

BinDawood Holding

Target Price: SAR 6.67
Upside/ (Downside): 9.8%

Recommendation

Hold

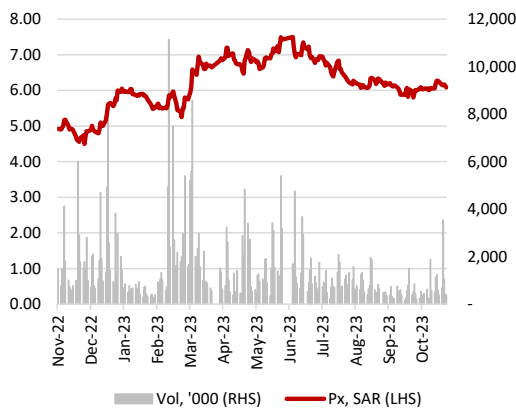
Bloomberg Ticker	BINDAWOO AB
Current Market Price (SAR)	6.08
52wk High / Low (SAR)	8.170/4.470
12m Average Vol. ('000)	1,425.9
Mkt. Cap. (USD/SAR Mn)	18,069/6,949
Shares Outstanding (mn)	1,143.0
Free Float (%)	20%
3m Avg Daily Turnover (SAR '000)	4,449.6
6m Avg Daily Turnover (SAR '000)	7,060.8
P/E'23e (x)	39.4
EV/EBITDA'23e (x)	12.3
Dividend Yield '23e (%)	3.3%

Price Performance:

1 month (%)	4.8
3 month (%)	(2.9)
12 month (%)	20.2

Source: Bloomberg, valued as of 23 Nov 2023

Price-Volume Performance



Source: Bloomberg

Neetika Gupta

Head of Research

neetika@u-capital.net

Tel: +968 24 94 90 36

- **BinDawood's financial performance is improving gradually QoQ after the turbulence in 3Q22, driven by macro factors such as Hajj and Umrah resumption, and strategic steps taken by the company like store expansion, re-sizing, cost rationalization, etc.**
- **New store additions seem to be slower than the company's target as it added 3 stores on a net basis during 9M23 vs. a target of 6-7 store additions this year. Thus, while we retain our FY23-end store count at 88 (FY22-end: 84), it has been lowered slightly in later years.**
- **Despite BinDawood's earnings growth slowing down notably during the past two years, its liquidity position has improved, which is commendable and will help it in fulfilling its growth plans.**

We reviewed our coverage of BinDawood Holding and reduced our target price to SAR 6.67 (previously, SAR 8.45), as we revised our store count estimates lower considering the recent store addition trend. At the current market price, our target price gives an upside of 9.8% and accordingly, we assign a **Hold** rating (previously, Accumulate) to the stock. Currently, the stock trades at FY'23e P/E of 39.4x and EV/EBITDA of 12.3x, at a premium to its 12 months (12m) blended forward 3-year daily average P/E of 27.5x, but near its 12m blended forward 3-year daily average EV/EBITDA of 12.7x.

Investment Thesis

Cautiously optimistic

i) BinDawood added 3 stores during 9M23 to reach 87 stores. Considering the current pace, the company adding another 3-4 stores in 4Q23 to meet its guidance looks challenging. Hence, on a conservative basis, we estimate FY23 to end with 88 stores while we slightly reduce our store expansion estimates for the next four years.

ii) Despite lowering our store count expectations, we maintain our revenue growth estimate for FY22-26 at 6% CAGR, with the company working on improving store utilization, increasing repeat customers, and looking to enhance the share of online sales in total revenue.

iii) Margins improved in 9M23 and are likely to rise further, as BinDawood focuses on cost optimization, efficiency improvements, and better terms from suppliers, but are unlikely to reach pre-COVID levels over our forecast period.

iv). Improved profitability should further boost the company's strong liquidity position, thereby aiding it in its organic and inorganic growth plans.

