Herfy Food Services

Food/Dairy Products – Industrial
HERFY AB: Saudi Arabia
13 September 2020

الراجحي المالية
Al Rajhi Capital

US$0.864bn	51%	US$3.803mn
Market cap	Free float	Avg. daily volume

Target price	58.00	+10% over current
Current price	53.00	as at 10/9/2020

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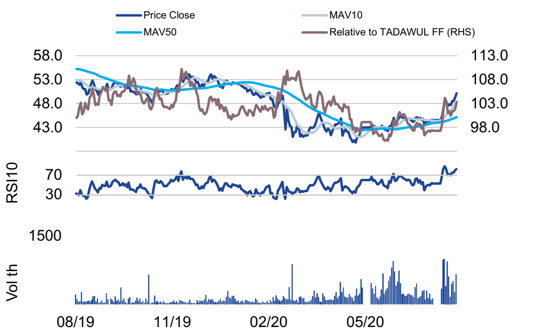
Existing rating

Underweight | Neutral | Overweight

Performance



Earnings

Period End (SAR)	12/19A	12/20E	12/21E
Revenue (mn)	1,288	1,142	1,274
Revenue growth	5.0%	-11.3%	11.5%
EBITDA (mn)	309	217	298
EBITDA growth	7.5%	-29.8%	37.1%
Net Profit	196	114	200
Net Profit Margin	15.2%	9.9%	15.7%
EPS	3.03	1.75	3.09
EPS growth	-4.0%	-42.1%	76.0%
DPS	2.10	1.23	2.16
Payout Ratio	69.3%	70.0%	70.0%
ROE	19.6%	11.0%	18.3%

Source: Company data, Al Rajhi Capital

Herfy Foods
Down-trading to benefit the company

Herfy Q2 2020 missed our estimates as the lockdown impact took a major toll on the operations of the company. Revenue came in at SAR170mn (-45% y-o-y) reflecting the impact of limited operational hours, closure of restaurants in commercial centres and limited home delivery service. Company reported a net loss of SAR34mn (-184% y-o-y) missing our estimate of net profit of SAR11mn mostly attributable to dismal top-line performance and also due to lower other income as Q2 of previous year was benefitted from SAR5.7mn refund of Iqama charges and SAR2.2mn of capital gain. Moreover, Herfy also made provisions for bad debt (SAR5.9mn) and slow-moving inventory (SAR8mn) which further impacted its bottom line. Going forward we expect that down-trading and increasing penetration of e-commerce should benefit the company. Herfy generates strong FCF which enables future expansion and higher dividend pay-out ratio. Herfy looks attractive at a dividend yield of ~4% (based on 2021e DPS). Accordingly, we revise our forecast and change our rating from "Neutral" to "overweight".

Figure 1 Herfy Q2 2020 earnings summary

(SAR mn)	2Q 2020	1Q 2020	2Q 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	170	297	309	-45%	-43%	238
Gross Profit	11	77	88	-88%	-86%	47
Gross Margin	6%	26%	28%			20%
Operating Profit	-24	35	51	-147%	-169%	17
Net Profit	-34	25	41	-184%	-236%	11

Source: Company data, Al Rajhi Capital

Valuation and Key Risks: We value Herfy food using equal mix given to DCF and PE based relative valuation. Our DCF based target price based on 2% terminal growth and 8.4% wacc is SAR64/sh and PE based relative valuation based on 17x 2021e EPS of SAR3.1 is SAR52/sh thus equal weighted target price stands at SAR58/sh (earlier 44/sh) which implies +10% upside from CMP of SAR53/sh. We change our rating from "Neutral" to "Overweight" on Herfy.

Key Risks:

Downside risks to our valuation includes:

1) Any significant slowdown in consumer spending than our initial estimates will have a negative impact on valuations.

2) If there is any further increase in food aggregator commission then this will have a negative impact on margins and our valuation.

3)Riyadh season might be back in 2021 (if the vaccines are out by then), in 2019 company's sales was impacted as people spent more on restaurants rather than QSR.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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