

## Restaurants

**STRONG BUY: 12M TP @ 39.31**

### Valuation Summary (TTM)

Price (SAR)	32.10
PER 2024e (x)	40.0
P/Book 2024e (x)	2.0
P/Sales (x)	1.7
EV/Sales (x)	2.3
EV/EBITDA 2024e (x)	9.4
Dividend Yield (%)	1.6
Free Float (%)	34.5%
Shares O/S (mn)	65
YTD Return (%)	-1%
Beta	0.9

(mn)	SAR	USD
Market Cap	2,076	554
Total Assets	2,634	702

Price performance (%)	1M	3M	12M
Herfy Food Ser	0%	5%	-11%
Tadawul All Share	2%	12%	12%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR)	4,915	3,648	3,126
Avg Daily Volume (,000)	160	114	95

52 week	High	Low	CTL*
Price (SAR)	40.70	28.45	12.8

\* CTL is % change in CMP to 52wk low

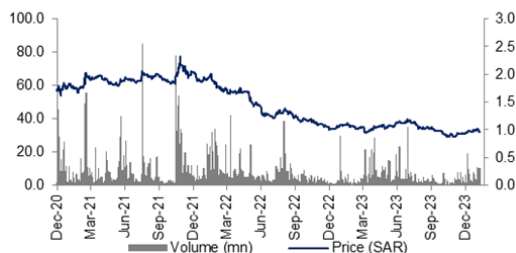
### Major shareholders

Savola Group/The	49.0%
Al Saeed Khalid Ahme	15.3%
Vanguard Group Inc/T	1.2%
Others	34.5%

### Other details

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

Key ratios	2020	2021	2022
EPS (SAR)	0.82	2.35	0.05
BVPS (SAR)	14.84	16.14	16.34
DPS (SAR)	1.00	0.00	0.50
Payout ratio (%)	122%	0%	912%



## Herfy Food Services – Recovery ahead

Herfy Food Services is the largest burger QSR player in Saudi. It is the first fully integrated company in the kingdom and offers a well-diversified portfolio of burgers, meat, cakes, and bakery products. Over the last four decades the company has built a solid brand, achieved market leadership in Burger QSR and is one of the most preferred local restaurants in the country. It currently operates through 391 restaurants, 4 production lines and 2 factories employing 6000+ people. Post a tumultuous few years due to covid, the company is heading back to normalized operations and revenue generation. Herfy's new strategy intends to focus on outlet optimization and profitability rather than aggressive organic network expansion. We expect smaller format stores and increased off-premise sales to improve the average unit volume (AUV) going forward. Herfy is establishing its presence outside the country through franchisee agreements and we expect some traction to take place in 2024. Other complimentary business (Bakery/Meat) are also contributing positively to support topline growth and margins. Overall revenue is expected to grow at 9.3% CAGR (2023-27e) and net profit is forecasted to increase by 64.6% CAGR (2023-27e) albeit from a small base. The management capability is evidenced from the fact that Herfy has retained its leadership position despite intense competition from both local and foreign players. Being an integrated player it also boasts of having one of the highest margins in the industry. Herfy is backed by Savola, one of the largest player in the food industry across MEA. Finally, the Saudi food industry is expected to witness significant impetus from the rise in economic activity. We believe the market is ignoring these structural positives of the company and the industry. While there are many uncertainties still prevailing we believe the worst for Herfy is behind us and the core restaurant business will start reporting net profits from 2024 onwards. The steady growth in revenue and improvement in profitability warrants a re-rating. Based on a blended DCF and peer valuation, we arrive at an intrinsic value for the company at SAR 39.31/share which provides an upside of 22.5% from the current level. We initiate coverage on Herfy with a **STRONG BUY** rating.

**Saudi food industry is on a growth path, offers structural advantages:** The Saudi OOH (out of the home dining) market is the largest in the MENA region valued at USD 14 bn out of which the company's addressable segment QSR accounts for 28%. This segment is expected to grow by 10% (2022-26e) on the back of rise in food aggregators triggering off premise sales, increasing trend of young and affluent Saudi's preferring western foods, a growing population of locals and expats. On premise sales have also improved on account of higher footfalls in most of the refurbished stores. We believe these are structural factors and provide a perfect recipe for sustainable growth. It is pertinent to note that despite intense competition in the QSR segment Herfy has in over the years built brand loyalty and is the favorite local company making it the biggest beneficiary of this rising trend.

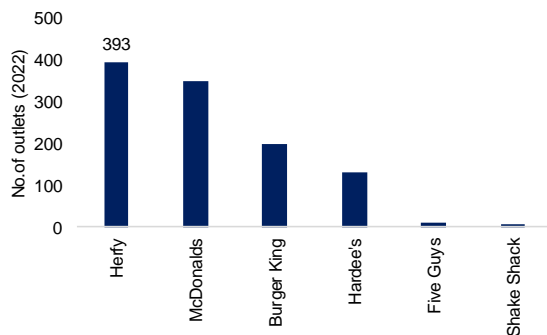
**Valuation:** The size of the company, its leadership position, high margins and expected recovery in volumes make it a suitable opportunity for investors looking to take exposure in the high growth food retail sector of Saudi. The company's strategy on profit optimization through smaller format outlets will result in limited capex spends, which clubbed with a zero-debt profile will help improve its cash retention capability. We believe the stock has bottomed and is currently languishing near its all-time low and we do not see further downside from these levels. We value the company using a mix of DCF and peer valuation to arrive at an intrinsic value of SAR 39.31/share. Our fair value is 22.5% above the current price and hence we initiate coverage with a **STRONG BUY** rating.

