COVER PAGE AND DECLARATION

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Financial Analysis

HERFY Food Services Company

Date Issued

October,2021

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1.a) Legal Status and Operations

HERFY Food Services Company ("the Company") is a Saudi Joint Stock Company formed under the laws of the Kingdom of Saud Arabia and registered under the commercial register. The main core of the company is establishing and operating restaurants, providing companies and others with cooked meals, production and sale of bakery and pastry products, the sale and purchase of lands for the purpose of constructing building and on use, maintaining and leases stores and food stores fridges. As at December 2020, the total number of restaurants owned and leased by the company are 40 and 348 respectively, operating in the Kingdom of Saudi Arabia under the trademark of "HERFY". The company also operates bakeries and bakery shops "Herfy Bakeries / Doka".

1.b) Financial Statement for Y17, Y18, Y19 & Y20

(2017 & 2018)

Balance Sheet

Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement of Financial Position
As at 31 December 2018
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	31 December 2018	31 December 2017
Assets			
Non-Current Assets			
Property, Plant and Equipment	(5)	1 059 855 196	1 043 330 764
Intangible Assets	(6)	10 223 424	11 339 906
Investment Property	(7)	33 178 001	30 612 722
		1 103 256 621	1 085 283 392
Current Assets			
Inventories	(8)	115 372 732	126 846 007
Trade Receivables and Other Receivables	(9)	175 859 893	165 283 215
Investements at Fair Value through profit and	(10)	30 887 603	559 691
Cash and Bank Balances	(11)	17 023 147	12 704 582
		339 143 375	305 393 495
TOTAL ASSETS		1 442 399 996	1 390 676 887
EQUITY AND LIABILITIES			
EQUITY			
Share Capital	(12)	646 800 000	646 800 000
Statutory Reserve		59 389 111	38 972 160
Retained Earnings		226 678 377	181 043 046
TOTAL EQUITY		932 867 488	866 815 206
Liabilities			
Non-Current Liabilities			
Long Term Borrowings	(13)	145 348 723	192 528 307
Employee Benefits	(14)	65 527 657	62 453 017
		210 876 380	254 981 324
Current Liabilities			
Current Portion of LongTerm Borrowings	(13)	100 002 605	137 281 964
Trade and Other Payables	(15)	188 939 705	123 201 354
Zakat	(16)	9 713 818	8 397 038
TOTAL LIABILITIES		298 656 128	268 880 356
		509 532 508	523 861 681
TOTAL EQUITY AND LIABILITIES		1 442 399 996	1 390 676 887

The accompanying notes (1) to (31) form an integral part of these financial statements

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(2017 & 2018)

Income Statement

Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement Of Profit Or Loss and Other comprehensive income
For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	2018	2017
Revenue		1 227 269 910	1 157 792 995
Cost of Revenue	(17)	(882 199 546)	(816 047 711)
Gross Profit		**345 070 364**	**341 745 284**
Other Revenue (net)	(18)	11 713 768	11 334 283
Selling and Distribution Expenses	(19)	(61 110 835)	(64 597 664)
General and Administration Expenses	(20)	(75 072 947)	(73 163 916)
Operating Profit		**220 600 350**	**215 317 987**
Finance Cost	(21)	(12 765 416)	(11 775 847)
Profit before zakat		**207 834 934**	**203 542 140**
Zakat	(16)	(3 665 425)	(3 500 000)
Profit for the year		**204 169 509**	**200 042 140**
Other Comprehensive Income			
Items that will not be classified to profit or loss			
Remeasurement of defined Benefit liabilities	(14)	(439 227)	(155 869)
Total Other Comprehensive Income for the year		**(439 227)**	**(155 869)**
Total Comprehensive Income for the year		**203 730 282**	**199 886 271**
Earnings per Share (SAR), based on Profit for the year	(22)		
- Basic		**3.16**	**3.09**
- Diluted		**3.16**	**3.09**

The accompanying notes (1) to (31) form an integral part of these financial statements

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(2017 & 2018)

Cash Flow Statement

Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement Of Cash Flows
For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Unless Otherwise Stated)

