TAT Gıda Sanayi A.Ş.

TAT Gıda Sanayi A.Ş Full Year 2023
Financial Results Conference Call

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Conductors:

Ms. Başak Tekin Özden, Chief Financial Officer

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Yiota your Chorus Call operator. Welcome and thank you for joining the Tat Gıda Sanayi A.Ş conference call and Live Webcast to present and discuss the Full Year 2023 Financial Results.

At this time, I would like to turn the conference over to Ms. Başak Tekin Özden, CFO.

Ms. Özden, you may now proceed.

OZDEN B: Thank you Operator. Hello everyone, thank you for joining our webcast. I will go through the presentation first and address any of your questions at the end of the presentation. So, we have three agenda items today, a summary of 2023 key messages and highlights, and then our financial results and the additional information for the historical financials.

Starting with the key messages and financial highlights, let me first say that our net sales increased by 10% to 5.75 billion in 2023, largely led by higher prices. Production volumes was 130K tons, meaning a 10% drop versus 2022. We processed 450K tons of tomatoes in the last harvesting season, which was actually 543K tons in 2022.

We also made new investments, also including a new sauce filling line investment in 2023. And our annual pet bottle sauce production capacity was up to 75 million units from 45 million. Looking at the markets, in the export markets, there was higher global tomato output, higher than expected actually and stable exchange rates, especially in the first half amid high inflation and the 22 seasonal significant costs, weakened our export competitiveness and actually Turkey's overall export competitiveness, and put pressure on margins.

Although Turkey's tomato paste exports came down by 53%, we maintained our high export to sales ratio around 33%. In the local market, we faced reduced purchasing power and subdued demand, pressured our prices and margins in 2010-2023. Due to our seasonality of production and the fact that our products have a long shelf life, our inventory days are high, as you very well know, and this has an adverse effect on the impact of inflation accounting, where the impact of indexing is higher on COGS than it is on net sales.

As a result of all these developments, our gross profit was down by 22% to TRY364 million last year, and our gross margin came in at 6.3% versus the 8.9% in 2022. Due to the adverse impact on COGS, EBIT came in at a loss of TRY120 million. However, actually 43% of improvement versus the loss we made in 2022 and EBITDA was positive TRY74 million last year versus the loss of TRY72 million in 2022.

Despite increased personal expenses, especially in the personal expenses due to high inflation, focusing more on operational efficiencies resulted in opex being 15.9% of net sales last year versus the 16.3% in 2022. Net income from other operating activities stood at TRY433 million, which was higher by 150% than 2022 and this is due to higher income from maturity and effects differences. While our net financial expenses more than doubled to TRY750 million due to higher interest rates and our debt position, a monetary gain of TRY798 million last year had a positive impact on our profit before tax.

With a lower tax expense of TRY25 million versus the TRY84 million in 2022, net loss came in at TRY86 million versus the loss of TRY149 million in 2022. I will now walk you through some industrial and company-wise developments and then go through our financials. Well, first of all, we have announced that on the date of 19 February, KOÇ Holding has exited our company and Memişoğlu Tarım Ürünleri is now our main shareholder.

And they now have the 49.04% shares of TAT Gida. Kagome and Sumitomo still continue to be the shareholders. Their share percentages haven't been changed.

Going over the global tomato processing last year, actually based on still preliminary figures, these are public figures, global tomato production rose by 15% to 44 million tons from 38 million tons last year. And with California and China accounting for 3.8 million tons of the 5.7 million ton increase, you see here that since 2019, we see a range of 37 million tons to 39 million tons of production. So, this 15% increase to 44 million tons was actually above expectations.

And this unexpectedly high global supply and the fact that China was more assertive in the market because of China's competition put pressure on prices. Turkey, with 2.7 million tons of tomato processing, ranked the fourth after the U.S., China and Italy. And Turkey represented 6% of the global tomato processing amount.