**Herfy has maintained a strong local presence for over 4 decades ...**

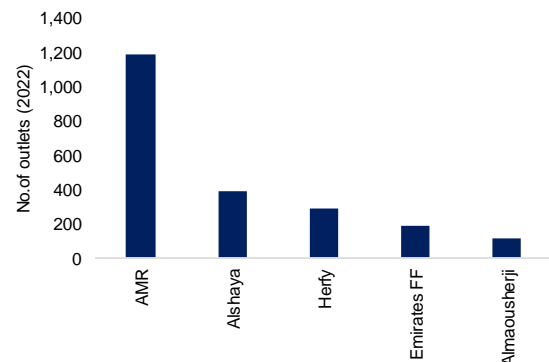
**Herfy Food Services is the largest QSR player in Saudi**

Herfy Food Services (Herfy) was incorporated in 1981 as the first QSR (Quick Service Restaurant) in Saudi Arabia. It is currently part of the Savola group and has expanded to become the kingdom's first fully integrated food services company. The company established Herfy's Bakeries in 1982, Herfy's Meat Factory in 2005 and Herfy's Cake Factory in 2012. It is the largest Burger Quick Service Restaurant (QSR) operator in the country and also maintains the 3<sup>rd</sup> position in the Out of Home Dining (OOHD) market in the region. The company has expanded its operations into Bangladesh, Kuwait and Nigeria via. franchisee model with further plans to move into Iraq as well. Revenues for the company are segmented into Restaurant and catering service (77%), Bakeries (15.7%) and Meat (7.3%) as of 9M23.

**Herfy is the leader in Burger QSR in Saudi Arabia...**



**...and #3 in OOHD market in the region**

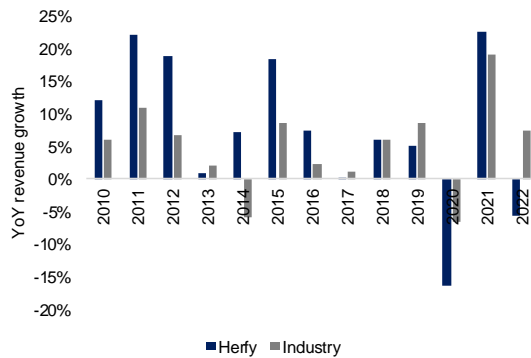


Source: Company reports, US Research

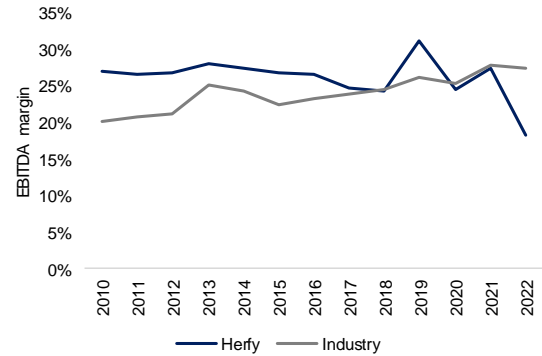
**Herfy was an outperformer till 2019...**

Herfy has established itself as one of the few fully local companies which have successfully beat competition from international players and consistently retained its leadership status. The strong brand loyalty has been built on the back of deep understanding of local flavors, culture and trends to become the most preferred go-to QSR chain. Further testimony of the management capability is evident in the steady growth since inception and the measured approach towards expansion. Since its listing in 2010 up until 2022 the revenue of Herfy has grown by 6.6% CAGR (2010-22). On a YoY basis revenue growth remained higher than the industry average till 2019. More importantly, being an integrated player and operating only from Saudi provided Herfy with superior EBITDA margins significantly higher than industry averages.

### Revenue consistently outperformed industry



### ...with higher EBITDA margins until 2021



Source: Company reports, US Research

Note: Industry averages are calculated based on the financials of top 10 global restaurant operators

### Revenue normalization post pandemic stress...

The covid induced restrictions in 2020, had a severe effect on the company financials as it did across the industry. The reduced working hours resulted in low volumes and revenue declined by 16.5% YoY in 2020, while net profit fell by 73% YoY. Post the pandemic, the business models of restaurants witnessed rapid changes with smaller format stores and off premise dining. The situation was accentuated with the proliferation of food aggregators who have come to dominate the industry. Companies such as Talabat, Deliveroo, Zomato, Jahez and Hungerstation have been aggressive in routing customers through their Apps with attractive offers and convenience of dining from home. While organic volumes have returned, existing outlets are being refurbished while new ones are planned to be smaller across the industry. Herfy recorded its highest revenue of SAR 1.3bn in 2021, evidencing the recovery in volumes. The top line has remained steady since then with a quarterly revenue of SAR 280-300mn in line with the pre-covid levels.

### Consumer trends to remain positive...

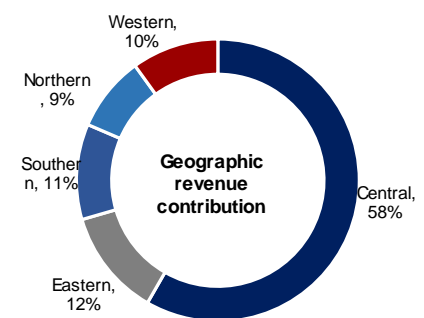
### Organic expansion, complimentary segments to support and traction in international markets

We believe the scope of growth in the food segment in Saudi is high and sustainable primarily due to its young and affluent population. Nearly 46% of the Saudi population is below the age of 29 years. With increase in business activity through Mega and Giga projects, employment opportunities will rise and per capita incomes will only improve the consumer trends going forward. Geographically, the major revenue comes from the highly populated Central (57%) and Eastern (13%) regions of the kingdom which together accounted for 70% of revenues in 2022. Herfy has continuously added outlets to service the higher demand and capture market share. The significant increase in outlets came during the period from 2014-18 post which the company moderated its net additions. Overall, the number of outlets have more than doubled in the past decade and currently Herfy manages the most number of outlets in Saudi Arabia, establishing itself as the market leader.

#### No. of outlets have more than doubled in a decade



#### Central region highest contributor



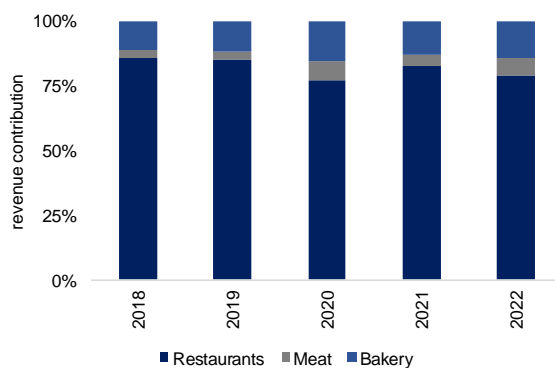
### Focus on outlet optimization...