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2018	2017
Profit for the period		204 169 509	200 042 140
Depreciation and Amortization		78 735 805	69 556 575
Provision for Employee Benefits	(14)	12 508 997	12 079 267
Provision of Bad debt	(9)	-	1 500 000
(Gain) on sale of property, plant and equipment	(12)	(773 171)	1 068 512
Financial charges		12 765 416	11 775 847
Zakat	(11)	3 665 425	3 500 000
		311 071 981	**299 522 341**
Changes in			
Inventories	(8)	11 473 275	(25 083 973)
Trade, Other Receivables and Prepayments	(9)	(10 576 679)	(39 828 004)
Trade and Other Payables	(15)	65 738 351	14 429 523
Cash Used in Operating Activities		**377 706 928**	**249 039 887**
Employee Benefits Paid	(14)	(9 873 584)	(9 057 746)
Zakat payments	(16)	(2 348 645)	(2 050 184)
Net Cash Generated from Operating Activities		**365 484 699**	**237 931 957**
CASH FLOWS FROM I NVESTING ACTIVITIES			
Additions to Property, Plant and Equipment		(97 613 557)	(114 117 853)
Proceeds from sale from property, plant and equipment		1 804 152	252 568
Investements at Fair Value through profit and loss		(30 327 912)	(559 691)
Net Cash Used in Investing Activities		**(126 137 317)**	**(114 424 976)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Loans	(13)	39 199 508	109 996 812
Repayment of loans and borrowings	(13)	(136 550 325)	(158 245 010)
Dividends distributed		(137 678 000)	(135 780 000)
Net cash flows from / (used in) financing activities		**(235 028 817)**	**(184 028 198)**
Net increase / (decrease) in cash and cash equivalents		**4 318 565**	**(60 521 217)**
Cash and Cash Equivalents at 01January	(11)	12 704 582	73 225 799
Cash and Cash Equivalents at 31 December	(11)	**17 023 147**	**12 704 582**

The accompanying notes (1) to (31) form an integral part of these financial statements

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(2019)

Balance Sheet

Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement of Financial Position as at 31 December 2019
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	31 December 2019	31 December 2018
Assets			
Non-Current Assets			
Property, Plant and Equipment	(5)	1,043,497,337	1,059,855,196
Right of Use Assets	(6-1)	582,864,247	-
Net Investment in finance lease	(7)	10,928,911	-
Intangible Assets	(8)	15,442,588	10,223,424
Investment Property	(9)	29,880,890	33,178,001
		1,682,613,973	**1,103,256,621**
Current Assets			
Inventories	(10)	156,765,511	115,372,732
Trade Receivables and Other Receivables	(11)	140,090,168	175,859,893
Net Investment in finance lease	(7)	1,534,095	-
Investements at Fair Value through profit and loss	(12)	26,515,939	30,887,603
Cash and Bank Balances	(13)	25,943,078	17,023,147
		350,848,791	**339,143,375**
TOTAL ASSETS		**2,033,462,764**	**1,442,399,996**
EQUITY AND LIABILITIES			
EQUITY			
Share Capital	(14)	646,800,000	646,800,000
Statutory Reserve		80,498,899	59,389,111
Retained Earnings		270,687,385	226,678,377
TOTAL EQUITY		**997,986,284**	**932,867,488**
Liabilities			
Non-Current Liabilities			
Long Term Borrowings	(15)	57,493,089	145,348,723
Lease Laibilities	(6-2)	496,966,719	-
Employee Benefits	(16)	72,900,362	65,527,657
		627,360,170	**210,876,380**
Current Liabilities			
Current Portion of LongTerm Borrowings	(15)	137,810,657	100,002,605
Lease Laibilities	(6-2)	82,361,166	-
Trade and Other Payables	(17)	174,277,036	188,939,705
Zakat	(18)	13,667,451	9,713,818
		408,116,310	**298,656,128**
TOTAL LIABILITIES		**1,035,476,480**	**509,532,508**
TOTAL EQUITY AND LIABILITIES		**2,033,462,764**	**1,442,399,996**

The accompanying notes (1) to (32) form an integral part of these financial statements

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(2019)

Income Statement

Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement Of Profit Or Loss and Other comprehensive income For The Year Ended 31 December 2019
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	2019	2018
Revenue		1,288,310,097	1,227,269,910
Cost of Revenue	(19)	(895,673,109)	(882,199,546)
Gross Profit		392,636,988	345,070,364
Other Revenue (net)	(20)	16,866,631	11,713,768
Selling and Distribution Expenses	(21)	(87,572,897)	(61,110,835)
General and Administration Expenses	(22)	(83,476,299)	(75,072,947)
Operating Profit		238,454,423	220,600,350
Finance Cost	(23)	(37,309,083)	(12,765,416)
Profit before zakat		201,145,340	207,834,934
Zakat	(18)	(5,057,700)	(3,665,425)
Profit for the year		196,087,640	204,169,509
Other Comprehensive Income			
Items that will not be classified to profit or loss			
Remeasurement of defined Benefit liabilities	(16)	(335,883)	(439,227)
Total Other Comprehensive Income for the year		(335,883)	(439,227)
Total Comprehensive Income for the year		195,751,757	203,730,282
Earnings per Share (SAR). based on Profit for the year	(24)		
- Basic		3.03	3.16
- Diluted		3.03	3.16

