

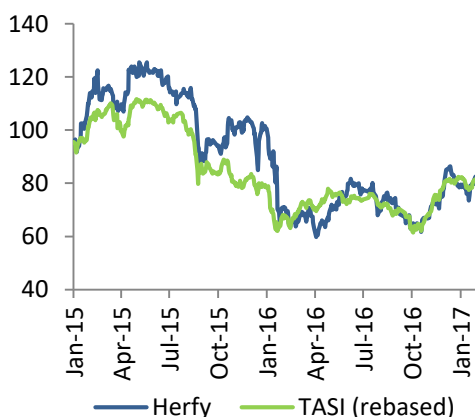
Herfy Food Services Co. (Herfy)

HERFY AB



Recommendation	Overweight
Fair value (SAR)	89.5
Closing price (SAR)	79.3
Dividend yield (%)	3.6
Upside potential (%)	16.5
Key financial metrics	
52 week high (SAR)	87.5
52 week low (SAR)	61.5
Market cap. (SAR mn)	3,663.7
Outstanding shares (mn)	46.2
Free float to TASI (%)	0.2
YTD performance (%)	1.1
Stock beta	0.8
Valuation	
P/E x (2017e)	14.1
P/B x (2017e)	2.2
EV/ Sales x (2017e)	3.0
Share Price Performance	

Closing prices as of 05-02-17



Source: Bloomberg

Strong results for FY 2016 on the back of restaurant addition and equally well supported by the bakery segment.

- Herfy registered 7.4% YoY growth in revenue for FY 2016, reaching a total revenue of SAR1,156.7mn for the year as compare to revenue figure of SAR1,077.0mn for FY 2015. Revenue for FY 2016 remained 7.3% below our estimated figure of SAR1,248mn whereas gross and net profits remained 4.7% and 5.4%, respectively below our estimation.
- The increase in revenue for FY 2016 by 7.4% YoY occurred mainly due to addition of new restaurants to the chain i.e. 36 new restaurants were opened during the year taking the total restaurant count to 328. In addition to that, bakery segment also supported equally well for the FY 2016 showing 7.3% YoY increase in revenue. Unlike restaurant and bakery segments, revenue from meat segment declined by 7.0% YoY. Gross profit increased by 8.4% YoY due to reduction in cost of raw material while net profit increased by 7.3% YoY inline with the revenue increase.
- The restaurant segment remained the major revenue contributor to the total revenue figure with 86.0% while the bakery and meat segments contributed 11.7% and 2.3%, respectively.
- Herfy reported 2.7% YoY increase in revenue for Q4 2016 amounting to SAR280.2 mn, which together with lower raw material cost supported earnings growth of 22.5% YoY. Revenue declined by 11.1% QoQ due to seasonality factor. On QoQ basis, the gross and net profits declined by 3.2% and 5.9%, respectively mainly due to increase in SG&A.
- We are Overweight on Herfy with a Fair Value of SAR89.5 per share. We expect Herfy to continue to show positive results in the upcoming years with restaurant addition spree and well supported by the other segments, bakery segment in particular.

All figures are in SAR million unless otherwise stated

Particulars	2015a	2016a	Change	2016e	Estimation Dif.
Revenue	1,077.0	1,156.7	7.4%	1,248.0	(7.3%)
Gross profit	320.8	347.6	8.4%	364.0	(4.7%)
Gross profit margin	29.8%	30.0%	0.2%	29.1%	0.9%
Net profit	202.7	217.5	7.3%	230.0	(5.4%)
Net profit margin	18.8%	18.8%	--	18.4%	0.4%
EPS SAR	4.39	4.71	7.3%	5.0	(6.0%)

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Rating Methodology

Upside/ Downside Potential

Greater than or equal to +15%
Between +15% and -14%
Less than or equal to -15%

Recommendation

Overweight
Neutral
Underweight

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