Herfy Foods

Agriculture & Food Industries Sector

HERFY AB - 6002.SE

August 8, 2017

Herfy Food Services Co.

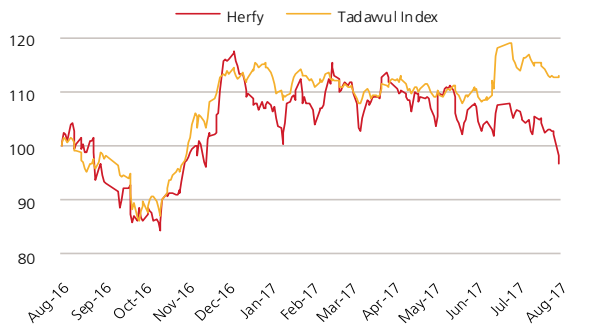
Q2 2017

Recommendation	Overweight
Fair Value (SAR)	57.00
Price as of Aug 7, 2017	50.69
Expected Return	12.4%

Company Data	
Tadawul Symbol	6002.SE
52 Week High (SAR)	62.50
52 Week Low (SAR)	43.90
YTD Change	-10.7%
3-Month Average Volume (Thousand Shares)	74
Market Cap. (SAR Million)	3,279
Market Cap. (USD Million)	873
Outstanding Shares (Million Shares)	64.68

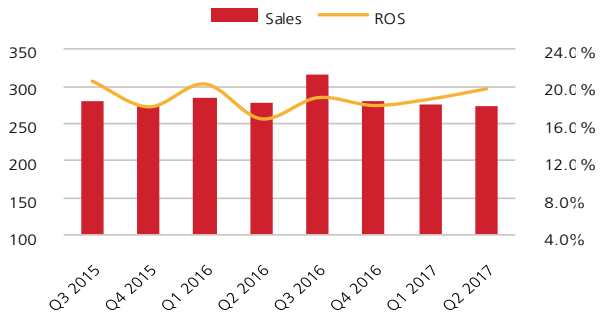
Major Shareholders (> 5%)	
Savola Group	47.60%
Ahmed Hamad Mohammed Al-Saeed	20.30%

52-week Stock Price Movement



Source: Tadawul

Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

Ahmed A. Hindawy, CFA
Senior Financial Analyst
AA.hindawy@albilad-capital.com

Meshal Alghaylan
Financial Analyst
MHAlghaylan@albilad-capital.com

For more information, please contact:
Turki Fadaak
Research & Advisory Manager
tfadaak@albilad-capital.com

Herfy Co. disclosed its Q2 2017 interim results revealing a bottom line of SAR 43.4 million compared to SAR 49.5 million in Q2 2016 and SAR 52.7 million in Q4 2016 falling 12.3% YoY and 17.7% QoQ. Moreover, the semiannual bottom line hit SAR 96 million down 7% from SAR 103 million in H1 2016.

The YoY and QoQ downturn in net profit during Q2 2017 was attributed to the decrease in sales resulting from Ramadan which coincided with the second quarter of this year in full, in addition to the increase of selling, marketing expenses, and financing costs.

Sales fell 2% to SAR 272.1 million compared with SAR 277.7 million in Q2 2016 and dropped 1.1% from SAR 275 million in Q1 2017. Therefore, H1 2017 sales amounted to SAR 547.1 million compared with SAR 561.3 million displaying a decrease of 2.5%.

Gross profit in Q2 2017 concluded the quarter at SAR 75 million compared to SAR 76.7 million in Q2 2016, sliding 2% YoY and falling 13.2% from SAR 87 million in Q1 2017. Operating income (EBIT) hit SAR 46.7 million in Q2 2017 compared to SAR 51.7 million in Q2 2016, falling 10% and 17% from SAR 56.2 million in Q1 2017. Furthermore, the operating profit margin in Q2 2017 slid to 17.1% versus 18.6% in Q2 2016 and 20.4% in Q1 2017.

On the other side, restaurants sector sales fell by 2% in H1 2017, while the bakery segment also slid by 5%. On the contrary, net revenues from the meat segment jumped by 9%. The restaurants segment grabbed 85.7% of total sales versus 11.7% and 2.6% for the bakery and meat segments, respectively.

