Fawaz Abdulaziz Alhokair and Company

Retail – Industrial
ALHOKAIR AB: Saudi Arabia
28 February 2022

الراجحي المالية
Al Rajhi Capital

US$0.875bn	30%	US$4.331mn
Market cap	Free float	Avg. daily volume

Target price	19.00	21.6% over current
Current price	15.62	as at 27/2/2022

Research Department
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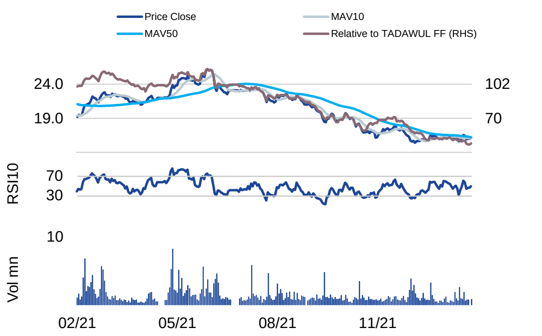
Existing rating

Underweight | Neutral | **Overweight**

Performance



Source: Bloomberg

Earnings

Period End (SARmn)	12/21A	12/22E	12/23E
Revenue	4,233	5,926	6,311
Revenue Growth	-21%	40%	7%
EBITDA	64	1,080	1,143
EBITDA Margins	2%	18%	18%
Net Profit	(1,091)	88	197
Net Margin	-26%	1%	3%
EPS	(5.2)	0.4	0.9
DPS	0.0	0.0	0.0
Payout Ratio	0%	0%	0%
P/E	-3x	37x	17x
ROE	-198%	14%	11%

Source: Company data, Al Rajhi Capital

Fawaz Abdulaziz

Results better than estimate

Fawaz Alhokair's reported revenue grew 9% y-o-y, driven by strong growth in international business, aided by the gradual removal of Covid restrictions. F&B segment increased by 10% y-o-y, while fashion retail revenue increased by 8% y-o-y. The consolidated LFL of the company increased 4% y-o-y, despite the impact of Omicorn. LFL growth till November was stronger at 8%. The growth was aided by 81% y-o-y growth in international retail, even as Saudi registered a fall of 6%. The Saudi performance was impacted by Covid restrictions during the quarter and the company is targeting a low single digit LFL growth going forward. The gross margins improved significantly by 501bps y-o-y and was aided by improvement in revenue and growth in overall LFL revenue. Operating expenses fell by 15% y-o-y and was aided by lower store closure losses and other operating expenses. The company closed a net of 8 stores in Q3 2022 and 76 for M9 2022. The company plans to open c.9 stores in Q4 2022, with estimated net capex for 2022 at SAR85mn. Fawaz Alhokair's Q3 2022 net profits at SAR16mn exceeded our estimate of SAR10mn, aided by higher-than-expected revenue. We expect revenue growth of the company to continue, as we expect footfall to stores to improve going forward. We also expect F&B segment to grow, aided by acquisitions, while we expect online business too to register improvement in the medium term. We also feel that the ongoing capital restructuring will strengthen the overall capital structure of the company and will also aid in reducing the finance cost. Overall, we have increased our TP from SAR14/sh to SAR19/sh and revise our rating to "Overweight" on Fawaz Alhokair.

Capital Restructuring: Alhokair plans to restructure its capital by reducing its share capital by 46%, to SAR1,131mn, by writing off accumulated loss of SAR969mn. It is also planning to issue SAR1,000mn through rights issue, by issuing 100mn new shares, which will increase the total capital to SAR2,131mn. The company will use the proceeds from the rights issue to reduce its debt and finance future capex.

Figure 1: Q3 2022 Earnings Summary

(SAR mn)	Q3 2022	Q2 2022	Q3 2021	y-o-y	q-o-q	ARC est
Revenue	1,466	1,361	1,350	9%	8%	1,279
Gross profit	245	232	157	55%	5%	205
Gross margins	17%	17%	12%	NM	NM	16%
Operating profit	96	116	(18)	NM	-18%	84
Net income	16	21	(128)	NM	-23%	10

Source: Company data, Al Rajhi Capital

Valuation: We value Fawaz Alhokair using an equal mix of DCF and PE based relative valuation. Based on 2% terminal growth and 8% WACC, our DCF TP is SAR18 per share, while our PE based target price, based on 21x FY 2023e EPS is SAR19/sh. Thus, equal weighted target price stands at SAR19/sh, implying ~22% upside or an *"Overweight"* rating on Fawaz Alhokair.

Key Risks:

Upside risks to our valuation includes: Significant increase in local spending, resulting in a faster than expected ramp-up of newly acquired brands will have a positive impact on our revenue and valuations.

Downside risks to our valuation includes: Further inventory write-offs and further lockdowns could have a negative impact on company's profitability and 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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