**Herfy Food Services Co.**

**Logo

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**Economy Analysis**

In this study we analyze Herfy Food Services Company (Herfy) economy, industry, and company analysis. Herfy Food Services Co. was established in 1981 and was listed in Saudi Stock exchange (Tadawul) in 2010. it is one of the leading companies in the fast-food industry in the Kingdom, it has significantly contributed to the development of the fast-food industry, bakery products, pastries, and meat processing factories. The Company’s gross profit in year of 2020 amounted to 249.50 million riyals versing 392.63 million riyals in the preceding year.

In this top-down analysis of Herfy prospects we start with the local economy and its effect on the company prospects. The economy of Saudi Arabi in term of GDP, according to the estimates of the Saudi General Authority for Statistics, Gross Domestic Product (GDP) of Saudi Arabia recorded rise in overall GDP being at an average annual rate of 8.11%. in end of 2020.

As the national economic environment is in important factor for determining an industry performance. Saudi has been seeing economic growth across all non -oil sectors that is due to government plan to diversify the Saudi economy away from its dependence on oil. This shift in the economy focuses and change in regulations to support growth in non-oil industries resulted in more certainty in the private and business in general and the food industry among them. Even though the food industry is considered as defensive industry with a low sensitivity to the state of the economy (low beta), the decrees on unemployment rate (being at 7.4 in end of 2020) and rise in over all GDP in prosperity of targeted segments (individuals) which in turn strengthen the demand for Herfy products.

**Industry Analysis**

Saudi Arabia foodservice industry was valued at 168 billion SR in 2020, and it is expected to record a CAGR of 8.90% during the forecast period 2021-2026. there has been a definite impact of the covid 19 outbreak on the overall sector, In-restaurant dining is the worst hit segment due to this impact. for instant, HerfyFood service company, which the most of their revenue (84%) come from their restaurant’s. reported a 16.4% drop in its revenue from the year 2019- 2020.

However, the increasing demand for home delivery and foodservice providers is expected to drive the market’s growth. The food industry is low sensitivity to the business cycles for example, falling oil prices haven’t hit the industry as hard as other industries, but the high operating leverage due to the Saudization continues might be challenging the restaurant’s industry.

The full-service restaurant segment accounted for the major share in the market, owning to the strong presence of the millennial population, the growing tourism and entertainment industries, large population with high disposable income will shift the demand to increase. Considering all these stat makes it imperative to realize the potential of exponential growth in the Saudi food industry leading to evident success and proving to be a gateway to success while spreading out throughout the region.

**Common size statement & Analysis**

**Income statement:**

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Through our observation the gross profit in last year was the lowest gross profit in last 5 years because the cost of goods sold become higher in last year then 2019,2018,2017,2016 that affected negatively to the net income which is decreasing through last 5 years Also the operating become 7.90% in last year which the lower in last five year.

**Balance sheet:**

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Through our observation the total current asset became lower in the last 2 year which is 2019 and 2020 than 2016,2017 And 2018, Also the total liabilities became higher in last 2 year than 2016,2017 and 2018.

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**Cash flow statement:**

Through our observation the net operation cash flow become 0.02% in last year which is the lower in last five year and the net investing cash flow become -2.83% in last year. The net change in cash become higher in last year than 2019,2018,2017 and 2016, Also the cash at end of year was almost zero.

**Ratio Analysis**

Ratio analysis compares line-item data from a company's financial statements to reveal insights regarding profitability, liquidity, operational efficiency, and solvency. Ratio analysis can mark how a company is performing over time, while comparing a company to another within the same industry or sector.

**Liquidity ratios:** Determine a company's ability to convert assets into cash at short notice to cover short-term obligations and cash flows.

Given the structure of the ratio, with assets on top and liabilities on the bottom, ratios above 1.0 are sought after. A ratio of 1 means that a company can exactly pay off all its current liabilities with its current assets. A ratio of less than 1 (e.g., 0.75) would imply that a company is not able to satisfy its current liabilities.

And Herfy calculated ratios is less that 1 so that imply that the company is not able to satisfy its current liabilities.

**Asset management ratios**: Indicate how successfully a company is utilizing its assets to generate revenues. Analysis of asset management ratios tells how efficiently and effectively a company is using its assets in the generation of revenues. They indicate the ability of a company to translate its assets into the sales.

**Debt Management Ratios**: Measure the firm's ability to repay long-term debt. It is a financial ratio that indicates the percentage of a company's assets that are provided via debt.

Lenders start to worry if their customer's company balance sheet shows a calculated current ratio below 1. As Herfy calculated ratios shows, this means there are not enough current assets to cover the payments that are due on the company's current liabilities.

**Profitability Ratios:** Assess a company's ability to earn profits from its sales or operations, balance sheet assets, or shareholders' equity. Profitability ratios indicate how efficiently a company generates profit and value for shareholders.

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**Forecasting &Valuation**

The Relative Valuation Models:

P/E = 33.02

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The price earnings ratio, also known as P/E ratio, or PER, is the ratio of the company's earning per share. The ratio used for valuing companies and to find out whether they are overvalued or undervalued.2

P/BV = 4.35

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The price-to-book ratio, or P/B ratio, is a financial ratio used to compare a company's current market value to its book value. The calculation can be performed in two ways, but the result should be the same.

We assume that the sale will grow 6% annually. While the gross profit will grow with average of 3.7% annually.

These assumptions assumed to predict the future of the company sales and its activities and to determine how the cost of goods sold would be in the future.

Then we calculate the DCF by this formula

Diagram

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While the discount rate we used is the WACC for the company.

Based in our forecasting financial statements for the next 5 years we compared with two different valuation models we found that the company has high expected price for its shares in the future and it will success to attract investors. The FCF will grow over the five years and we expect the WACC will maintain a constant rate which they will leads the company to growing.