The accompanying notes (1) to (32) form an integral part of these financial statements

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(2019)

Cash Flow Statement

Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement Of Cash Flows For The Year Ended 31 December 2019
(All Amounts In Saudi Riyals Unless Otherwise Stated)

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2019	2018
Profit for the period		196,087,640	204,169,509
Depreciation and Amortization		87,512,537	78,735,805
Provision for Employee Benefits	(16)	11,246,520	12,508,997
Provision of Bad debt	(11)	2,000,000	-
(Gain) on sale of property, plant and equipment	(5)	(1,496,618)	(773,171)
Financial charges	(23)	8,119,829	12,765,416
Zakat	(18)	5,057,700	3,665,425
		308,527,608	311,071,981
Changes in			
Inventories	(10)	(41,392,779)	11,473,275
Trade, Other Receivables and Prepayments	(11)	33,769,723	(10,576,679)
Right of Use Assets	(6)	(3,536,362)	-
Trade and Other Payables	(17)	(14,662,669)	65,738,351
Cash Used in Operating Activities		282,705,521	377,706,928
Employee Benefits Paid	(16)	(4,209,698)	(9,873,584)
Zakat payments	(18)	(1,104,067)	(2,348,645)
Net Cash Generated from Operating Activities		277,391,756	365,484,699
CASH FLOWS FROM I NVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	(5)	(76,222,560)	(97,613,557)
Additions to Investment Properties	(9)	(877,711)	-
Net Investment in finance lease	(7)	(12,463,006)	-
Proceeds from sale from property, plant and equipment	(5)	5,520,157	1,804,152
Investements at Fair Value through profit and loss	(12)	4,371,664	(30,327,912)
Net Cash Used in Investing Activities		(79,671,456)	(126,137,317)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Loans	(15)	112,713,970	39,199,508
Repayment of loans and borrowings	(15)	(170,881,378)	(136,550,325)
Adjustment for the Right of Use Assets		6,928,369	-
Dividends distributed		(137,561,330)	(137,678,000)
Net cash flows from / (used in) financing activities		(188,800,369)	(235,028,817)
Net increase / (decrease) in cash and cash equivalents		8,919,931	4,318,565
Cash and Cash Equivalents at 01January	(13)	17,023,147	12,704,582
Cash and Cash Equivalents at 31 December	(13)	25,943,078	17,023,147

The accompanying notes (1) to (32) form an integral part of these financial statements

(2020)

Balance Sheet

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December 2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	**999,147,629**	1,043,497,337
Right-of-use assets	7.1	**536,621,492**	582,864,247
Net investment in finance lease	8	**8,252,527**	10,928,911
Intangible assets	9	**11,075,199**	15,442,588
Investment properties	10	**26,676,726**	29,880,890
		1,581,773,573	1,682,613,973
Current assets			
Inventories	11	**104,944,226**	156,765,511
Trade, other receivables and prepayments	12	**137,952,417**	134,471,185
Net investment in finance lease – current portion	8	**2,685,880**	1,534,095
Investment carried at FVTPL	13	**2,791,364**	26,515,939
Cash and cash equivalents	14	**118,930,514**	25,943,078
		367,304,401	345,229,808
TOTAL ASSETS		**1,949,077,974**	2,027,843,781
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15	**646,800,000**	646,800,000
Statutory reserve	16	**85,782,785**	80,498,899
Retained earnings		**226,812,051**	270,687,385
TOTAL EQUITY		**959,394,836**	997,986,284
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	**36,780,108**	57,493,089
Lease liabilities	7.2	**457,385,932**	496,966,719
Employees' post-employment benefits	18	**93,527,855**	72,900,362
		587,693,895	627,360,170
Current liabilities			
Long-term borrowings – current portion	17	**24,317,472**	67,810,657
Lease liabilities – current portion	7.2	**92,517,463**	82,361,166
Short-term borrowing	19	**100,278,955**	70,000,000
Trade and other payables	20	**171,207,902**	168,658,053
Provision for zakat	21.1	**13,667,451**	13,667,451
		401,989,243	402,497,327
TOTAL LIABILITIES		**989,683,138**	1,029,857,497
TOTAL EQUITY AND LIABILITIES		**1,949,077,974**	2,027,843,781
Contingencies and Commitments	22		

The accompanying notes 1 to 36 form part of these financial statements

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(2020)