The earnings figure for Q2 2017 missed our estimate of SAR 48 million and analysts' consensus of SAR 49.9 million. As part of its expansion plans, for the current year, the fast food chain opened 13 new branches during Q2 2017 out of 25 branches to be opened in 2017 which will be reflected in H2 2017 results. Furthermore, we expect the company will be positively affected with reinstatement of the allowances which improved the purchasing power of the consumers.

In light of the above, we have revised our forecasts for the company's revenues and profitability margins. Accordingly, our valuation of the company's shares at SAR 57 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	13.5	12.1	11.5	11.5
EV/Sales	3.7	3.3	3.1	3.0
P/E	15.9	16.2	15.1	14.9
Dividend Yield	4.3%	4.3%	5.9%	5.9%
P/BV	4.8	4.5	4.0	3.9
P/Revenue	3.6	3.0	2.8	2.8
Current Ratio	1.7	1.2	1.3	1.3
Revenue Growth	7.2%	18.3%	7.4%	2.6%
EPS (SAR)	4.45	4.39	4.71	4.75

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E
Total Revenues	**848.7**	**910.1**	**1,077.0**	**1,156.7**	**1,186.9**
COGS*	575.6	618.7	756.2	809.1	830.8
SG&A*	86.5	97.8	112.7	122.0	126.4
EBITDA	**242.4**	**251.9**	**292.4**	**309.7**	**314.7**
EBITDA Margin	28.6%	27.7%	27.1%	26.8%	26.5%
Depreciation and Amortization	55.7	58.3	84.3	84.1	85.0
EBIT	**186.7**	**193.6**	**208.1**	**226**	**229.7**
EBIT Margin	22.0%	21.3%	19.3%	19.5%	19.4%
Net interest income	-1.5	-2.3	-3.8	-7.3	-9.6
Others (Net)	11.2	19.0	2.4	3.4	3.6
Pre-Tax Income	**196.4**	**210.3**	**206.7**	**221.7**	**223.6**
Tax and Zakat	5.0	4.5	4.0	4.3	4.3
Net Income	**191.4**	**205.8**	**202.7**	**217.5**	**219.4**
ROS	22.6%	22.6%	18.8%	18.8%	18.5%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	57.3	28.8	22.9	73.2	58.0
Accounts Receivables	16.9	20.0	23.2	29.5	22.8
Inventory	78.0	91.1	108.9	101.8	108.2
Others	65.6	90.7	97.0	109.4	113.4
Total ST Assets	**217.8**	**230.7**	**252.1**	**313.9**	**302.4**
Net Fixed Assets	565.6	741.3	939.4	1,038.3	1,122.5
Others	4.0	4.0	0.0	0.0	0.0
Total LT Assets	**569.6**	**745.3**	**939.4**	**1,038.3**	**1,122.5**
Total Assets	**787.4**	**976.0**	**1,191.4**	**1,352.2**	**1,424.9**
Short Term Debt and CPLTD	25.0	43.0	87.7	122.1	115.5
Accounts Payable	38.9	48.1	68.7	61.9	67.1
Others	43.8	43.2	47.7	57.6	59.2
Total ST Liabilities	**107.7**	**134.2**	**204.2**	**241.6**	**241.7**
Total Long Term Debt	40.6	116.7	198.7	238.5	278.5
Other Noncurrent Liabilities	38.3	47.2	53.1	59.6	66.9
Equity	**600.8**	**677.8**	**735.5**	**812.6**	**837.9**
Total Liabilities and Equity	**787.4**	**976.0**	**1,191.4**	**1,352.2**	**1,424.9**

Source: Company Filings, Albilad Capital Research Estimates

*Including depreciation and amortization
Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.
All the historical financials statements were prepared in accordance with SOCPA standers until the releasing (IFRS) financial statements.

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by < 10%

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials , waiting for more data to be updated, major change in company`s performance, change in market conditions or any other reason from Albilad Capital Research.

Albilad Capital

Client Services
E-mail: clientservices@albilad-capital.com
Tel: +966-11-203-9888
Toll-free: 800-116-0001

Asset Management
E-mail: abicasset@albilad-capital.com
Tel: +966-11-290-6280

Custody
E-mail: custody@albilad-capital.com
Tel: +966-11-290-6259

Research & Advisory
E-mail: research@albilad-capital.com
Tel: +966-11-290-6250
Website: www.albilad-capital.com/en/research

Brokerage
E-mail: abicctu@albilad-capital.com
Tel: +966-11-290-6230

Investment Banking
E-mail: investmentbanking@albilad-capital.com
Tel: +966-11-290-6256

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