

Food retail

HOLD: 12M TP @ 36.31

Upside +4.2%

Valuation Summary (TTM)

Price (SAR)	34.85
PER TTM (x)	272.7
P/Book (x)	2.2
P/Sales (x)	1.9
EV/Sales (x)	2.3
EV/EBITDA (x)	12.2
Dividend Yield (%)	NM
Free Float (%)	34%
Shares O/S (mn)	65
YTD Return (%)	8%
Beta	1.0

(mn)	SAR	USD
Market Cap	2,254	601
Total Assets	2,816	751

Price performance (%)	1M	3M	12M
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Herfy Food Services Co	-6%	7%	9%
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Tadawul All Share Index	2%	10%	24%
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Trading liquidity (,000)	1M	3M	6M
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Avg daily turnover (SAR ,	13,309	9,909	6,336
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Avg Daily Volume (,000)	453	284	186
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52 week	High	Low	CTL*
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Price (SAR)	40.70	28.45	22.5
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* CTL is % change in CMP to 52wk low

Major shareholders

Savola Group/The	49%
Al Saeed Khalid Ahme	15.3%
Vanguard Group Inc/T	1.3%
Others	34.4%

Other details

Exchange	Saudi Arabia
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Sector	Food retail
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Index weight (%)	0.0%
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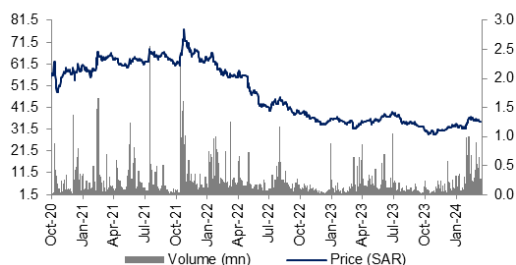
Key ratios	2021	2022	2023
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EPS (SAR)	2.35	0.05	0.13
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BVPS (SAR)	16.13	16.34	15.98
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DPS (SAR)	0.00	0.50	0.00
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Payout ratio (%)	0%	1000%	0%
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Herfy Food Services – under recovery

Herfy reported full year revenue for 2023 at SAR 1.17bn which was marginally lower than our estimate of SAR 1.2bn and 5.6% lower than the previous year. We had been slightly more optimistic than the consensus considering the local advantage that the company faces in the current scenario of boycotting foreign items. All three segments reported revenue much in line with our expectations. Restaurants which contributed to 77% of the topline continued to witness a negative growth of 8.7% for the year 2023. We believe 2024 would be a turnaround for the restaurants and topline will start growing on account of the various measures undertaken by the management. The meat business has done exceptionally well and grew by 14.6% during the year. We have been positive on the way the company is making use of its existing supply chain to widen its product portfolio. We expect this segment to provide the much needed impetus for growth. Bakery segment remained flattish with a 2.4% YoY growth and contributing 16% of the total group revenue. Herfy has maintained steady gross margins despite significant volatility in the raw material costs which is commendable. The company is fully integrated hence there is full control on the direct cost which aides in keeping gross margins steady. EBITDA margin increased by 170bps on account of improvement in operational efficiencies, absence of impairment losses and reversal of provisions to reach 18.6%. The company has adequate operating cash of SAR 190mn to manage its existing network and expansions, hence it carries significantly low debt in its balance sheet. The rationalization of leased properties and moving into smaller format stores has led to reduction in leased assets. This led to overall finance cost declining by 15% in 2023. The net profit doubled from SAR 3.5mn in 2022 to SAR 8.3mn in 2023 but lower than our estimate of SAR 15mn. Our expectations on margin improvement was slightly ahead of what the company could manage leading to a lower than expected profit. The board has decided not to distribute any dividends during the year and instead focus on capitalizing on the existing upcycle by adding new stores and building online capabilities. Based on the current results, we retain our revenue estimate for 2024 at SAR 1.24bn (+5.8% YoY) while reducing our margins to arrive at a net profit of SAR 26mn. While we believe Herfy might take longer than expected to achieve full normalization of operations and margins. However, it will continue to maintain its leadership position and brand equity. We had initiated coverage on the stock recently with a price target of SAR 39.31/share which was almost achieved in the recent rally. However, based on the current results we reduce our target price to SAR 36.31/share.