Going forward, the company intends to focus on outlet optimization and profitability instead of rapid growth. Organic additions in Saudi will be in the smaller format outlets which are cost effective, easier to operate and accommodate off premise sales. We expect organic additions to be slower compared to historical averages and in the range of 2-5 per year over the next five years.

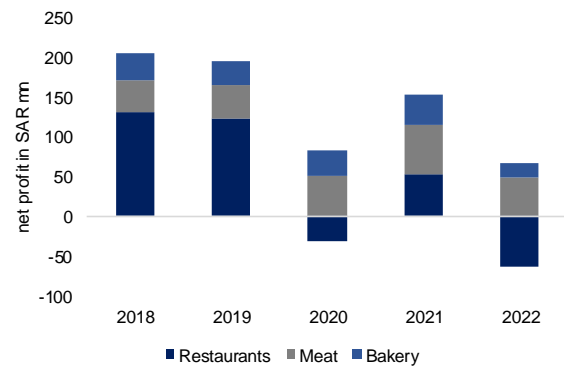
**Bakery, meat to support  
 top line growth and  
 append margins...**

Additionally, Herfy operates a meat factory and a premium bakery business which supports the entire needs of the restaurant segment along with providing an opportunity to diversify the revenue stream. The meat factory is located in the industrial city in Riyadh and produces high quality meat and poultry. It has leveraged the Herfy brand equity and ventured into the retail market by selling to super markets within Saudi and outside. The bakery products are manufactured in the Al-Mourouj district, while the cakes and pastries are manufactured in the industrial city in Riyadh. As of 3Q23, the company manages 7 outlets for their bakery products and plans to add 2 new Doukah Bakery Houses in the Kingdom for selling cakes, ice cream and luxury sandwiches. It also has 10 high end showrooms for its premium sweets and chocolates. Herfy is looking to introduce several new products to suit local tastes and increase the contribution from this high margin business segment. The sales and distribution channel for this segment has been strengthened and exports are gaining traction. The contribution of these two segments to the overall revenue has increased from 15% in 2018 to 23% in 3Q23. Going forward we expect the growth trajectory to continue and the revenue from meat business to increase by 17.5% CAGR (2023-27e) and the bakery to rise by 7.5% CAGR (2023-27e).

**Rising revenue contribution from meat and bakery**



**Restaurant losses partially offset by other segments**



Source: Company reports, US Research

**Exploring international markets through franchise model, additional volumes through Apps ...**

We are optimistic about both these segments as they complement the existing core business. They also operate on a higher margin compared to the restaurant segment. The EBITDA margin for the meat business was at 68.3% and bakery segment was at 20.4% in 2022. The net profit contribution from meat and bakery have partially offset the continuous losses reported by the core restaurant business since 4Q22.

Herfy has predominantly been a local player with outlets only in Saudi. However, its recent expansion plans include franchise agreements in Iraq, Kuwait, Nigeria and Bangladesh. It has established 14 such outlets in Kuwait and Bangladesh over the last couple of years to test the market. It has also entered into an MoU with EatRite Food Services to open 50 branches (5 per year) in Nigeria. The geographical expansion will augur well as the company has a well-established fully integrated manufacturing process which can be replicated in these countries. We have not considered the revenue addition from these overseas plans in our estimates as they are still at a nascent stage, but believe this will be a long term positive for the company. The local addition of outlets is expected to continue with 2-5 per year. Another important sales channel that is witnessing importance is the online off premise contribution. We expect a significant increase in volumes to take place through the food aggregators. Herfy has launched its own app which is also finding acceptance and making off-premise sales volume a significant part of the business.

**Saudi OOHD market out of the doldrums, will experience sustainable growth going forward**

**OOHD market has recovered fully from the pandemic stress...**

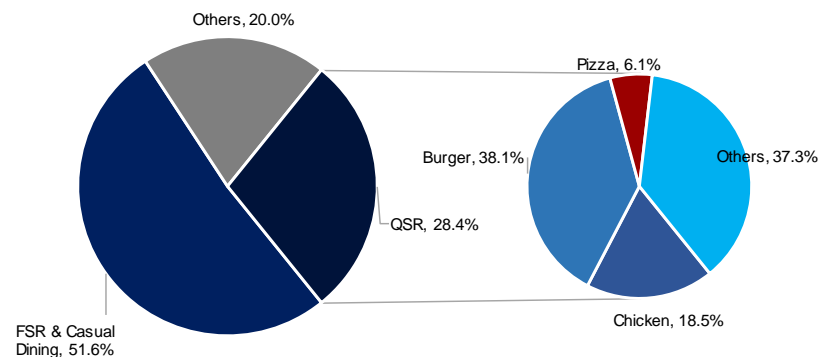
The OOHD market in Saudi is valued at USD 14 bn within which the company's addressable segment QSR (#2 largest segment) accounts for 28%. Prior to the pandemic, the segment growth was moderate at 6.5% in 2019 underpinned by on-premise sales through outlets in shopping malls, parks etc. However, the impact of the pandemic reversed the growth trend of consumer spending in the kingdom. The FSR/Casual Dining segment was hit the worst resulting in a decline in growth of 55% whereas the QSR segment declined by 35% in 2020. Among these, the independent QSRs such as Herfy were more affected than the international chained QSRs. In 2021, supported by increased off-premise sales (drive through and home delivery channels) both the segments recovered and have grown by 21.2%

CAGR (2020-22) QSR and 31% (2020-22) FSR/casual dining. The aggressive inclusion of food aggregators helped the companies operating within KSA to expand their consumer base, raise brand awareness and reduce their operational costs. The food aggregators have also brought new customers into the system and increased the regularity of placing orders translating into higher volumes.