Income Statement

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2020	2019
Revenue	23	**1,076,083,334**	1,288,310,097
Cost of revenue	24	**(826,494,361)**	(895,673,109)
GROSS PROFIT		**249,588,973**	392,636,988
Other income, net	25	**23,936,094**	16,787,419
Realized gain on investments carried at FVTPL	13	**802,888**	576,805
Unrealized gain on investments carried at FVTPL	13	**195,942**	51,531
Provision for impairment on net investment in finance lease	8	**(1,116,707)**	-
Provision for impairment on trade and other receivables	12.5	**(11,296,189)**	(2,000,000)
Selling and distribution expenses	26	**(84,003,368)**	(85,572,897)
General and administrative expenses	27	**(86,776,599)**	(83,476,299)
OPERATING PROFIT		**91,331,034**	239,003,547
Finance cost	28	**(33,132,376)**	(37,858,207)
NET PROFIT BEFORE ZAKAT		**58,198,658**	201,145,340
Zakat	21.1	**(5,359,797)**	(5,057,700)
NET PROFIT FOR THE YEAR		**52,838,861**	196,087,640
Earnings per share (SR)	29		
-Basic		**0.82**	3.03
-Diluted		**0.82**	3.03

The accompanying notes 1 to 36 form part of these financial statements

(2020)

Cash Flow Statement

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2020	2019 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat		**58,198,658**	201,145,340
Adjustments for:			
Depreciation on property, plant and equipment	6	**92,583,622**	80,834,632
Depreciation on right-of-use assets	7	**73,586,464**	76,978,699
Amortization of intangible assets	9	**2,893,819**	2,503,083
Depreciation on investment property	10	**3,515,137**	4,174,822
Provision for slow-moving items	11.1	**14,684,582**	-
Provision for impairment on trade and other receivables	12.5	**11,296,189**	2,000,000
Provision for impairment on net investment in finance lease	8	**1,116,707**	-
Provision for impairment on intangible assets	9	**3,627,242**	-
Provision for impairment on property, plant and equipment	6	**3,275,633**	-
Provision for employees' post-employment benefits	18	**10,163,940**	11,246,520
Unrealized gain on investments carried at FVTPL, net	13	**(195,942)**	(51,531)
Realized gain on investments carried at FVTPL	13.1	**(802,888)**	(576,805)
Loss / (gain) on disposal of property, plant and equipment	25	**1,905,285**	(1,496,618)
Interest income	8	**(323,398)**	(549,124)
Finance cost	28	**33,132,376**	37,858,207
Movement in working capital			
Inventories		**37,136,703**	(41,392,779)
Trade, other receivables and prepayments		**(11,325,517)**	46,317,077
Trade and other payables		**(4,077,937)**	(20,281,652)
Cash generated from operating activities		**330,390,675**	398,709,871
Zakat paid	21.1	**(5,359,797)**	(1,104,067)
Employees' post-employment benefits paid	18.2	**(4,042,874)**	(4,209,698)
Net cash generated from operating activities		**320,988,004**	393,396,106
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	**(54,766,631)**	(68,500,312)
Purchase of intangible assets	9	**(2,153,672)**	(7,722,247)
Purchase of investment property	10	**(310,973)**	(877,711)
Purchase of investments carried at FVTPL	13.1	**(195,000,000)**	(235,000,000)
Sale proceeds of investments carried at FVTPL	13.1	**220,000,000**	240,000,000
Purchase of equity investment carried at FVTPL	13.2	**(276,595)**	-
Lease rental received	8	**731,290**	1,852,500
Proceeds from the sale of property, plant and equipment		**1,351,799**	5,520,157
Net cash used in investing activities		**(30,424,782)**	(64,727,613)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings		-	42,713,970
Repayment of long-term borrowings		**(67,404,264)**	(170,881,381)
Movement in short-term borrowings, net		**28,227,408**	70,000,000
Lease liabilities paid	7.2	**(84,650,930)**	(124,019,821)
Board of directors' remuneration paid	5	**(2,600,000)**	(1,733,330)
Dividend paid	34	**(71,148,000)**	(135,828,000)
Net cash used in financing activities		**(197,575,786)**	(319,748,562)
Net change in cash and cash equivalents		**92,987,436**	8,919,931
Cash and cash equivalents at beginning of the year	14	**25,943,078**	17,023,147
Cash and cash equivalents at end of the year	14	**118,930,514**	25,943,078

The accompanying notes 1 to 36 form part of these financial statements

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2) FINANCIAL ANALYSIS

Hereunder we are going to analysis the Company Sales Turnover:

SALES TURNOVER "Value versus volume analysis":

The sales progress is the main success driver of any business, but we must distinguish between two types of growth:

- Value Analysis (nominal)
- Volume Analysis (real)

Value Analysis "Nominal":

In the "Value Analysis" we determine the increase / decrease that took place in sales from value reflected in the "Income Statement", but it does not reflect the increase or decrease that took place in the company's market share (real growth).

