium	10%
Long-term growth rate (g)	8%
Target P/E	6.8
EV/ EBITDA	9.1

	<i>Dividend Discount Model</i>	1396E	1397E	1398E
IRR	Earnings per share	1,246	2,007	2,796
%	Dividend Ratio	100%	100%	100%
IRR	Dividend per share	1,246	2,007	2,796
IRR	Terminal Value (Gordon)			18,876
	Dispensable Part of Retained Earning per Share		2,975	
IRR	Total	1,246	4,983	21,672
IRR	Present value	12,352		
	Number of Shares Outstanding	114,928,214		
IRR Bn	The total value of Equity	1,655		

Rolling Forward to Annual Shareholders meeting (Dividend Date)

Number of months till Dividend Date 5

Value per share at the current time 14,401