---

**QSR is the 2nd largest OOHD segment and Burger QSR is the largest sub segment**

---

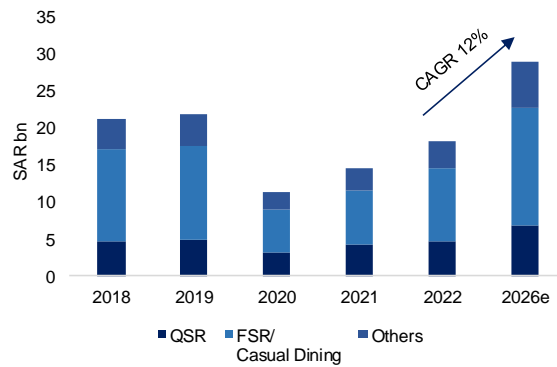


Source: Euromonitor estimates, US Research

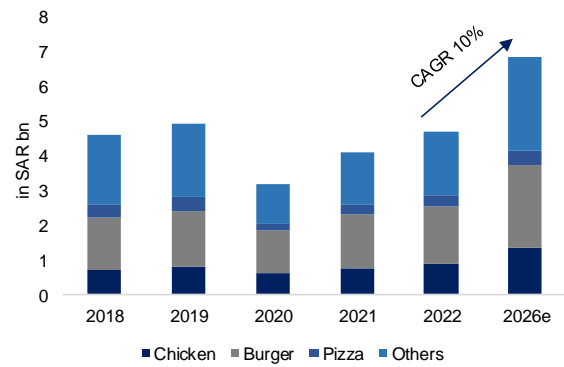
**Burger QSR to grow at  
 9.4% CAGR (2022-26e) ...**

Burger QSR forms the largest part of the QSR segment with 38% market share. Despite its highly competitive nature with multiple local and international brands vying for market share Herfy has managed to retain its top position. The growth trend in Burger QSR is expected to continue at 9.4% CAGR over 2022-26e. We believe the industry has achieved normalcy in volumes and it is only likely to increase going forward. The higher industry volumes will augur well for already established brands such as Herfy.

**OOHD market expected to grow by 12% CAGR (2022-26e)**



**QSR segment to grow by 10% CAGR (2022-26e)**



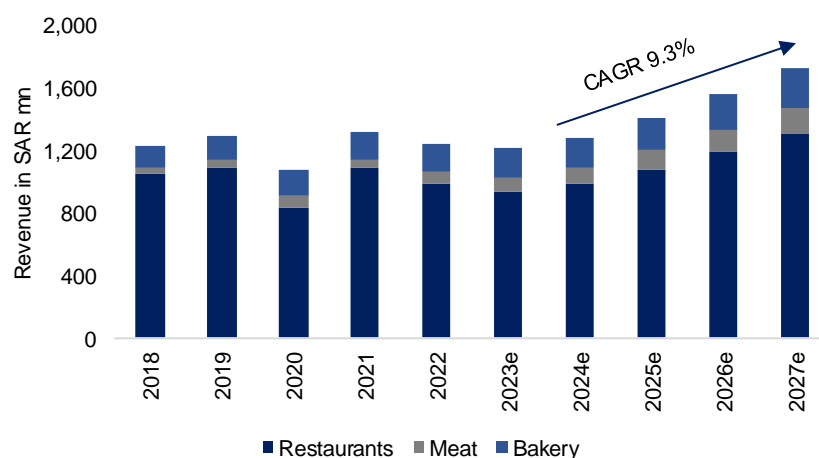
Source: Euromonitor estimates, US Research

**Gradual expansion of topline, steady improvement in margins and zero debt balance sheet**

Herfy being the largest player in the segment has a well-established network of large format stores and is coming up with smaller outlets to suit the current trends. Additionally, the traction in international business through franchisee and overall buoyancy in the industry will keep revenue growth sustainable. We expect core restaurant segment to grow by a modest 8.7% CAGR (2023-27e) while meat and bakery is forecasted to increase 6.5x over the same period and contribute about 30% of the gross revenue. Together the overall revenue is expected to grow at 9.3% CAGR (2023-27e).

**Revenue expected to grow by 9.3% CAGR (2023-27e) ...**

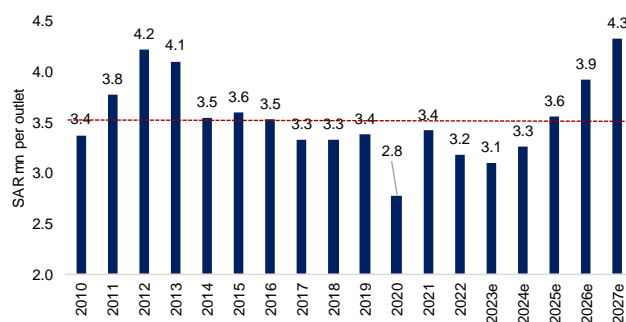
**Group revenue expected to increase by 9.3% CAGR (2023-27e)**



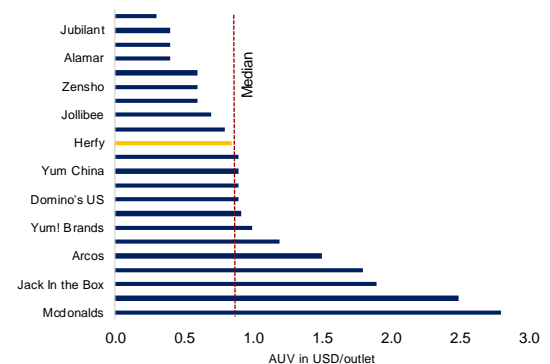
Source: Company reports, US Research

Since the newer outlets are likely to be in smaller formats with lower leasing cost and number of employees we expect improvement in per outlet revenue and reduction in cost metrics going forward. We also expect the growth in volumes to take place as industry revives, leading to improvement in the Average Unit Volume (AUV) per restaurant to SAR 4.3mn/outlet (c. SAR 3.2mn/outlet) by 2027e, well above the global median of median of SAR 3.5mn/outlet.