Outlook and recommendation: Herfy is the largest independent and fully local burger brand in the region. The recent geo-political events seemed to have further increased the preference for local products. The company is in its early stages of recovery and we are confident that the expected increase in demand for food retail in Saudi will augur well for Herfy and profitability will eventually catch up. Considering the revised target price and upside potential of 4.2% on the stock from current levels we reduce our rating for Herfy to HOLD.

Income Statement (In SAR mn)	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	1,288	1,076	1,319	1,244	1,174	1,241	1,361	1,509	1,674
Direct Costs	-896	-826	-901	-937	-889	-939	-1,000	-1,109	-1,222
Gross profit	393	250	418	307	284	302	361	400	452
Selling and distribution expenses	-86	-84	-167	-184	-188	-186	-204	-226	-251
General and administrative expenses	-83	-87	-69	-73	-68	-68	-74	-82	-91
Other income (Net)	15	13	11	-9	12	12	14	15	17
Operating profit	239	91	193	41	43	61	96	106	126
EBITDA	404	265	355	210	218	236	285	310	346
Finance costs	-38	-33	-41	-37	-32	-34	-35	-35	-36
Profit before tax (PBT)	201	58	152	4	11	27	61	71	90
Income tax and Zakat	-5	-5	-1	-0	-3	-1	-2	-3	-4
Net profit (PAT)	196	53	152	4	8	26	59	68	87

Balance Sheet (in SAR mn)	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Property, plant and equipment	1,043	999	978	864	831	867	877	887	896
Right of use assets	583	537	606	573	549	560	567	570	578
Intangible assets	15	11	9	13	13	13	13	13	13
Other non-current assets	41	35	35	147	162	152	152	152	152
Non-current assets	1,682	1,582	1,628	1,597	1,555	1,592	1,609	1,622	1,639
Inventories	157	105	135	178	149	160	170	189	208
Trade and other receivables	140	138	205	177	187	211	231	256	285
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	15	57	81	101	127
Current assets	351	368	372	398	352	429	484	547	620
ASSETS	2,033	1,950	2,000	1,995	1,907	2,021	2,093	2,169	2,260
Share capital	647	647	647	647	647	647	647	647	647
Statutory reserve	80	86	102	102	-	102	102	102	102
Retained earnings	271	227	295	308	387	412	456	488	534
EQUITY	998	960	1,044	1,057	1,033	1,161	1,205	1,237	1,283
Long term borrowings	57	37	15	-	-	-	-	-	-
Lease liabilities	497	457	573	554	515	540	551	562	573
Employee defined benefits	73	94	102	97	99	94	100	111	122
Non-current liabilities	627	588	690	651	614	634	651	673	695
Long term borrowings	138	24	15	16	15	18	18	18	18
Lease liabilities	82	93	46	31	47	28	29	30	30
Trade and other payables	174	171	196	235	194	178	190	211	232
Zakat payable	14	14	9	5	2	1	1	1	1
Short term borrowing	-	100	-	-	-	-	-	-	-
Current liabilities	408	402	266	287	259	226	238	259	281
LIABILITIES	1,035	990	956	938	873	860	889	932	976
EQUITY AND LIABILITIES	2,033	1,950	2,000	1,995	1,907	2,021	2,093	2,169	2,260

Cash Flow (In SAR mn)	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Cash from operations	393	321	264	250	190	181	262	283	316
Investing cash flow	-65	-31	-76	-129	-46	-75	-79	-81	-73
Financing cash flow	-319	-198	-286	-130	-150	-100	-120	-128	-141
Change in cash	9	92	-89	-9	-6	42	24	20	26
Beginning cash	17	26	119	30	21	15	57	81	101
Ending cash	26	119	30	21	15	57	81	101	127

