Herfy Food Services

Food/Dairy Products – Industrial

HERFY AB: Saudi Arabia

08 September 2021

الراجحي المالية
Al Rajhi Capital

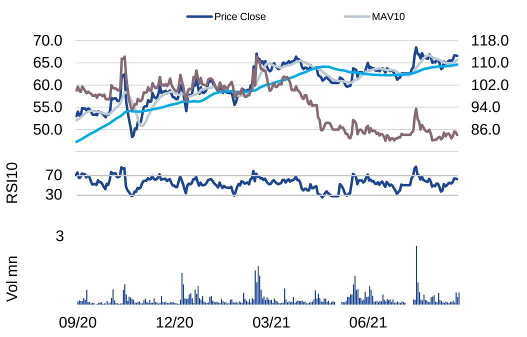
US$1.149bn	51%	US$4.206mn
Market cap	Free float	Avg. daily volume

Target price	58.00	-12.0% over current
Current price	66.60	as at 7/9/2021

Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/20A	12/21E	12/22E
Revenue (mn)	1,076	1,284	1,324
Revenue growth	-16.5%	19.3%	3.1%
EBITDA (mn)	251	330	326
EBITDA growth	-35.2%	31.4%	-1.2%
Net Profit	53	145	157
Net Profit Margin	4.9%	11.3%	11.9%
EPS	0.82	2.24	2.43
EPS growth	-73.1%	173.7%	8.5%
DPS	1.00	1.57	1.70
Payout Ratio	122.4%	70.0%	70.0%
ROE	5.5%	14.4%	14.9%

Source: Company data, Al Rajhi Capital

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Herfy Foods

Meet estimates; Remain Underweight

Herfy's Q2 FY2021 earnings of SAR27mn met our expectations of SAR26mn, the gross margins further diluted 118bps Q-O-Q to 25.21%. The company in our view is facing competition from other international QSR's and expat exodus. We expect the top-line to remain flattish to marginally positive compared to FY 2019 level but a double-digit growth from a low base compared to FY 2020. The company opened 7 large-scale restaurants in FY 2020 and intends to open 12 new restaurants in FY 2021. Apart from local expansion it also aims to open 5 new stores in Nigeria each year till 2030 through franchise model (currently they operate through franchise model in Bangladesh and Kuwait). Herfy's revenue per store has been in a declining trend for the last couple of years and with population de-growth and competition from international QSR's we expect the ramp-up of new stores to further delay which might erode profit margins and the company's ROCE. Post Q2 2021 earnings we revise our FY 2021e forecast and expect a revenue/EBITDA/net-income growth of 19%/31%/173% y-o-y. We slightly raise our tp to SAR58/sh (earlier SAR54/sh) but remain "underweight" on Herfy.

Q2 FY2021 earnings summary: Revenue increased 88% y-o-y to SAR320mn on a low base last year. In Q2 2020 the business was adversely impacted due to COVID related shutdowns and lower in store traffic. The gross margins declined 118bps q-o-q to 25.21%. The company reported profit at operating levels compared to an operational loss last year as the operations were impacted due to shutdown of stores. Accordingly, the company turned profitable reporting a net income of SAR27mn v/s a loss of SAR34mn in Q2 2020.

Figure 1 Herfy 2Q 2021 earnings summary

(SAR mn)	2Q 2021	2Q 2020	*Y-o-Y*	1Q 2021	*Q-o-Q*	ARC est	*vs ARC*
Revenue	320	170	*88%*	311	*3%*	300	*7%*
Gross profit	81	11	*655%*	82	*-2%*	79	*2%*
Gross margin	25%	6%		26%		26%	
Operating profit	35	(24)	*-244%*	34	*1%*	35	*-1%*
Operating margin	11%	-14%		11%		12%	
Net profit	27	(34)	*-178%*	25	*5%*	26	*2%*
Net margin	8%	-20%		8%		9%	

Source: Company data, Al Rajhi Capital

Valuations and Key Risks: We maintain "underweight" on Herfy as we expect the top-line growth to remain muted (compared to 2019) due to competition from other QSR's and population de-growth. We value the company using equal mix given to DCF and PE based relative valuation. Our PE based relative valuation based on 22x FY2022e EPS is SAR53/sh while DCF based tp based on 9.3% WACC and 2% terminal growth is SAR63/Sh. Thus, equal weighted tp stands at SAR58/sh which implies 12% downside from CMP of SAR66/sh. We remain "underweight" on Herfy.

Key Upside risks to our valuation: Any new product launches or change in strategy will have a positive impact on revenue and therefore poses an upside risk to our valuations.

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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.

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