**Changes in operating structure will lead to recovery in AUVs**



**Revenue per outlet to catch up with competition**

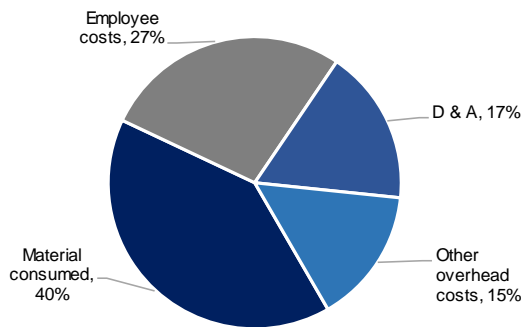


Source: Company reports, US Research

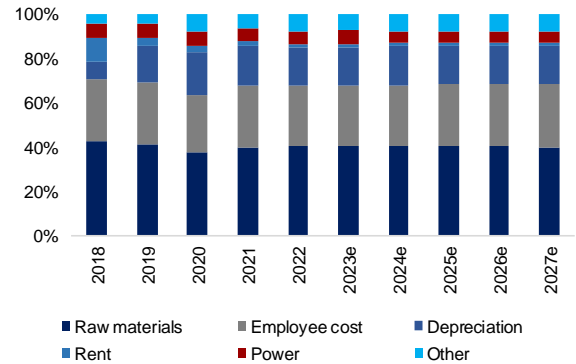
### Integrated operations ensure stable gross margins ...

Herfy is an integrated entity with 100% in house production of its menu. This has provided better control over direct costs and aided gross margins. Raw materials cost contributes about 40% of the overall expenses, the cost of which is managed by centralized bulk purchases and from related entities such as Savola. Other than the raw material expenses the company incurs employee cost which is likely to moderate going forward on account of lower requirement in the new format outlets. We expect gross margins to remain in the range of 28-30% over our forecast period.

### Raw material is the biggest expense item



### Integrated facilities offer better control over direct costs

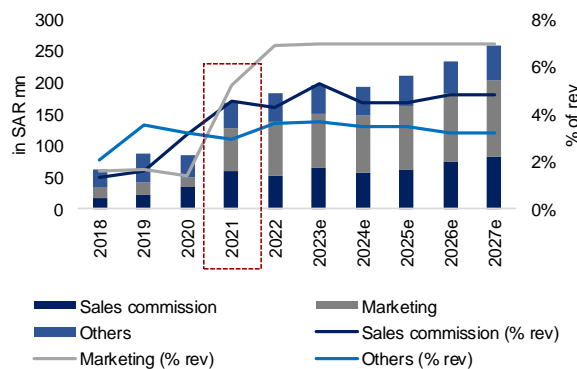


Source: Company reports, US Research

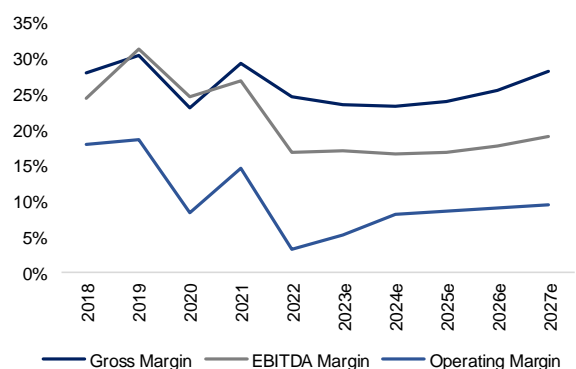
### Rise in sales and marketing expenses leads to decline in operating margins ...

On the operational front the company had a steady margin pre covid in the range of 18-19%, this however declined sharply in recent years. While the general and admin expenses are better managed currently in the range of 5-6% of revenue, the selling and distribution expense has doubled. Sales and marketing expenses was about 3.2% of revenue in 2019 has increased to 11.2% in 2022. We believe the company is spending aggressively to improve its sales channels especially for the meat and bakery business the positive impact of which will be felt in the coming quarters. EBITDA margins have also moved parallel to the operating margins, but have revived to 20% levels in 2023. We expect EBITDA margins to stabilize around 22-23% going forward albeit at a lower level than witnessed pre 2019.

### Significant increase in sales and marketing expenses



### Margins have hit bottom expected to recover from 2024

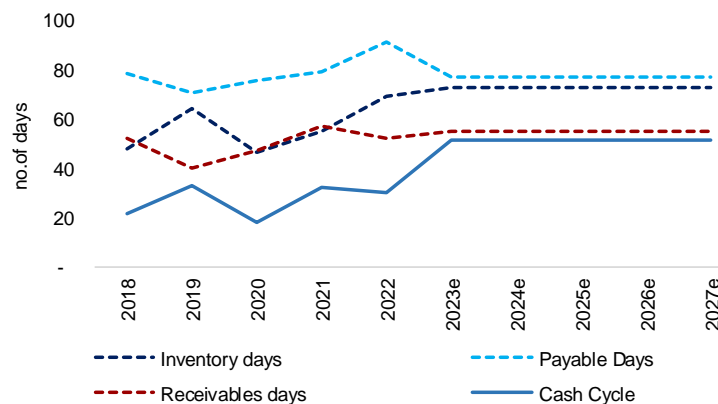


Source: Company reports, US Research

**Zero debt, low capex,  
 stable working capital  
 cycle expected ...**

The company has not announced any major capex programs and we believe the organic store additions would be moderate and low capex for mostly related to maintenance. Most of the outlets are on a leased premise hence fixed assets are unlikely to increase or cause higher depreciation. The debt taken for the expansion of outlets between 2014-18, establishment of meat factory and bakery units have been repaid. There are no long term borrowings currently in the balance sheet, making Herfy a zero debt company. We expect higher cash retention on account of the low capex and limited finance costs. Working capital has been well managed despite the vagaries in costs and supply chain disruption. However, in 2023 we are witnessing increasing trends in inventory costs and inventory days slightly higher than the historical averages. Receivable days have also surpassed 60 days vs earlier average of 50-55 days. We conservatively expect similar trend in the working capital cycle to continue during our forecast period.