When we look at such production, you know that in 2021, we had made capacity investments in tomato paste and other pickles categories. And we had achieved a significant milestone by processing 503K tons in 2021. This was, of course, an impressive increase from the previous benchmark of 381K tons.

And this momentum continues going on to 2010-2022, with the figure rising to 543K tons. And last year, a decline in production was realized, settling at 450K tons, but again remaining comfortably above the 350 or 80K tons pre-growth range, that is pre-2021. And with this processing amount, we secured 17% in total Turkish processing volume.

And our total production was 135 million tons. You see here that especially the sauces category, its contribution in total sales has increased by 5 points, from 15% to 20%. And this is actually as a result of our strategy in growing in sauces and making the capacity investments in our PET bottle sauce production. And we continue with the plan in growing in sauces as well this year.

When we look at agricultural input price, we see that index is on a declining pattern, especially versus the peak point in 2010-2022. As you may have remembered, it had a peak to 138% in September 2010-2022, which coincided with our harvesting season and which led to a jump in our raw material costs and increased the financing needs.

In December, you see that we are now over the peak and the index is on a declining pattern. And in December 2010-2023, the index increased by 41% year-on-year, which is much lower than the previous year, which means actually a normalization after the extraordinary rise in 2010-2022. Especially fertilizer and soil improvers with 10% and plant protection pesticides with 25% were the subgroups that indicated low annual increase.

When we look at Turkey's tomato paste exports, we see that actually there is a 53% contraction down to 127K tons. Despite elevated input prices in the Second Half of 2022, in TRY terms, the pressure on FX rates led to a drop in Turkey's tomato paste exports. And as you see here on the chart, the producer price index of agricultural products' annual growth rate was much higher than the devaluation of Turkish lira against U.S. dollars, especially in the Second Half of 2022 and in the First Quarter of 2023 up to June, actually, which negatively affected Turkey's exporters' competitiveness and ours.

We still continue to focus on our long-term growth strategy in exports, despite the negative market environment, and we still maintain our export to total sales ratio versus our peers.

When we look at the domestic markets, according to the Nielsen report, we see that actually the market was stable, no growth in 2023, whereas we have seen a growth of 14% in 2022. Despite the slight contraction in the market, TAT was able to increase its market share last year by volume growth, and TAT's market share in tomato paste increased by 1 point to 18.7% based on value share.

We're still the market leader in almost all categories except ready-to-eat food, where we are the second.

Actually, in mayonnaise, we were second last year, but we achieved to be the leader. That's our aim now in the ready-to-eat food category as well.

Continuing with the financials, revenues were TRY5.8 billion last year, up by 10% year-on-year, and annual sales volume dropped slightly by 4%. While domestic sales in TRY terms increased by 13% year-on-year, which was thanks to higher prices, export was up by 3% in TRY terms. And export share was 33%, which was 35% in 2022.

Going over to gross profits, which declined due to seasonality impact on COGS, well, again, I will repeat myself. Due to the inflation accounting effect, because of the indexing of sales and COGS figures, as we have a seasonal production and our product shelf lives are long, our inventory days are long, which means the COGS is indexed for a longer period than the sales is indexed. Consequently, the impact of this inflation accounting on COGS is higher versus its impact on sales.

Nevertheless, COGS in 2023 was up by 13% year-on-year, so TRY5.4 billion. And as a result of higher COGS, gross profits came down by 22%, so TRY364 million. Our margin was 6.3% versus the 8.9% in 2022.

Operating expenses, on the other hand, increased by 7.3%, mainly due to higher general and administrative expenses, and again, mainly due to personal expenses.

Opex to sales ratio was 15.9%, 0.3 points lower than 2022, so there was some improvement with operational efficiencies, despite the inflationary effect on personnel and other expenses.

Net income from other operating activities was TRY433 million and this was 150% higher than 2022. This was due to higher income coming from maturity and FX differences. And finally, EBITDA was TRY74 million last year, positive TRY74 million against the TRY72 million loss in 2022.