Year	FY20	FY21	FY22	FY23e	FY24e	FY25e
Revenues (SAR mn)	5,156.5	4,382.2	4,897.0	5,543.7	5,761.0	5,960.8
Net income (SAR mn)	447.7	240.6	118.7	176.2	237.8	301.4
Gross margin	32.4%	32.8%	29.3%	30.5%	31.2%	32.1%
Net profit margin	8.7%	5.5%	2.4%	3.2%	4.1%	5.1%
RoE	35.8%	17.7%	8.6%	13.3%	18.2%	22.4%
FCF (SAR/share)	0.5	0.5	0.6	0.3	0.4	0.4
DPS (SAR/share)	0.3	0.2	0.2	0.2	0.2	0.2
Dividend Yield	2.3%	2.0%	3.9%	3.3%	3.3%	3.5%
P/E (x)	34.7x	45.5x	46.6x	39.4x	29.2x	23.1x
EV/EBITDA (x)	16.9x	18.6x	12.6x	12.3x	10.7x	9.4x

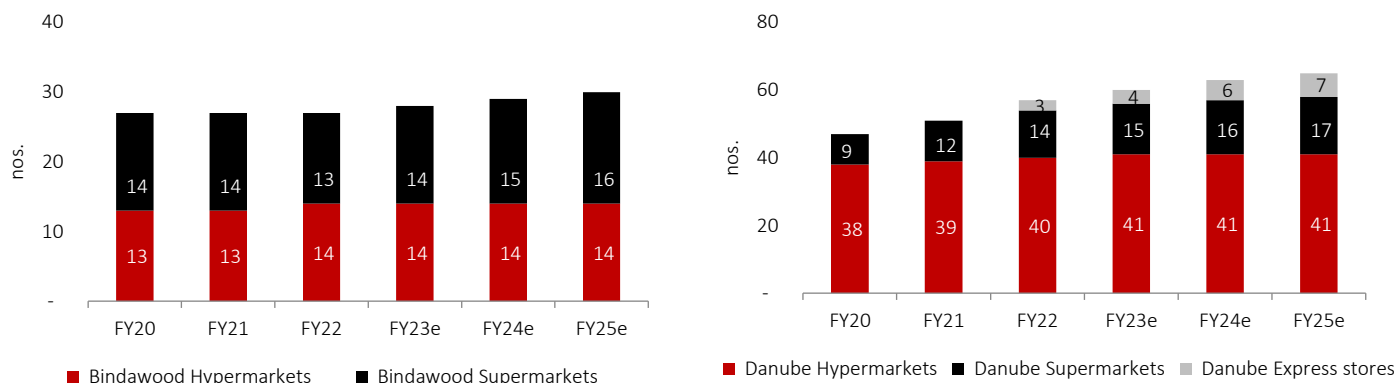
Source: Company Reports, U Capital Research *P/E, P/B, and dividend yield from 2023 onwards are based on current price

Investment thesis

Store addition resumes after remaining flat during 1H 2023, though we expect it to fall short of the company's annual store addition target for FY 2023e

BinDawood Holding operates hypermarkets, and supermarkets under BinDawood and Danube brands, and has introduced Express stores since 2022 under Danube. Express stores are the stores located at the Haramain High-Speed Railway stations. By the end of FY 2022, BinDawood had 84 stores, including 54 hypermarkets, 27 supermarkets, and 3 Express stores, and the management guided to add 6-7 new stores across different formats in FY 2023. However, during 1H 2023, BinDawood added no new stores as compared to one store added during 1H 2022, which we believe was partly due to the company focusing on improving existing store utilizations, as it faced significant pressure on its earnings during FY 2022. Although new stores have been opened since then, with the total store count increasing by three from 1H 2023-end to reach 87 by the end of 9M 2023, we expect BinDawood to be somewhat more conservative in expanding its physical stores than it is aiming for, given its focus on streamlining existing operations and grow online sales. Hence, we retain our FY 2023 total store estimate for BinDawood at 88 (28 BinDawood stores and 60 Danube stores), implying a net addition of 4 stores during the year, around 2-3 stores less than the company target.

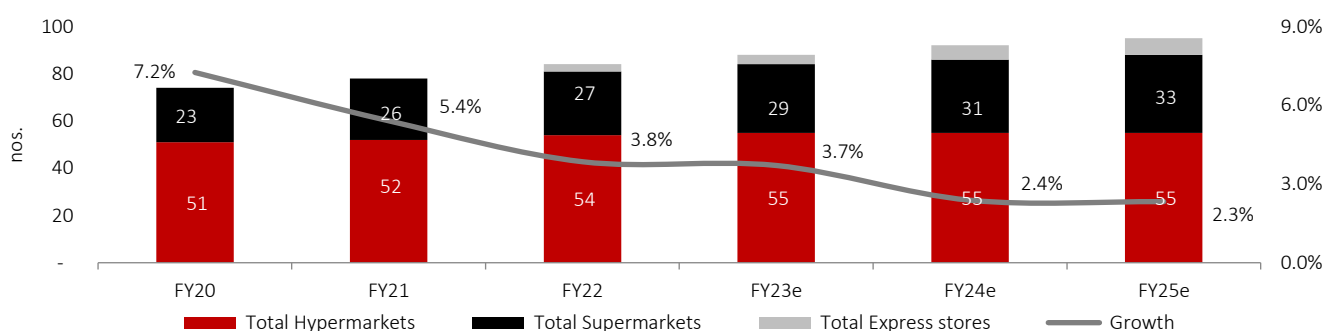
Fig. 1: The Danube brand is expected to witness the addition of more stores as compared to the BinDawood brand



