



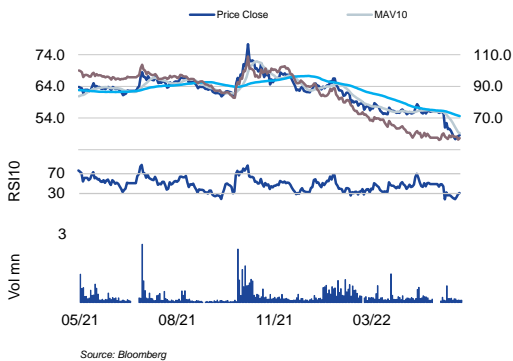
US\$0.846bn Market cap
51% Free float
US\$3.326mn Avg. daily volume

Target price **50.00** +1.0% over current
 Current price **50.00** as at 29/05/2022

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Performance



Earnings

Period End (SAR)	12/21A	12/22E	12/23E
Revenue (mn)	1,314	1,369	1,419
Revenue growth	22.1%	4.2%	3.6%
EBITDA (mn)	328	324	346
EBITDA growth	30.7%	-1.2%	6.7%
Net Profit	161	149	178
Net Profit Margin	12.2%	10.9%	12.5%
EPS	2.49	2.31	2.75
EPS growth	204.4%	-7.3%	19.3%
DPS	0.00	0.00	1.65
Payout Ratio	0.0%	0.0%	60.0%
ROE	15.3%	12.5%	14.0%

Source: Company data, Al Rajhi Capital

Herfy Food
Assign neutral rating

Herfy showed a decent come back on a y-o-y basis with revenue at SAR328mn (+5% y-o-y) which we perceive to be supported by consumers' inclination towards value products and services given the inflationary pressure in general. However, the top-line was a bit lower than our estimate of SAR344mn resulting in a 5% miss. Lower gross margin (25% vs. our estimate 28%) also added pressure resulting in further miss as the company reported gross profit of SAR83mn against our estimate of SAR96mn (-14% miss). The margin was also lower compared to previous quarters (125bps y-o-y; 711bps q-o-q) which could be a reflection of high commodity prices. Operating expenses were broadly in-line with our estimate and were tad lower compared to previous quarters however the benefit was partially offset by higher interest expense inspite of lower debt levels which could be attributable to the rising rate environment. We expect Herfy's margin to remain under pressure due to high inflation, as higher costs may not be passed on completely to its customers. However, its brand positioning alludes to a value proposition and as such can be seen favourably by customers seeking to lower their spends, especially on F&B. We also note the recent stabilization in raw material prices however the benefits are difficult to ascertain given the volatile geopolitical landscape. Herfy is also expected to not pay dividends as it looks at conserving cash and possibly reinvest it for future growth or cut down debt further. The stock has corrected considerably on a YTD basis and we do not see further downside from these levels. Moreover, we take comfort in the company's stance to conserve cash and also in its brand image as a value player and thus assign Neutral rating on the stock.

Figure 1 Herfy 1Q 2022 earnings summary

(SAR mn)	1Q 2022	1Q 2021	Y-o-Y	4Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	328	311	5%	329	0%	344	-5%
Gross profit	83	82	1%	106	-22%	96	-14%
Gross margin	25%	26%		32%		28%	
Operating profit	35	34	3%	53	-34%	48	-27%
Operating margin	11%	11%		16%		14%	
Net profit	28	25	11%	49	-42%	45	-37%
Net margin	9%	8%		15%		13%	

Source: Company data, Al Rajhi Capital

Valuation and outlook: 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 7.5% wacc is SAR54/sh and PE based relative valuation based on 21x 2022e EPS of SAR2.3 is SAR46/sh. Thus, equal weighted target price stands at SAR50/sh (earlier 58/sh) which implies +1% upside from CMP of SAR49.5/sh. We assign 'Neutral' rating to Herfy.

Key Risks:

Downside risks to our valuation includes:

- 1) Steep increase in inflation of key commodities will be detrimental to margins as well as demand and can impact our valuation.
- 2) Increase in competition can impact the value proposition offered by Herfy impacting its sales and thus our valuation.



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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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