

US\$2.8bn  
Market Cap.

20.0%  
Free Float

US\$6.6mn  
Avg. Daily Value traded

## Underweight

### Price Target (SAR): 8.0

Current: 9.22

Upside/Downside: 13.2% below current

Valuation Multiples	23A	24E	25E
P/E (x)	38.1	29.7	22.7
EV/EBITDA (x)	14.9	13.5	11.8

Major Shareholders	% Ownership
Akasiya Star Trading Company Ltd.	67.57
Commercial Expansion Development Co.	5.60
Abdullah Dawood BinDawood Sons and Partners Co. Ltd.	5.56

Price Performance	1M	3M	YTD
Absolute	4.5%	44.3%	48.9%
Relative to TASI	7.1%	41.0%	44.4%

## Earnings

SARmn	2023	2024E	2025E
Revenue	5,603	6,073	6,654
Revenue growth	14.4%	8.4%	9.6%
Gross profit	1,810	1,956	2,163
Gross margin	32.3%	32.2%	32.5%
EBITDA	818	887	996
EBITDA margin	14.6%	14.6%	15.0%
Net profit	277	355	465
Net margin	4.9%	5.8%	7.0%
EPS	0.2	0.3	0.4
DPS	0.2	0.3	0.4
Payout ratio	92.0%	90.0%	90.0%
P/E	38.1x	29.7x	22.7x
RoE	19.5%	24.0%	30.5%

Source: Company data, Al Rajhi Capital.

# BinDawood Holding Co.

## Increase Fair Value to SAR8/sh

We downgrade our stance on BinDawood from Neutral to Underweight while increasing our fair value to SAR8/sh (from SAR7/sh previously), having a downside of 13.2% from last close. The stock has rallied by ~25% since the company announced 4Q23 expected earnings, wherein the company expected 4Q23 gross margins to clock in at 35.8% (Vs. 31.0% in 3Q23). As already highlighted by the management, the significant jump in gross margins was largely on account of rebates booked in 4Q23. We believe that the current market prices incorporate an overly optimistic picture of revenue growth and gross margins of the company (which are not only significantly higher than management guidance but also don't take into consideration the highly competitive nature of the retail landscape in which the company operates). Hence, we expect Bindawood's topline to grow at a CAGR of ~7% between 2024-2027 and expect the company to maintain gross margins of ~32-33%. At current market prices, the stock trades at a P/E multiple of 30x and offers a dividend yield of 3%.

**Market is too Optimistic:** We believe that the current market prices incorporate an overly optimistic picture of revenue growth and gross margins of the company (which are not only significantly higher than management guidance but also don't take into consideration the highly competitive nature of the retail landscape in which the company operates). As per our back-of-the-envelope calculation, the current market prices imply a topline CAGR of ~10% and gross margins of ~34%, which is much higher than the management's guidance of ~7% topline growth and gross margins of ~32%. Furthermore, the implied revenue growth and gross margins don't incorporate the fact that other players in the retail space namely Panda, LuLu, AIOthaim, and others are actively pursuing to increase their market share of the KSA retail space.

**Our Expectations:** We are optimistic about the overall growth in the retail landscape in KSA (given the growth in population and tourism expected on the back of Vision 2030) and confident in the ability of the seasoned management of BinDawood to maintain and grow its market presence. Nevertheless, we expect Bindawood's topline to grow at a CAGR of ~7% between 2024-2027 and expect the company to maintain gross margins of ~32%-33% (largely in-line with management guidance which we believe correctly incorporates the dynamics of the retail landscape in KSA). Furthermore, we expect the company to report earnings of SAR0.05/sh in 1Q24, up 12% YoY (contributed by strong growth in online sales) but down 52% QoQ (due to the combined impact of 1) discounts offered in Ramadan and 2) absence of significant rebates booked in 4Q23).

### Recommendation and Valuation:

We increase our fair value of BinDawood to SAR8/sh (from SAR7/sh) while downgrading the stock from Neutral to Underweight as we believe that the current market prices reflect an overly optimistic view on the revenue growth and gross margins of the company.

We value the stock using Discounted cashflow-based valuation and target P/E and assigning equal weights to both. For discounted cashflow, we use a cost of equity of 8% and a terminal growth rate of 3%. Additionally, our target P/E multiple of 25x takes into consideration the risk and return trade-off of the company.

Figure 1 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	8	50.0%	4	-13.2%
P/E	8	50.0%	4	-13.2%
<b>Target price</b>			<b>8</b>	
CMP			9.2	
<b>Upside/(Downside)</b>			<b>-13.2%</b>	
Dividend yield			3.0%	
<b>Total returns</b>			<b>-10.2%</b>	

Source: Al Rajhi Capital estimates.

## Financials

 Figure 2 **Income Statement**

SAR mn	2023	2024E	2025E
<b>Revenue</b>	<b>5,603</b>	<b>6,073</b>	<b>6,654</b>
<i>y-o-y growth</i>	14.4%	8.4%	9.6%
Cost of Sales	3,793	4,117	4,491
<b>Gross Profit</b>	<b>1,810</b>	<b>1,956</b>	<b>2,163</b>
<i>y-o-y growth</i>	25.9%	8.1%	10.6%
<i>margins</i>	32.3%	32.2%	32.5%
<b>Operating Profit</b>	<b>354</b>	<b>433</b>	<b>542</b>
<i>y-o-y growth</i>	134.6%	22.2%	25.3%
<i>margins</i>	6.3%	7.1%	8.2%
<b>Net Income</b>	<b>277</b>	<b>355</b>	<b>465</b>
<i>y-o-y growth</i>	133.1%	28.5%	31.0%
<i>margins</i>	4.9%	5.8%	7.0%
EPS	0.2	0.3	0.4

Source: Company data, Al Rajhi Capital.

 Figure 4 **Ratios and Multiples**

	2023	2024E	2025E
RoE	19.5%	24.0%	30.5%
(Debt+Lease)/EBITDA (x)	2.7	2.3	1.9
P/E (x)	38.1	29.7	22.7
D/Y	2.4%	3.0%	4.0%
EV/EBITDA (x)	14.9	13.5	11.8

Source: Company data, Al Rajhi Capital.

 Figure 3 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and term deposit	532	623	661
Inventories	949	1,005	1,107
Trade and other receivables	474	507	547
Others	101	100	100
<b>Current Assets</b>	<b>2,056</b>	<b>2,235</b>	<b>2,415</b>
Property and equipment	773	742	713
Intangible assets and goodwill	274	262	250
Right-of-use assets	1,882	1,777	1,672
<b>Total Assets</b>	<b>4,986</b>	<b>5,016</b>	<b>5,051</b>
Trade payables and others	1,125	1,228	1,354
CP of Lease liabilities	307	290	270
Others	87	90	90
<b>Current Liabilities</b>	<b>1,519</b>	<b>1,608</b>	<b>1,713</b>
Non-CP of Lease liabilities	1,878	1,780	1,657
Others	130	130	130
<b>Total liabilities</b>	<b>3,527</b>	<b>3,518</b>	<b>3,501</b>
Share capital	1,143	1,143	1,143
Retained earnings	266	305	357
Others	51	51	51
<b>Total equity</b>	<b>1,459</b>	<b>1,499</b>	<b>1,550</b>

Source: Company data, Al Rajhi Capital.

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