Volume Analysis "Real":

In the "Volume Analysis" we trace the change that took place in the real volume sold from the perspective of increment or decrement, to reflect the penetration rate of the company's products in the market.

Back to the company sales performance in year 2017, year 2018, & year 2019 we have concluded the followings:

- Sales had recorded an increase of 6% in year 2018 compared to year 2017 and recorded an increase of 5% in year 2019 compare to year 2018.
- In year 2020 the sales recorded a dramatic decline of almost 17% compared to year 2019 and this occurred due to some reasons besides COVID-19 outbreak which declared by the World Health Organization ("WHO") on 11 March 2020 as a pandemic in recognition of its rapid spread across the globe many reasons will be

discussed in this analysis. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to restrain the virus. Saudi Arabia has implemented closure of borders, released social distancing guidelines, and enforced countrywide lockdowns and curfews.

1.a) Profitability Analysis

Profitability Ratios Analysis	**2020**	**2019**	**2018**	**2017**
Gross Profit Margin	23.19%	30.48%	28.12%	29.52%
EBIT Margin	7.04%	22.46%	23.56%	24.94%
Net Profit Margin	4.91%	15.22%	16.64%	17.28%
Return on Assets (ROA)	2.65%	11.28%	14.41%	14.64%
Return on Equity (ROE)	5.40%	20.31%	22.69%	23.96%

The above ratios show how profitable the company is since the ratios of revenue, profitability and cash flow were reasonable and encouraging. However, the numbers dropped down dramatically in Y20 because of the liabilities incurred due to the investment in the finance lease.

Gross Profit: The company gross profit has recorded an increase in the three consequent years Y17, Y18 & Y19. So, we can find that it recorded an increase of almost 14% in Y19 versus Y18 where it reaches almost SR392 million versus SR345 million. This was because the 5% increase in revenues took place in Y19 compared to Y18 and due to the decrease took place in cost of goods sold "COGS" which represents (69% of sales) in Y19 versus (71% of sales) in Y18.

Gross Profit Margin: The company gross profit margin was fluctuating around the same ratios in the consequent three years of Y17, Y18 & Y19 and the percentages indicate that the business is profitable enough and show how the executive teams well manage the company assets and generate revenues providing a confident to the shareholders that their investment is in the right place.

Operating Profit: Although The company has recorded an increase in Operating profit for SAR 238 million compared to SR 220 million, the SG&A expenses has recorded a jump to reach SR 171 million in Y19 versus SR 136 million in Y18 (25% increase), the matter that need to be revised by the top management, where this huge increase hasn't considerable effect in the sales records (Sales increase by only 5%). Even this value continued to increase in Y20 however the selling dropped down by 17% compared to Y19.

Recommendations

- Focus on increasing the Sales volume.
- Revise the Pricing Policy.
- Revise SG&A Expenses.

1.b) Efficiency analysis

Hereunder we will test how efficient is getting the maximum of the company fixed assets.

	2020	2019	2018	2017
Return on Assets (ROA)	2.65%	11.28%	14.41%	14.64%
Return on Equity (ROE)	5.40%	20.31%	22.69%	23.96%

1. Although “Total Assets Turnover” record a decrease over the years due to the significant increase took place in the fixed assets in Y19 & Y20, this turnover I believe it represents a satisfactory one however it was not satisfactory at all in Y20, and this was because the dropped happened in the net income due to the current liabilities the company incurred due to the investment in finance lease.
2. Equity Turnover was satisfactory in the consequent years 2017, 2018 & 2019, it is usually around 21%. However, this value was not satisfactory at all in Y20 which dropped dramatically to 5% due to the dropped happened in the net income.

1.c) Short Term Solvency Analysis

Hereunder we are going to test the Company ability to liquidity status and its potential to manage day to day operations dues, this will take place from two perspectives:

a. Liquidity Ratios

b. Cash Conversion Cycle

1.c.a) Liquidity ratios

Liquidity Ratios Analysis	2020	2019	2018	2017
Working Capital	-34,684,842	-57,267,519	40,487,247	36,513,139
Current Ratio	0.91	0.86	1.14	1.14
Quick Ratio	0.65	0.48	0.75	0.66

From the above table we conclude that the Company was struggling with liquidity where "Current & Quick" ratios decreaseY-o-Y bases and not within the norm ratios; The matter that was directly reflects in badly affecting the working capital.