**Cash cycle to stabilise at a higher level 2023-27e**

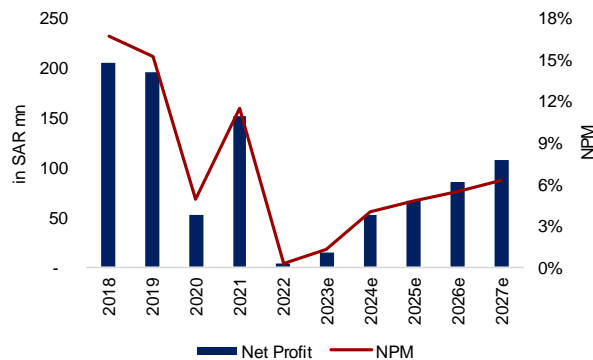


Source: Company reports, US Research

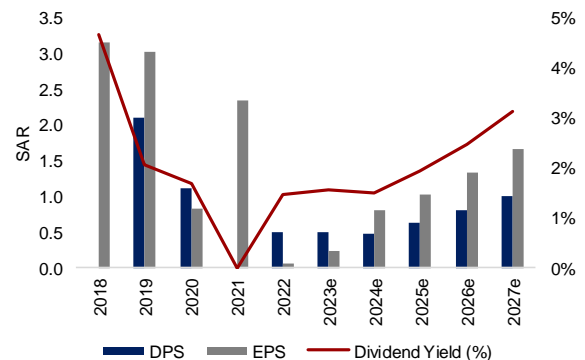
We believe Herfy has the management bandwidth to develop effective strategies and retain its revenue growth and leadership position while improving profitability. The current positive developments in the industry will also act as a catalyst. The restaurant segment has been reporting losses since 4Q22. However, the losses have decreased significantly from SAR 74mn in 4Q23 to SAR 4mn in 3Q23. We expect this segment to start reporting profits from 2024 onwards and overall net profit is expected to increase from a low base in 2023 by 64.6% CAGR (2023-27e) to reach

SAR 108mn by 2027e. We are optimistic on the consumption story in Saudi and believe our net profit estimates are conservative. While net margins are unlikely to reach pre-covid levels due to the changes in the market dynamics, the trend is certainly positive with the worst behind us. We expect dividend to continue in the same line as previous year and increase post 2025 when financial metrics reach sustainable levels.

**Net profit expected to grow by CAGR 64.6% (2023-27e)**



**Dividend payments should resume in 2024**



Source: Company Data, US Research

## Valuation

Herfy is currently the largest single brand burger QSR player in Saudi and the only one to be listed from the segment. The company is recovering from its covid induced stress and has achieved near normal revenue in 2022 and 9M23. As a next step, we expect profitability to improve significantly from 2024 onwards. We have valued the company using DCF method with forecasts through 2023e-2027e. We considered the cost of equity at 11.3%, derived from a risk-free rate of 4.0%, equity risk premium of 8.0%, and beta of 0.92x. We arrive at a WACC of 11.3% for the company. We assume a terminal growth rate of 3% post the forecast period. Our DCF valuation of Herfy provides an intrinsic value of SAR 39.23 per share. We also provide a target EV/EBITDA multiple of 11.1x (30% discount to industry average) to arrive at a peer valuation of SAR 39.39/share. Together we arrive at a blended intrinsic value of SAR 39.31/share by assigning equal weight to both methods. The fair value thus derived is higher than the current price by 22.5%. We believe the restaurant business will start contributing positively to the profit and re-rating of the stock will take place. Based on our target price we initiate coverage on Herfy with a **STRONG BUY** rating.

DCF Method (in SAR mn)	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
<b>Post-tax operating profit (NOPAT)</b>	<b>63</b>	<b>102</b>	<b>118</b>	<b>138</b>	<b>161</b>
Add: Depreciation & amortization	166	180	195	209	226
Less: Change in working capital	-53	-10	-18	-22	-24
Less: Capex	-65	-75	-80	-84	-88
<b>Free Cash Flow to Firm</b>	<b>111</b>	<b>197</b>	<b>215</b>	<b>242</b>	<b>274</b>
PV of Free Cash Flows	110	178	174	176	180
PV of Terminal Value					2,402
Enterprise Value					3,220
Less: Net debt					592
Less: Minorities & Pension liabilities					91
<b>Equity value</b>					<b>2,538</b>
No of shares					64.68
<b>Fair value per share (SAR)</b>					<b>39.23</b>

Valuation parameters	
Risk free rate (Rf)	4.0%
Beta	0.92
Equity Risk premium (Rm)	8.0%
Cost of equity (Ke)	11.3%
Terminal growth rate (g)	3.0%
Pre-tax Cost of Debt	0.0%
Effective tax rate	9.0%
After tax cost of debt	0.0%
Target Debt/Equity	0.0%
WACC	11.3%

Peer valuation	
EV/EBIDTA (TTM)	9.43
Target EV/EBIDTA	11.10
<b>Fair value (SAR)</b>	<b>39.39</b>

Valuation type	Wtg	Fair value	Wtd value
DCF	50%	39.23	19.62
EV/EBIDTA	50%	39.39	19.69
<b>Target price</b>			<b>39.31</b>
CMP			32.10
Potential upside			22.5%

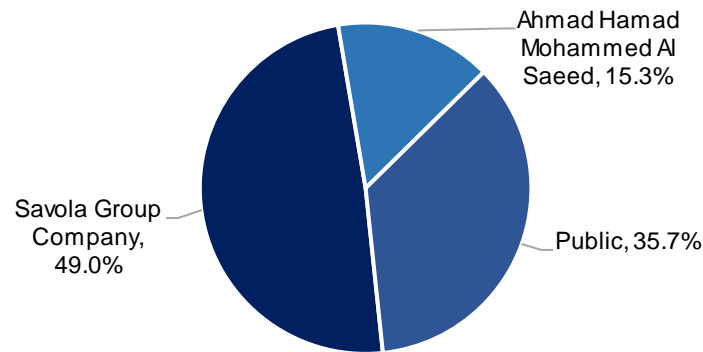
### Key risks

- The company has recently incurred higher marketing costs which affected its bottom line. If these costs tend to increase it will have a negative impact on our estimates.
- Increase in commodity prices due to the continuing geo political situation will affect margins
- Competitors are aggressively expanding and Herfy might find it difficult to maintain leadership position and brand value.