Source: Company Reports, U Capital Research

Source: Company Reports, U Capital Research

Fig. 2: Supermarkets and Express stores are expected to drive the total shopping centers' growth



Source: Company Reports, U Capital Research

Going forward, we expect BinDawood's physical stores to increase at a rate largely similar to our FY 2023 estimates, i.e., around 3-4 stores per year, which are slightly lower than our earlier forecasts. Accordingly, we estimate the company's total retail stores portfolio to reach 98 by FY 2026e (previous estimate: 101 stores), comprising 55 hypermarkets, 35 supermarkets, and 8 Express stores.

Revenue growth is likely to accelerate, driven by favorable macro and micro factors

Although the stores' addition estimate over our forecast period has been lowered, we maintain our revenue growth CAGR estimate for the FY 2022-2026e period at 6%. This represents a significant jump as compared to the 1% revenue CAGR achieved during FY 2016-2022 when the tumultuous period of the COVID-19 pandemic adversely impacted the company's

sales. BinDawood’s sales during 9M 2023 registered a healthy growth rate of 16% YoY, driven both by macro factors including the complete removal of restrictions on Hajj and Umrah pilgrimage, and several initiatives undertaken by the company like re-location and/or resizing of stores to improve utilization, consistent addition of members in its loyalty program, leading to higher repeat customers, leveraging strategic acquisitions of Ykone and IAC to boost online sales, etc.

Going forward, we expect the macro environment to remain favorable as the Kingdom aspires to become a major regional tourist hub which should attract more visitors, aiding the company to grow its overall footfalls as well as loyal customer base, which stood at 4.4mn by the end of 9M 2023. In addition, sustained implementation of the initiatives listed above, including the addition of more Dark Stores to improve online sales, apart from the regular addition of new physical stores, as well as some inorganic growth plans (not modeled) like the ongoing talks related to an acquisition in the GCC, underpins our revenue growth expectations.

Fig. 3: Online sales have a good growth potential since they account for a minuscule part of total sales currently

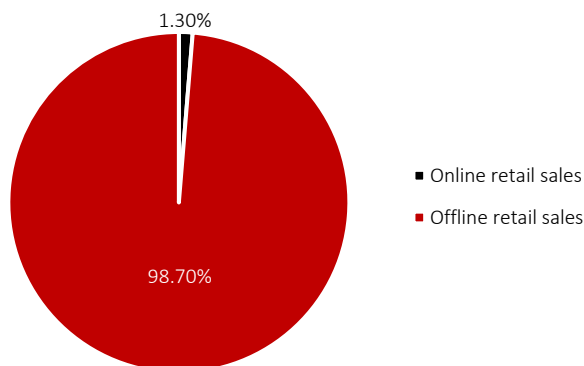
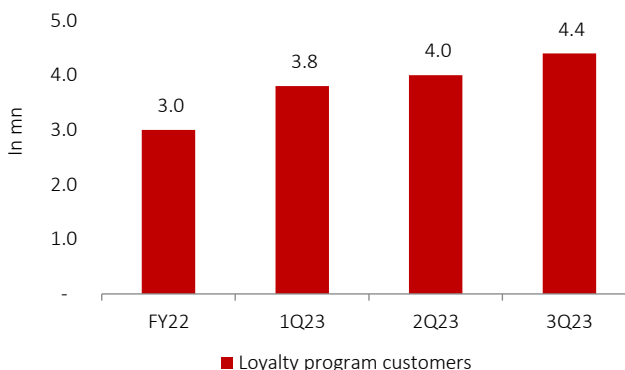


