

Food retail

BUY: 12M TP @ 26

Upside +10.7%

Valuation Summary (TTM)

Price (SAR)	23.49
PER TTM (x)	NM
P/Book (x)	1.7
P/Sales (x)	1.4
EV/Sales (x)	1.9
EV/EBITDA (x)	10.9
Dividend Yield (%)	0.0
Free Float (%)	35%
Shares O/S (mn)	65
YTD Return (%)	-6%
Beta	1.4

(mn)	SAR	USD
Market Cap	1,523	406
Enterprise value	1,947	526

Price performance (%)	1M	3M	12M
Herfy Food Services Co	2%	-1%	-4%
Tadawul All Share Index	-1%	-5%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	7,866	5,904	6,663
Avg Daily Volume (,000)	249	255	289

52 week	High	Low	CTL*
Price (SAR)	29.70	18.00	30.8

* CTL is % change in CMP to 52wk low

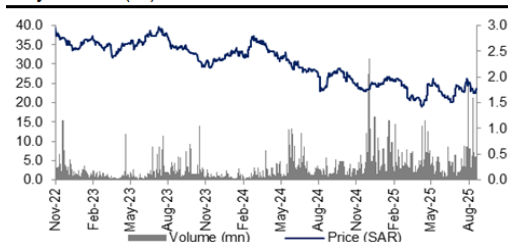
Major shareholders

Savola Group/The	49.0%
Al Saeed Khalid Ahme	15.3%
Blackrock Inc	0.8%
Others	34.9%

Other details

Exchange	Saudi Arabia
Sector	Food Retail
Index weight (%)	0.0%

Key ratios	2022	2023	2024
EPS (SAR)	0.05	0.13	-1.80
BVPS (SAR)	16.34	15.98	14.30
DPS (SAR)	0.50	0.00	0.00
Payout ratio (%)	912%	0%	0%



Herfy Food Services – marginal respite from loss

Herfy reported consolidated revenue of SAR 285mn in 2Q25, broadly in line with our estimates but down 5.5% YoY. Core restaurant revenue remained relatively stable at SAR 226mn (-4.8% YoY), while meat factory sales grew modestly by 2.6% YoY. In contrast, bakery sales declined sharply by 13.9% YoY. The restaurant segment contributed 72% of total revenue, remaining the primary growth driver. However, competition and ongoing restructuring have weighed on performance in recent years. In response, management is focusing on smaller-format stores and strengthening online sales channels to align with evolving consumer trends. During 1H25 the company reported revenue to the tune of SAR 553mn (-6.3% YoY).

Gross profit margin improved to 26.9% (vs 21.8% in 2Q24) in the quarter, driving a 16.6% YoY increase in gross profit. Herfy is among the few food producers with a fully integrated supply chain, manufacturing all key ingredients in-house. This vertical integration provides a buffer against seasonal raw material price fluctuations. Management also demonstrated prudent cost control during the quarter, enabling a return to operating profitability after four consecutive quarters of losses. Operating profit reached SAR 9mn in 2Q25, compared with a loss of SAR 5mn in the prior-year quarter. EBITDA margin stood at a healthy 18%, with EBITDA up 36.1% YoY. Finance costs remained broadly stable, while tax provisions were significantly lower, resulting in a net profit of SAR 1mn. This marks a break from the loss-making trend of the past four quarters. During 1H25 the company reported net loss of SAR 18mn (vs net loss of SAR 23mn in 1H24).

We remain optimistic that Herfy can achieve our 2025 revenue estimate of SAR 1bn, supported by the steady topline run rate. In addition, we now expect an improvement in the bottom line, revising our forecasted loss to SAR 26mn from SAR 61mn. Although the current quarter reflects margin improvement and a partial recovery, a consistent profitability trend has yet to be established. We will continue to monitor performance closely and anticipate a financial turnaround in the coming quarters. Based on stronger-than-expected results, we raise our target price to SAR 26 per share, implying an upside of 10.6% from current levels, and provide a **BUY** rating.

Outlook and recommendation: Herfy is a leading QSR brand in Saudi Arabia and remains one of the most recognized names in the sector. However, the company has been losing market share since COVID-19, as shifts in industry dynamics have challenged its position. Large-format stores have become increasingly unprofitable, while internal supply chain inefficiencies have pressured margins. Despite these hurdles, we remain optimistic given the company's resilient topline performance. We expect positive structural changes that could enhance agility and allow Herfy to leverage its loyal customer base and long-established brand equity. The marginal profit reported in 2Q25 may signal the beginning of a turnaround, though we maintain a cautiously optimistic outlook.

Income Statement (In SAR mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Revenue	1,319	1,244	1,174	1,125	1,087	1,170	1,280	1,400
Direct Costs	-901	-937	-889	-908	-815	-878	-960	-1,050
Gross profit	418	307	284	217	271	293	320	350
Selling and distribution expenses	-167	-184	-188	-208	-207	-204	-209	-229
General and administrative expenses	-69	-73	-68	-74	-66	-59	-64	-70
Other income (Net)	11	-9	12	11	7	12	13	14
Operating profit	193	41	43	-66	6	42	60	65
EBITDA	355	210	218	110	435	216	244	260
Finance costs	-41	-37	-32	-35	-32	-36	-34	-31
Profit before tax (PBT)	152	4	11	-102	-26	6	26	34
Income tax and Zakat	-1	-0	-3	-15	-1	-0	-1	-2
Net profit (PAT)	152	4	8	-117	-26	5	25	32