Even the working capital was negative over the years of Y19 & Y20, This can happen if a company's current assets substantially decrease as a consequence of large one-time cash payments, or current liabilities increase due to significant credit extension resulting in a strike in the payable accounts which is the case here. The company loaded with extra liabilities due to the decision of investing in finance lease investment. The inadequate working capital might influence the effectiveness of the company long term investment and its financial stability to cover the short term-liabilities since the working capital points out to the immediate operational needs which the company must finance.

1.c.b) Conversion Cash Cycle

Activity Ratio Analysis	2020	2019	2018	2017
Inventory Turnover	6.32	6.58	7.28	7.14
Days Inventory Outstanding (DIO)	57.79	55.45	50.11	51.13
Account Receivable Turnover	7.74	8.16	7.20	7.92
Days Sales Outstanding (DSO)	47.16	44.76	50.73	46.06
Account Payable Turnover	4.78	4.93	5.65	7.04
Days Payable Outstanding (DPO)	76.29	74.01	64.57	51.88
Cash Conversion Cycle (CCC)	65.65	63.31	65.19	46.82

From the above table we can observe that the company has a reasonable cash conversion cycle comparing to market standard:

1. Inventory Turnover record almost 7x per year.
2. Days Payable Outstanding is 60 in average days comparing to the Days sales outstanding which is 50 days in average.

However, on the other side the company must focus on the following to cover the CCC or to reduce it as possible:

1. Use the negotiation power to increase days payable outstanding by negotiating with the suppliers for longer credit periods.
2. Enhance the production process to reduce the days inventory outstanding.
3. Expedite the receivable collections by setting credit limits and by monitoring outstanding receivables on a persistent foundation.

To emphasize that although the Company doesn't enjoy a satisfactory liquidity ratio that resulted mainly from the extra burden of current liabilities, we must take a look on the "Cash Flow Statement" where we can find the following:

Cash Flow	2020	2019	2018	2017
Cash Flow from Operating Activities	320,988,004	277,391,756	365,484,699	237,931,957
Cash Flow used in Investing Activities	-30,424,782	-79,671,456	-126,137,317	-114,424,976
Cash Flow used in Financing Activities	-197,575,786	-188,800,369	-235,028,817	-184,028,198

Throughout Y17, Y18, Y19 & Y20 cash generated from operating activities (the Company core business) recorded with a positive increasing value YoY, that matter means that core business can finance itself however the main source of finance is through utilizing banks credit facilities.

This positive numbers give a good indicator to

- The Company creditors (e.g.: banks) where it may represent facilities for the company if it needs to increase Banks working capital facilities & especially if the company need a long-term financing to be utilized in the Company expansions plans
- New Investors "Cash is the King" the matter that may lead to increase company's value and attract new investors.

Recommendations

- Focus on reducing the current liabilities.
- Reevaluate the benefits from the finance lease investment.

1.d) Long Term Solvency Analysis

Hereunder we are going to test the methods of financing and to measure its competency in covering financial obligations. There are several different ratios, but the key factors we will look at include debt, equity, and assets.

Solvency Ratios Analysis	2020	2019	2018	2017
Debt to Assets Ratio	0.51	0.51	0.35	0.38
Debt to Equity Ration	1.03	1.04	0.55	0.60
Interest Coverage Ratio	1.76	5.39	16.28	17.28
Total Debt to Equity	6.37%	19.57%	26.30%	38.05%
Total Debt to Total Assets	3.13%	9.60%	17.01%	23.72%

From the above table we can conclude that:

- The Company capital structure was improving throughout the period under review, where it was depending on Loans from banks and return on investment in lease finance investing to finance the company's operations.
- The (Total debt/Equity) was reducing over the years since the company significantly reduced the taken loans from banks and started an investment in finance lease, the matter that decreased the credit risk of a company and should give confident to its creditors that the Company shareholders is very committed to their business.
- Time Interest Coverage was satisfactory all over the years in the study.
- The Company EBIT (Earnings before Interest & Taxes) was in a good position to settle the financing costs of operations, the matter that should give a positive indicator to the Company financial creditors (Banks, leasing companies).

Recommendations

Again, the Company must reevaluate or adjust the investment in finance lease to reduce the burden on the current liabilities and start to increase the net margin to the standard norm, since this investment affected the net income negatively during Y20.

1.e) Market Based Ratios Analysis

Hereunder we are going to analyze the market value ratios which are utilized to appraise the present share price.