Our net financial debt stands at TRY2.9 billion by the end of the year. We are trying to diversify our funding resources in order to improve our expenses. So, we have EBRD loan, and we have issue of bond offerings. By the end of the year, 16% of our total financial debt is in FX, and 68% is in financial bill and bonds.

Our investments reached TRY431 million last year, which was TRY426 million in 2022. And finally, we posted a net loss of TRY86 million versus the TRY149 million loss in 2022, actually which means an improvement of 42%. Despite more than doubling net financial expenses due to higher interest rates and debt position, monetary gain was favorable and had a positive impact.

Actually, we can say that what we have lost on gross profits were partially balanced with monetary gain. And tax expense was TRY25 million, versus the TRY84 million in 2022. You see on the graph that the effect of, while we have lost some negative gaps in gross profits and opex, the income from other operating activities were actually positive.

And the difference for the net financial expenses was 438, which was partially covered by the monetary gain and tax expense. You see here our P&L. I won't go through it, but I can say that although we see a different level of gross margin here, our actually margins are improving against 2022.

I'm also skipping balance sheets. If you have any questions, we can address them at the end of the presentation. And going over to the historical financials, you see that our revenues are TRY5.5 billion, which is up by 62% year-on-year. Annual sales volume dropped slightly, 4%, versus 2022. But we realized a 2% increase, a slight increase in the last quarter. Domestic sales in TRY terms increased by 66%, thanks to higher prices, while exports were up by 54% in TRY terms.

The new season cost increases were much lower versus the increase we faced in 2022. You already know that the elevated harvesting season costs in 2022 had led to a pressure on margins, especially in the Second Half of '22 and the First Half of '23. Actually, the new harvesting season, let's say.

And COGS in the last quarter was up by 19% year-on-year, while it was 69% in the overall year. And gross profit increased by 55% year-on-year, to TRY1.2 billion in 2023. Our margin was 26% at Full Year. It was 29% in 2022, whereas in the Second Half, meaning the new harvesting season, the margin was 27%, which was the same level as the Second Half of 2022.

EBITDA stood at TRY882 million in '23, with a growth rate of 77%. And EBITDA margin was actually 1.6 points higher than 2022, and reached 19.5%, versus 17.9% in 2022. Income from other operating activities had a positive impact on this result, which was higher due to income from maturity and effects differences. And comparing the Fourth Quarter, '23 versus '22, the EBITDA margin came in at 17.7% in 2023 and 17.5% was attained in last quarter 2022.

Finally, the net profit came in at TRY269 million, versus the TRY295 million in Full Year 2022. As you see on the charts here, higher financial expenses due to higher interest rates and our debt position led to a negative impact on the financials, whereas we have improved on operating profits and EBITDA levels. And our net profit margins in the last quarter was 6.1%, whereas it was 6.6% in 2022. Well, thank you for listening. We can now address your questions.

OPERATOR: I will now pass the floor to management.

OZDEN B: There is a question that if there are any one-offs in 2023 results, can you share the details? Actually…

OZDEN B: Actually ,we don't have a major one-off item in 2023. Under current IAS 29 environment, what are your short-term, medium-term, gross margin, EBITDA margin level expectations? Well, as you well know, we don't give any guidance, actually. We aim to improve our margins with more stock optimization and pricing, with our pricing strategies.

Of course, the macroeconomic environment and also the new seasonal dynamics will have an impact on our margins. Actually, we are closing down on the new season starting with July. So, the macroeconomic environment, especially during the harvesting season and the new harvesting costs will be more effective on our financials.

Also, operational wise, I can say that the level of inventory, stock optimization and the amount of the seasonal production, our production plan, will have an impact.

OPERATOR: There are no further written questions. I will now turn the conference over to Ms. Ozden for any closing comments. Thank you.

OZDEN B: Thank you for joining our webcast. Of course, we are always at your disposal for any comments or questions you may have. Thank you.