Balance Sheet (in SAR mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Property, plant and equipment	978	864	831	761	688	639	591	545
Right of use assets	606	573	549	501	494	481	473	460
Intangible assets	9	13	13	10	10	10	10	10
Other non-current assets	35	147	162	159	158	158	158	158
Non-current assets	1,628	1,597	1,555	1,431	1,349	1,288	1,232	1,172
Inventories	135	178	149	123	114	114	125	136
Trade and other receivables	205	177	187	154	185	176	192	210
Net investment in finance lease	1	1	1	1	1	1	1	1
Investments at FVTPL	1	21	-	-	-	-	-	-
Cash and cash equivalents	30	21	15	10	27	43	46	106
Current assets	372	398	352	287	327	334	364	454
ASSETS	2,000	1,995	1,907	1,718	1,677	1,622	1,596	1,626
Share capital	647	647	647	647	647	647	647	647
Statutory reserve	102	102	-	-	-	-	-	-
Retained earnings	295	308	387	278	252	257	282	314
EQUITY	1,044	1,057	1,033	925	899	904	929	961
Long term borrowings	15	-	-	-	-	-	-	-
Lease liabilities	573	554	515	454	414	385	358	333
Employee defined benefits	102	97	99	78	73	70	77	84
Non-current liabilities	690	651	614	531	487	455	435	417
Long term borrowings -current	15	16	15	-	-	-	-	-
Lease liabilities	46	31	47	69	41	38	35	33
Trade and other payables	196	235	194	182	245	219	192	210
Zakat payable	9	5	2	10	5	5	5	5
Current liabilities	266	287	259	261	291	262	232	248
LIABILITIES	956	938	873	793	778	718	667	665
EQUITY AND LIABILITIES	2,000	1,995	1,907	1,718	1,677	1,622	1,596	1,626

Cash Flow (In SAR mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash from operations	264	250	190	135	205	196	185	244
Investing cash flow	-76	-129	-46	-16	-7	-33	-24	-28
Financing cash flow	-286	-130	-150	-125	-181	-147	-158	-156
Change in cash	-89	-9	-6	-5	17	16	3	60
Beginning cash	119	30	21	15	10	27	43	46
Ending cash	30	21	15	10	27	43	46	106

Ratio Analysis	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Per Share								
EPS (SAR)	2.35	0.05	0.13	-1.80	-0.40	0.08	0.38	0.50
BVPS (SAR)	16.14	16.34	15.98	14.30	13.90	13.98	14.36	14.86
DPS (SAR)	-	0.50	-	-	-	-	-	0.15
FCF per share (SAR)	2.91	1.87	2.23	1.85	3.07	2.53	2.49	3.34
Valuation								
Market Cap (SAR mn)	4,036	2,225	2,096	1,623	1,519	1,519	1,519	1,519
EV (SAR mn)	4,655	2,805	2,658	2,136	1,947	1,899	1,866	1,779
EBITDA	355	210	218	110	178	216	244	260
P/E (x)	27	627	250	-14	-58	288	62	47
EV/EBITDA (x)	13.1	13.4	12.2	19.5	10.9	8.8	7.7	6.8
Price/Book (x)	3.9	2.1	2.0	1.8	1.7	1.7	1.6	1.6
Dividend Yield (%)	0.0%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
Price to sales (x)	3.1	1.8	1.8	1.4	1.4	1.3	1.2	1.1
EV to sales (x)	3.5	2.3	2.3	1.9	1.8	1.6	1.5	1.3
Liquidity								
Cash Ratio (x)	0.1	0.1	0.1	0.0	0.1	0.2	0.2	0.4
Current Ratio (x)	1.4	1.4	1.4	1.1	1.1	1.3	1.6	1.8
Quick Ratio (x)	0.9	0.8	0.8	0.6	0.7	0.8	1.0	1.3
Returns Ratio								
ROA (%)	7.6%	0.2%	0.4%	-6.8%	-1.6%	0.3%	1.5%	2.0%
ROE (%)	14.5%	0.3%	0.8%	-12.6%	-2.9%	0.6%	2.6%	3.3%
ROCE (%)	8.8%	0.2%	0.5%	-8.0%	-1.9%	0.4%	1.8%	2.3%
Cash Cycle								
Inventory turnover (x)	6.7	5.3	6.0	7.4	7.1	7.7	7.7	7.7
Accounts Payable turnover (x)	4.6	4.0	4.6	5.0	3.3	4.0	5.0	5.0
Receivables turnover (x)	6.4	7.0	6.3	7.3	5.9	6.7	6.7	6.7
Inventory days	55	69	61	49	51	47	47	47
Payable Days	79	92	80	73	110	91	73	73
Receivables days	57	52	58	50	62	55	55	55
Cash Cycle	32	30	39	26	4	11	29	29
Profitability Ratio								
Net Margins (%)	11.5%	0.3%	0.7%	-10.4%	-2.4%	0.5%	1.9%	2.3%
EBITDA Margins (%)	26.9%	16.9%	18.6%	9.7%	16.4%	18.5%	19.1%	18.6%
PBT Margins (%)	11.6%	0.3%	1.0%	-9.0%	-2.4%	0.5%	2.0%	2.4%
EBIT Margins (%)	14.7%	3.3%	3.7%	-5.9%	0.6%	3.6%	4.7%	4.7%
Effective Tax Rate (%)	0.4%	4.8%	25.7%	14.7%	-2.3%	5.0%	5.0%	5.0%
Leverage								
Total Debt (SAR mn)	649	601	578	522	455	423	393	366
Net Debt (SAR mn)	619	580	563	513	427	379	347	260
Debt/Equity (x)	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4
Net Debt/Equity (x)	0.6	0.5	0.5	0.6	0.5	0.4	0.4	0.3

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Rating Criteria and Definitions

Rating	Rating Definitions
	<p>Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%</p> <p>Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%</p> <p>Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%</p> <p>Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%</p> <p>Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%</p> <p>Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%</p> <p>Not rated This recommendation used for stocks which does not form part of Coverage Universe</p>

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