	2020	2019	2018	2017
Number of Shares	64,680,000	64,680,000	64,680,000	64,680,000
Earnings per Share	0.82	3.03	3.16	3.09
Dividends Per Share	1.10	2.13	2.13	2.10
Total Dividends	71,148,000	137,561,330	137,678,000	135,780,000

The above numbers show that the company's policy is paying dividends in yearly basis as a part of the net income and the balance it keeps it as retained earnings. the dividends are crucial for investors because they afford confidence about the company's financial prosperity. Usually, entities that have reliable paid profits are mostly reliable companies over the previous decades. The conclusion. A company that settles the profits is a center of attention for investors and generate attraction for its stocks.

2. Recommendations for Improving Company Business

The company figures during the years of study were satisfactory, they were keeping the same ratios and the same progress almost all over the years. From the statements it seems that the company policy is to maintain an efficient capital base to maintain investors, creditors, and market confidence and to sustain the future development of its business. So, it can continue to provide adequate returns for shareholders. In addition, we can clearly see that the COGS is almost around 70% of the revenues through the consequent years Y17, Y18 & Y19, for the same years we can see that the net margin is around 16% of the revenues. Additionally, the operating profit was always positive within those years which means the business can cover its expenses. However, their investment in finance lease incurred the company extra liabilities which negatively affected the operating profit and hence the net profit which consequently affected the earning per share. Concurrently, the company reduced the dependency on loans from banks however the finance cost strike to reach its maximum value, it was almost double the value in Y17 & Y18. So, my recommendations are:

- They must look for another investment to increase their net income.
- They must review their S, G&A expenses since in the last two years since this value increased without the respective reflection on revenues.
- They must recheck their pricing policy since in 2020 the COGS increased without reflecting the same on the selling.
- They must pay a great attention to the negative Working capital in the consequent years 2019 & 2020 which put the company in a great risk since this is an indication that the company doesn't have the sufficient finance to cover its immediate operational needs, this mainly happened because the Company induces an enormous cash expenses (current

liabilities increased due to significant credit extension resulting in additional accounts payable). So, they must restudy the effect of the finance lease investment which is the main reason behind these negative values and figure out the possible ways to compensate this loss, because this can affect the company's main core business in the long run and its financial robustness in meeting the short-term liabilities.

3. <u>Recommended Investment Project for the Company</u>

3.1 Project Introduction

Based on the company core business, which is providing companies and others with cooked meals, we recommend constructing a Poultry & Cattle project to provide their branches and their meat factory with their needs from the meat products either chicken meat or buffalo meat. This project besides providing additional investment it can reduce the COGS for their main business which will reflect positively in increasing the net income and reducing the effect of extra liabilities incurred due to the investing in finance lease.

3.a) Used Investment Tools

We will use in our calculation the NPV and WACC since they are linked because often NPV is calculated by using WACC as the discount factor. The net present value (NPV) of an investment project is the present (discounted) value of the project's net cash flows less the project's (usually) initial cash outflow. The weighted average cost of capital (WACC) is the used ration by a company to decrease the cash flow in NPV estimations at the company level. NPV & WACC are reversely related, the maximum WACC the minimum NPV is and vice versa.

3.2 Project Details

The project initial investment is 150,000,000 SR with a required working capital of 40,000,000 SR. We will a consider a simplified straight-line depreciation over 6 years and the average estimated salvage value based on the market and the status of the equipment at year 6 will be 70,000,000 SR. The marginal Tax rate in Saudi Arabia is 20%, the risk-free rate in Saudi Arabia is 7% and the Bond Risk Premium of Saudi Arabia is 6%. The expected revenue from this is project is 80,000,000 SR per year and the projected cost of revenue is 41,600,000 SR.

3.2.b) Capital Structure

From the statements of this company, they are always keeping retained earnings to a certain benchmark and the balance of the net profit of each year they pay it as dividends to the shareholders.

The required capital is 190,000,000 SR will be raised as following:

- 140,000,000 as a loan from banks.
- 50,000,000 from the Retained Earnings.

3.2.c) Calculations

- Annual Average Depreciation= 25,000,000 SR
- Average Salvage Value at year 6 = 70,000,000 SR
- Tax on gain= 70,000,000 * 20% = 14,000,000 SR
- Net Salvage Value= 56,000,000 SR

