

# Fawaz Abdulaziz Alhokair Co.

Retail – Industrial

ALHOKAIR AB: Saudi Arabia

24 August 2022

الراجحي المالية  
Al Rajhi Capital



**US\$0.708bn** Market cap  
**30%** Free float  
**US\$3.531mn** Avg. daily volume

Target price **23.00** +2% over current  
Current price **22.80** as at 23/8/2022

Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

Period End	3/22A	3/23E	3/24E
Revenue (mn)	5,915	6,093	6,275
Revenue Growth %	39.8%	3.0%	3.0%
Gross profit (mn)	991	999	1054
Gross margin	16.8%	16.4%	16.8%
EBITDA (mn)	551	562	665
EBITDA margin	9.3%	9.2%	10.6%
Net Profit	45	179	269
Net Margin	0.76%	2.94%	4.29%
EPS	0.39	1.56	2.34

Source: Company data, Al Rajhi Capital

# Fawaz Abdulaziz Alhokair

## Improving sales mix to aid growth

Fawaz Alhokair's reported a profit of SAR57.7mn compared to SAR45.7mn, an increase of 26.3% y-o-y. The increase in profit was attributed to decline in SG&A expenses on back of cost savings measures deployed by company along with increase in other operating income due to forex gains realized during the quarter. Overall revenues came in broadly flat on a y-o-y basis (ex. Ramadan effect +3.4% y-o-y) given the absence of pre-Ramadan buying, which was fully reflected in 4Q'22. The quarter witnessed improved contribution from International retail (+22% y-o-y) and F&B (+8% y-o-y) and was also aided by no Covid-19 related restrictions, which had impacted the operations in 1Q'22 thus resulting in a lower base. The consolidated like-for-like revenue growth of the company declined 2.7% y-o-y mainly due to 6.6% y-o-y decline in Saudi retail sales (on account of School examinations and change in Ramadan timing) and 4.5% y-o-y decline in F&B sales (on weaker demand for fast food during Ramadan). Gross profit in 1Q'23 came in at SR278mn (-16.4% y-o-y) which implied a gross margin of 16.3% compared to 19.6% in 1Q22. The decline in gross profit was due to flat top-line and a decrease in trading margins on account of shift in the discount period adopted by the company compared to 1Q'22. Inventory was SR1,411mn in 1Q'23 as compared to SAR1,700mn in 4Q'22, highlighting the company's focus on inventory optimization. We expect revenue growth of the company to continue as we expect store footfall to improve going ahead along with improvement in sales mix, especially the entertainment and sports segment considering the shift in the spending pattern of Saudis. We also expect F&B segment to grow, aided by acquisitions, while we expect online sales to witness improvement in the medium term. The International business is expected to continue its strong growth as the company seeks to expand its operations with addition of newer brands and increasing the reach of its existing brands. We assign Alhokair a TP of SAR23/sh, which implies an upside of ~2% and a "Neutral" rating.

Figure 1 Summary of 1Q 2023 earnings

(SAR mn)	1Q 2023	1Q 2022	Y-o-Y	4Q 2022	Q-o-Q
Revenue	1,706	1,701	0.3%	1,387	23%
Gross profit	278	333	-16.4%	181	53%
Gross margin	16%	20%		13%	
Operating profit	144	128	12%	102	41%
Operating margin	8%	8%		7%	
Net profit	58	46	26%	(45)	-229%
Net margin	3%	3%		-3%	

Source: Company data, Al Rajhi Capital

**Outlook and Guidance:** The company guided for improvement in financial performance for FY23 with growth in Saudi retail operations as well as further traction in international portfolio as re-opening gathers pace and new brands are added to portfolio. Moreover, the company sees store optimization plan normalizing going ahead with FY23 retail openings at 80 stores (FY22 at net 88 closures) while the F&B segment is expected to see 120 new openings in FY23 with the focus on onboarding new brands in addition to growing the digital sales footprint. On margin end, our view is in line with the management as we expect EBITDA margins to expand by 1-2% on back of cost rationalization, improved sales mix and increasing demand.

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**Valuation:** We value Fawaz Alhokair using equal mix given to DCF, PE & EV/EBITDA based relative valuation. Our DCF based target price is SAR24/sh based on 2% terminal growth and 9.4% WACC and our PE based target price based on 15x FY 2023e is SAR22/sh along with EV/EBITDA target price based on 10x FY2023e is SAR23/sh. Thus, equal weighted target price stands at SAR23/sh implying ~2% upside from CMP of SAR22.8/sh. We remain neutral on “Fawaz Alhokair”.

**Key Risks:**

**Upside risks to our valuation includes:**

- 1) An improvement in the consumer spending ability leading to higher-than-expected demand
- 2) Faster than expected ramp up of newly acquired brands will have a positive impact on company’s revenue and our valuations.

**Downside risks to our valuation includes:**

- 1) Any supply chain constraints in near-term would negatively impact the inventory management and thus possess a downside risk to our valuation.
- 2) Rising interest rates might impact the disposable income of Saudis which could impact the sales 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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