



US\$0.866bn Market cap
51% Free float
US\$3.259mn Avg. daily volume

Target price **58.00** 16.0% over current
 Current price **50.20** as at 02/11/2020

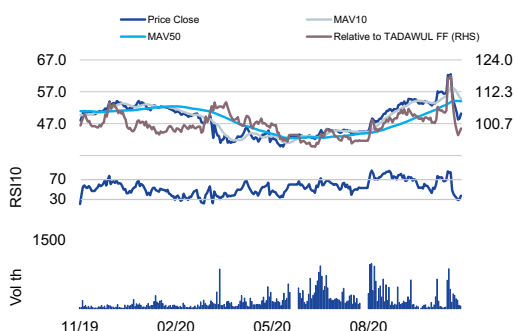
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

Period End (SAR)	12/19A	12/20E	12/21E
Revenue (mn)	1,288	1,117	1,274
Revenue growth	5.0%	-13.3%	14.1%
EBITDA (mn)	309	179	297
EBITDA growth	7.5%	-42.0%	65.9%
Net Profit	196	77	200
Net Profit Margin	15.2%	6.9%	15.7%
EPS	3.03	1.18	3.09
EPS growth	-4.0%	-61.0%	160.7%
DPS	2.10	0.83	2.16
Payout Ratio	69.3%	70.0%	70.0%
ROE	19.6%	7.5%	18.5%

Source: Company data, Al Rajhi Capital

Herfy Foods

Beat estimates; Remain overweight

Herfy Q3 2020 results showed good recovery compared to previous quarter with revenue at SAR311mn (+83% q-o-q), however it missed our estimate of SAR 337 and was also lower 8% y-o-y. The top-line improvement could be attributed to relaxed Covid-19 related restrictions which improved sales across the segments. The bottom line however beat our estimate of SAR32mn and came in at SAR41mn, -28% y-o-y. The decline in bottom-line was due to lower sales, and higher operating expense. The company made provision for slow moving inventory of SAR8.4mn and for doubtful debts of SAR6.5mn. Herfy also benefited from lower finance cost which resulted from deleveraging and the lower interest rate environment in general. We expect deleveraging to improve net margins in future. We forecast Herfy's sales to grow double digit in 2021 on a lower base in 2020e. We remain "overweight" on Herfy due to its strong balance sheet, improved outlook and solid FCF which supports higher dividend pay-out ratio. Post Q3 2020 earnings we keep our tp unchanged to SAR58/sh.

Figure 1 Herfy Q3 2020 earnings summary

(SAR mn)	Q3 2020	Q2 2020	Q3 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	311	170	339	-8%	83%	337
Gross profit	84	11	111	-24%	686%	84
Gross margin	27%	6%	33%			25%
Operating profit	51	(24)	69	-27%	NM	40
Net profit	41	(34)	58	-28%	NM	32

Source: Company data, Al Rajhi Capital

Figure 2 Segment wise revenue break up

(SAR mn)	Q3 2020	Q2 2020	Q3 2019	% chg y-o-y	% chg q-o-q
Restaurants	253	106	289	-12%	139%
Bakery	42	37	40	7%	14%
Meat	16	27	11	48%	-41%

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 target price based on 2% terminal growth and 8.4% wacc is SAR61/sh and PE based relative valuation based on 17x 2021e EPS of SAR3.3 is SAR56/sh. Thus, equal weighted target price stands at SAR58/sh (earlier 58/sh) which implies +16% upside from CMP of SAR50/sh. We maintain our "Overweight" rating on Herfy.

Key Risks:

Downside risks to our valuation includes:

- 1) Increasing competition from international QSR's might impact the company's top-line growth and poses a downside risk to our valuation.
- 2) If there is any further increase in food aggregator commission then this will have a negative impact on margins and our valuation.



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Avg. daily volume

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. If the consumer spending shifts significantly to other restaurants compared to our base case assumption then it will impact company's profitability and our valuation.



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