3.2.d) WACC Calculations

O/E “Retained Earnings” = 50,000,0000 SR

RRR=Rf + Bond Risk Premium = 7% + 6% = 13%

Debt= 140,000,000 SR

Debt rate “Rd” = 7%

Rd after tax= 7% * (1-20%) = 5.6%

WACC= (50,000,000 x 13%) + (140,000,000 x 5.6%) = 14,340,000

WACC = (14,340,000 / 190,000,000) = 7.55%

WACC Calculations

	Y0	Y1	Y2	Y3	Y4	Y5	Y6
Investment Cost	-150,000,000						
WC	-40,000,000						
Revenues		80,000,000	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000
COGS		-41,600,000	-41,600,000	-41,600,000	-41,600,000	-41,600,000	-41,600,000
Depreciation		-25,000,000	-25,000,000	-25,000,000	-25,000,000	-25,000,000	-25,000,000
EBT		13,400,000	13,400,000	13,400,000	13,400,000	13,400,000	13,400,000
Tax (20%)		-2,680,000	-2,680,000	-2,680,000	-2,680,000	-2,680,000	-2,680,000
Net Income = EAT		10,720,000	10,720,000	10,720,000	10,720,000	10,720,000	10,720,000
Depreciation		25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Operating Cash Flow		35,720,000	35,720,000	35,720,000	35,720,000	35,720,000	35,720,000
NWC Recovery							40,000,000
Net Salvage Value							56,000,000
Total	-190,000,000	35,720,000	35,720,000	35,720,000	35,720,000	35,720,000	131,720,000

3.2.e) NPV Calculations

	CF	PVIF	PVCF
Y0	-190,000,000	1	-190,000,000
Y1	35,720,000	0.929800093	33,212,459
Y2	35,720,000	0.864528213	30,880,948
Y3	35,720,000	0.803838413	28,713,108
Y4	35,720,000	0.747409031	26,697,451
Y5	35,720,000	0.694940986	24,823,292
Y6	131,720,000	0.646156194	85,111,694
NPV			39,438,952

We can say that this project will be appealing as a consequence for the positive values presented above for the NPV.

3.b) Why the company should use the retained earnings not its own cash

Retained earnings are the profits or part of them which reserved for reinvestment in the company rather than distributed as dividends, however this company uses the Hybrid approach in dividends policy which combines between the residual and stable dividend policies which furnish confidence for the company's financial well-being. Above on that It's a cheap source of money, as unlike loans, there are no interest payments or fees. No one can deny the flexibility and the short process of utilizing the retained earnings if we compare it to the process of taking loans from creditors.

Retaining earnings can increase your future earnings. You're spending to gain a profit for your company, and unlike a loan, you won't have interest payments eating into your future profits. On the other side, if you issue more shares to raise money, that action dilutes the current owners' equity. With more shareholders, of course there will be a challenge to pay dividends rather than reinvesting in this money in other profitable projects.

4. Company's Return Earnings

It is well known that the company with reasonable retained earnings most likely to have a profound position which support it to acquire new assets, grow its business or pay more dividends to its shareholders. The earnings can be dividend fully or partially among the shareholders as dividends or reinvested in growing the core business, hiring more sales representatives, launch a new product, or it can be used to repay any outstanding liabilities.

No one can deny that the company which reinvests funds (rather than paying them out as dividends) will increase the value of the company in the long-term and, as a result, increase the market value of the stock. So, the other options to avoid paying surplus money as dividends are:

- Undertaking more projects.
- Repurchasing the own stocks of the company.
- Acquiring gainful assets and new firms.
- Reinvesting in variety of successful assets.

But on the other side a reasonable dividends are attractive for investors, since they will find a gain on their investment on the short term as well as the profit they will gain on the long term on their shares due to utilizing the rest retained earnings in growing the company business.

In my opinion I suggest the company to pay part of the net income as dividends and the balance to keep it as a retained earning following the Hybrid approach which combines the residual and stable dividend policies. The hybrid is a popular approach for companies that pay dividends. Companies that use the hybrid approach establish a set dividend, which represents a relatively small portion of yearly income and can be easily maintained. Additionally, companies can offer an extra dividend paid only when income exceeds certain benchmarks.

5. Conclusion

At the end we can say that the financial position of the company over the years of this analysis is satisfactory since the gross profit, operating profit, and the net profit on the optimistic side. Also, the company has a good amount or retained earnings and continually each year keen to pay dividends which make the company attractive to the investors. However, it should pay a great attention to the new investment which it is involved in which present a great burden on their current labilities and significantly reduce the net income in Y20 and caused in negative working capital in Y19 & Y20. This risk should be taken seriously and figure out the reasonable solutions to mitigate this risk

6. Resources

- Financial Management for Small Businesses, Financial statements & Present value Models. Second edition. Lindon J. Robinson, Steven D. Hanson a& J. Roy Black. 2021
- Financial Management. C. Paramasivan & T.Subramanian.
- Analysis of Financial Statements. Prof.Dr. Saoud Chayed, Muthanna University. First Edition 2020.
- WWW.Saudiexchange.sa
- WWW.Investopedia.com
- Aswath Damodaran Country Risk Premium