## Company profile

Herfy Food Services is a Saudi based joint-stock company with commercial operations dating back to 1981. The company was started in association with Panda United with its first restaurant in Riyadh. In 1994, Kingdom Holding acquired Panda United and further in 1998 the Savola group took stake in Panda United making Herfy one of its important investments. Since the takeover by Savola the company has added stores aggressively and currently maintains leadership position in burger QSR segment in Saudi and is the 3<sup>rd</sup> largest company in the OOH market. The company manages 393 restaurants, 4 production lines, 2 factories and employing 6000+ people. Herfy is the first fully integrated food services company in the kingdom.

## Shareholding Pattern of Herfy Food Services



## BOARD OF DIRECTORS

S.NO.	NAME	POSITION	CATEGORY
1	Mutaz Kuasi H.Alazzawi	Chairman	Non-executive
2	Ahmed Mohammed AL_Faleh	Board Member	Independent
3	Bander Talaat Hamooh	Board Member	Non-executive
4	Hussein Ali Al asmari	Board Member	Independent
5	Essam Maged Al Muhaidib	Board Member	Non-executive
6	Waleed Khalid Fatani	Board Member	Non-executive
7	Abdul Aziz Hamad Al Rugaib	Board Member	Independent

Source: Company reports, US Research

Income Statement (In SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Revenue</b>	<b>1,288</b>	<b>1,076</b>	<b>1,319</b>	<b>1,244</b>	<b>1,216</b>	<b>1,286</b>	<b>1,410</b>	<b>1,563</b>	<b>1,733</b>
Direct Costs	-896	-826	-901	-937	-906	-926	-1,008	-1,110	-1,222
Gross profit	393	250	418	307	310	360	402	453	511
Selling and distribution expenses	-86	-84	-167	-184	-195	-192	-211	-234	-260
General and administrative expenses	-83	-87	-69	-73	-67	-70	-77	-85	-94
Other income (Net)	15	13	11	-9	15	6	7	8	9
<b>Operating profit</b>	<b>239</b>	<b>91</b>	<b>193</b>	<b>41</b>	<b>64</b>	<b>104</b>	<b>121</b>	<b>141</b>	<b>166</b>
<b>EBITDA</b>	<b>404</b>	<b>265</b>	<b>355</b>	<b>210</b>	<b>230</b>	<b>285</b>	<b>315</b>	<b>351</b>	<b>392</b>
Finance costs	-38	-33	-41	-37	-49	-50	-51	-52	-53
<b>Profit before tax (PBT)</b>	<b>201</b>	<b>58</b>	<b>152</b>	<b>4</b>	<b>15</b>	<b>54</b>	<b>69</b>	<b>89</b>	<b>112</b>
Income tax and Zakat	-5	-5	-1	-0	-1	-2	-3	-4	-4
<b>Net profit (PAT)</b>	<b>196</b>	<b>53</b>	<b>152</b>	<b>4</b>	<b>15</b>	<b>52</b>	<b>67</b>	<b>86</b>	<b>108</b>

Balance Sheet (in SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	1,043	999	978	864	845	880	891	900	909
Right of use assets	583	537	606	573	538	547	553	554	559
Intangible assets	15	11	9	13	13	13	13	13	13
Other non-current assets	41	35	35	147	152	152	152	152	152
<b>Non-current assets</b>	<b>1,682</b>	<b>1,582</b>	<b>1,628</b>	<b>1,597</b>	<b>1,548</b>	<b>1,593</b>	<b>1,608</b>	<b>1,619</b>	<b>1,633</b>
Inventories	157	105	135	178	181	185	202	222	244
Trade and other receivables	140	138	205	177	182	193	211	234	260
Net investment in finance lease	2	3	1	1	1	1	1	1	1
Investments at FVTPL	26	3	1	21	-	-	-	-	-
Cash and cash equivalents	26	119	30	21	46	38	62	78	120
<b>Current assets</b>	<b>351</b>	<b>368</b>	<b>372</b>	<b>398</b>	<b>411</b>	<b>417</b>	<b>476</b>	<b>536</b>	<b>625</b>
<b>ASSETS</b>	<b>2,033</b>	<b>1,950</b>	<b>2,000</b>	<b>1,995</b>	<b>1,959</b>	<b>2,009</b>	<b>2,085</b>	<b>2,154</b>	<b>2,259</b>
Share capital	647	647	647	647	647	647	647	647	647
Statutory reserve	80	86	102	102	102	102	102	102	102
Retained earnings	271	227	295	308	290	310	345	391	448
<b>EQUITY</b>	<b>998</b>	<b>960</b>	<b>1,044</b>	<b>1,057</b>	<b>1,039</b>	<b>1,059</b>	<b>1,094</b>	<b>1,140</b>	<b>1,197</b>
Long term borrowings	57	37	15	-	-	-	-	-	-
Lease liabilities	497	457	573	554	589	595	606	619	631
Employee defined benefits	73	94	102	97	91	111	121	111	122
<b>Non-current liabilities</b>	<b>627</b>	<b>588</b>	<b>690</b>	<b>651</b>	<b>679</b>	<b>706</b>	<b>727</b>	<b>730</b>	<b>753</b>
Long term borrowings	138	24	15	16	18	18	18	18	18
Lease liabilities	82	93	46	31	31	31	32	33	33
Trade and other payables	174	171	196	235	190	194	212	233	257
Zakat payable	14	14	9	5	1	1	1	1	1
Short term borrowing	-	100	-	-	-	-	-	-	-
Current liabilities	408	402	266	287	240	245	263	285	309
<b>LIABILITIES</b>	<b>1,035</b>	<b>990</b>	<b>956</b>	<b>938</b>	<b>920</b>	<b>950</b>	<b>990</b>	<b>1,014</b>	<b>1,062</b>
<b>EQUITY AND LIABILITIES</b>	<b>2,033</b>	<b>1,950</b>	<b>2,000</b>	<b>1,995</b>	<b>1,959</b>	<b>2,009</b>	<b>2,085</b>	<b>2,154</b>	<b>2,259</b>