Ratio Analysis	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Per Share									
EPS (SAR)	3.03	0.82	2.35	0.05	0.13	0.39	0.91	1.05	1.34
BVPS (SAR)	15.43	14.84	16.14	16.34	15.98	17.95	18.62	19.13	19.84
DPS (SAR)	1.10	1.00	-	0.50	-	0.24	0.54	0.63	0.80
FCF per share (SAR)	-5.94	-3.54	-5.60	-4.00	-3.03	-2.70	-3.08	-3.23	-3.30
Valuation									
Market Cap (SAR mn)	3,473	3,874	4,036	2,225	2,096	2,254	2,254	2,254	2,254
EV (SAR mn)	4,221	4,466	4,655	2,805	2,658	2,783	2,770	2,762	2,748
EBITDA	404	265	355	210	218	236	285	310	346
P/E (x)	18	73	27	627	250	88	38	33	26
EV/EBITDA (x)	10.4	16.8	13.1	13.4	12.2	11.8	9.7	8.9	7.9
Price/Book (x)	3.5	4.0	3.9	2.1	2.0	1.9	1.9	1.8	1.8
Dividend Yield (%)	2.0%	1.7%	0.0%	1.5%	0.0%	0.7%	1.6%	1.8%	2.3%
Price to sales (x)	2.7	3.6	3.1	1.8	1.8	1.8	1.7	1.5	1.3
EV to sales (x)	3.3	4.2	3.5	2.3	2.3	2.2	2.0	1.8	1.6
Liquidity									
Cash Ratio (x)	0.06	0.30	0.11	0.07	0.06	0.25	0.34	0.39	0.45
Current Ratio (x)	0.86	0.92	1.40	1.39	1.36	1.90	2.03	2.11	2.21
Quick Ratio (x)	0.48	0.65	0.89	0.77	0.78	1.19	1.32	1.38	1.47
Returns Ratio									
ROA (%)	9.6%	2.7%	7.6%	0.2%	0.4%	1.3%	2.8%	3.1%	3.8%
ROE (%)	19.6%	5.5%	14.5%	0.3%	0.8%	2.2%	4.9%	5.5%	6.7%
ROCE (%)	12.1%	3.4%	8.8%	0.2%	0.5%	1.4%	3.2%	3.6%	4.4%
Cash Cycle									
Inventory turnover (x)	5.7	7.9	6.7	5.3	6.0	5.9	5.9	5.9	5.9
Accounts Payable turnover (x)	5.1	4.8	4.6	4.0	4.6	5.3	5.3	5.3	5.3
Receivables turnover (x)	9.2	7.8	6.4	7.0	6.3	5.9	5.9	5.9	5.9
Inventory days	64	46	55	69	61	62	62	62	62
Payable Days	71	76	79	92	80	69	69	69	69
Receivables days	40	47	57	52	58	62	62	62	62
Cash Cycle	33	18	32	30	39	55	55	55	55
Profitability Ratio									
Net Margins (%)	15.2%	4.9%	11.5%	0.3%	0.7%	2.1%	4.3%	4.5%	5.2%
EBITDA Margins (%)	31.4%	24.7%	26.9%	16.9%	18.6%	19.0%	20.9%	20.5%	20.7%
PBT Margins (%)	15.6%	5.4%	11.6%	0.3%	1.0%	2.1%	4.5%	4.7%	5.4%
EBIT Margins (%)	18.6%	8.5%	14.7%	3.3%	3.7%	4.9%	7.1%	7.0%	7.6%
Effective Tax Rate (%)	2.5%	9.2%	0.4%	4.8%	25.7%	4.0%	4.0%	4.0%	4.0%
Leverage									
Total Debt (SAR mn)	774	711	649	601	578	586	598	609	621
Net Debt (SAR mn)	748	592	619	580	563	529	516	508	494
Debt/Equity (x)	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Net Debt/Equity (x)	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4

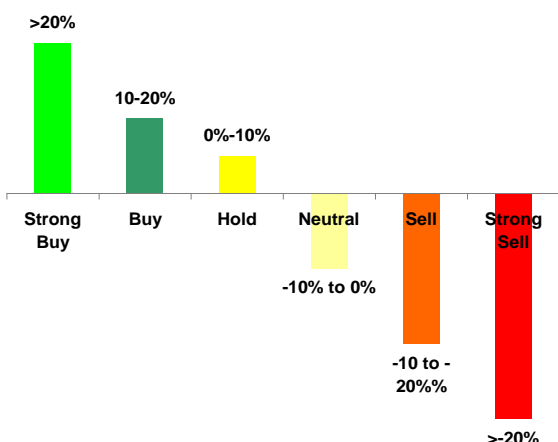
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Rating Criteria and Definitions

Rating



Rating Definitions

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%
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%
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%
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%
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%
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%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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