Cash Flow (In SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	393	321	264	250	172	270	293	325	363
Investing cash flow	-65	-31	-76	-129	-52	-76	-80	-82	-74
Financing cash flow	-319	-198	-286	-130	-91	-124	-134	-147	-162
<b>Change in cash</b>	<b>9</b>	<b>92</b>	<b>-89</b>	<b>-9</b>	<b>25</b>	<b>-9</b>	<b>25</b>	<b>16</b>	<b>41</b>
Beginning cash	17	26	119	30	21	46	38	62	78
<b>Ending cash</b>	<b>26</b>	<b>119</b>	<b>30</b>	<b>21</b>	<b>46</b>	<b>38</b>	<b>62</b>	<b>78</b>	<b>120</b>

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Per Share</b>									
EPS (SAR)	3.03	0.82	2.35	0.05	0.23	0.80	1.03	1.33	1.67
BVPS (SAR)	15.43	14.84	16.14	16.34	16.07	16.37	16.92	17.63	18.50
DPS (SAR)	1.10	1.00	-	0.50	0.50	0.48	0.62	0.80	1.00
FCF per share (SAR)	-5.94	-3.54	-5.60	-4.00	-2.21	-3.09	-3.30	-3.54	-3.66
<b>Valuation</b>									
Market Cap (SAR mn)	2,911	3,435	3,855	4,075	2,076	2,076	2,076	2,076	2,076
EV (SAR mn)	3,659	4,027	4,474	4,655	2,668	2,682	2,670	2,667	2,638
EBITDA	404	265	355	210	230	285	315	351	392
P/E (x)	15	65	25	1,149	141	40	31	24	19
EV/EBITDA (x)	9.1	15.2	12.6	22.2	11.6	9.4	8.5	7.6	6.7
Price/Book (x)	2.9	3.6	3.7	3.9	2.0	2.0	1.9	1.8	1.7
Dividend Yield (%)	2.4%	1.9%	0.0%	0.8%	1.6%	1.5%	1.9%	2.5%	3.1%
Price to sales (x)	2.3	3.2	2.9	3.3	1.7	1.6	1.5	1.3	1.2
EV to sales (x)	2.8	3.7	3.4	3.7	2.2	2.1	1.9	1.7	1.5
<b>Liquidity</b>									
Cash Ratio (x)	0.06	0.30	0.11	0.07	0.19	0.15	0.24	0.28	0.39
Current Ratio (x)	0.86	0.92	1.40	1.39	1.71	1.70	1.81	1.88	2.03
Quick Ratio (x)	0.48	0.65	0.89	0.77	0.96	0.95	1.05	1.10	1.23
<b>Returns Ratio</b>									
ROA (%)	9.6%	2.7%	7.6%	0.2%	0.8%	2.6%	3.2%	4.0%	4.8%
ROE (%)	19.6%	5.5%	14.5%	0.3%	1.4%	4.9%	6.1%	7.5%	9.0%
ROCE (%)	12.1%	3.4%	8.8%	0.2%	0.9%	2.9%	3.7%	4.6%	5.5%
<b>Cash Cycle</b>									
Inventory turnover (x)	5.7	7.9	6.7	5.3	5.0	5.0	5.0	5.0	5.0
Accounts Payable turnover (x)	5.1	4.8	4.6	4.0	4.8	4.8	4.8	4.8	4.8
Receivables turnover (x)	9.2	7.8	6.4	7.0	6.7	6.7	6.7	6.7	6.7
Inventory days	64	46	55	69	73	73	73	73	73
Payable Days	71	76	79	92	77	77	77	77	77
Receivables days	40	47	57	52	55	55	55	55	55
Cash Cycle	33	18	32	30	51	51	51	51	51
<b>Profitability Ratio</b>									
Net Margins (%)	15.2%	4.9%	11.5%	0.3%	1.2%	4.0%	4.7%	5.5%	6.2%
EBITDA Margins (%)	31.4%	24.7%	26.9%	16.9%	18.9%	22.1%	22.3%	22.5%	22.6%
PBT Margins (%)	15.6%	5.4%	11.6%	0.3%	1.3%	4.2%	4.9%	5.7%	6.5%
EBIT Margins (%)	18.6%	8.5%	14.7%	3.3%	5.3%	8.1%	8.6%	9.1%	9.5%
Effective Tax Rate (%)	2.5%	9.2%	0.4%	4.8%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Leverage</b>									
Total Debt (SAR mn)	774	711	649	601	638	644	656	669	682
Net Debt (SAR mn)	748	592	619	580	592	606	594	591	562
Debt/Equity (x)	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Net Debt/Equity (x)	0.7	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.5

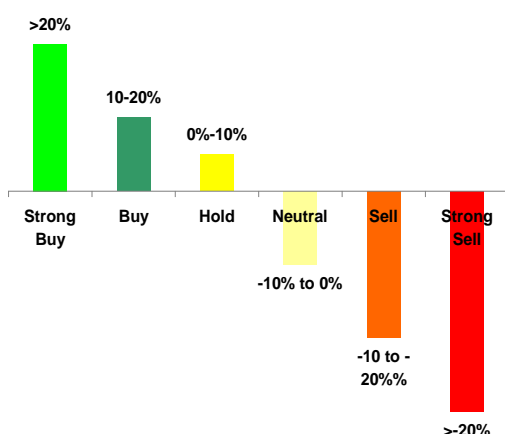
## Key contacts

### Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	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%
<b>Buy</b>	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%
<b>Hold</b>	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%
<b>Neutral</b>	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%
<b>Sell</b>	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%
<b>Strong Sell</b>	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%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

## Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we endeavor to update on a reasonable basis the information discussed in this material, United Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand, or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. United Securities LLC, and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. United Securities LLC and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.