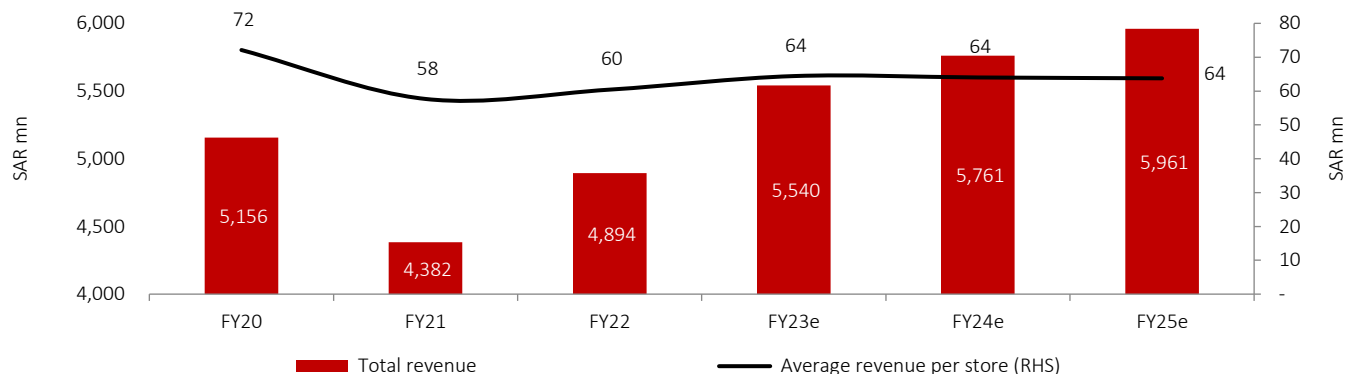
Fig. 4: BinDawood has been adding members to its loyalty program at a rapid pace, thus ensuring good repeat sales



Source: Company Reports, U Capital Research; *for 9M 2023 period

Source: Company Reports, U Capital Research

Fig. 5: Total revenue is estimated to surpass FY 2020 levels this year



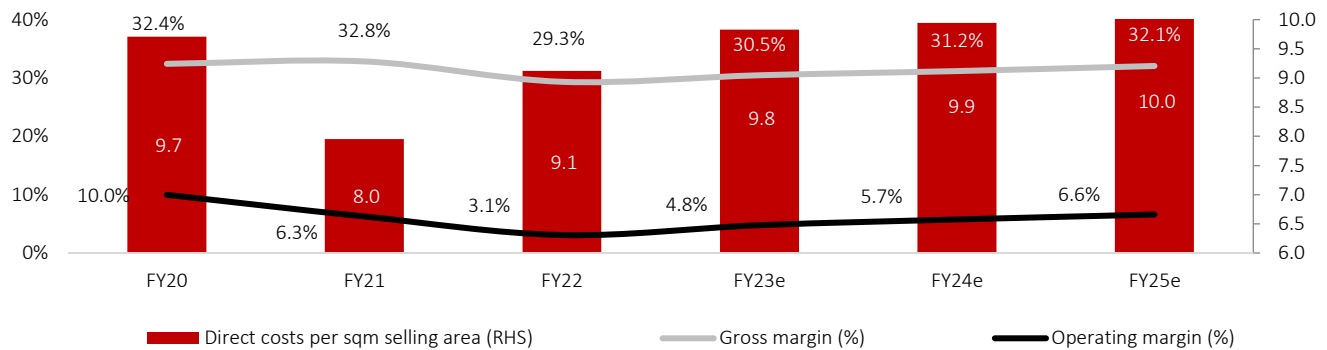
Source: Bloomberg, Company Reports, U Capital Research

Backed by cost optimization and efficiency improvement, BinDawood has witnessed gradual profitability improvement since the loss registered in 3Q 2022

After posting losses at the operating and net income levels in 3Q 2022, BinDawood implemented various initiatives which have led to a gradual improvement in its margins, with the gross margin improving by over 100 bps YoY and operating and net margin by more than 200 bps YoY, each in 3Q 2023. As the company intends to modify and/or relocate more stores involving a better layout and product visibility to maximize customer footfalls, this will enhance stores’ operating efficiency, leading to higher sales with improved profitability, in our view. Yet other steps being taken by the company like expense rationalization, negotiations with suppliers for better terms, and launching a Mega Dark Store and several Mini Dark Stores to improve product delivery turnaround time of online sales should further aid in margins expansion. Accordingly, we estimate margins to largely be in an uptrend going forward, rising toward their pre-COVID levels gradually. However, our EBITDA, operating, and net margin estimates for FY 2023e

and future years over our forecast period are slightly below our earlier estimate owing to lower-than-expected 9M 2023 profitability. Consequently, we revised our FY2022-26e operating and net profit CAGR to 30% and 31%, respectively, from 34% and 36%, previously.

Fig. 6: Margins have largely been in an uptrend so far in FY 2023 and are estimated to expand further going forward

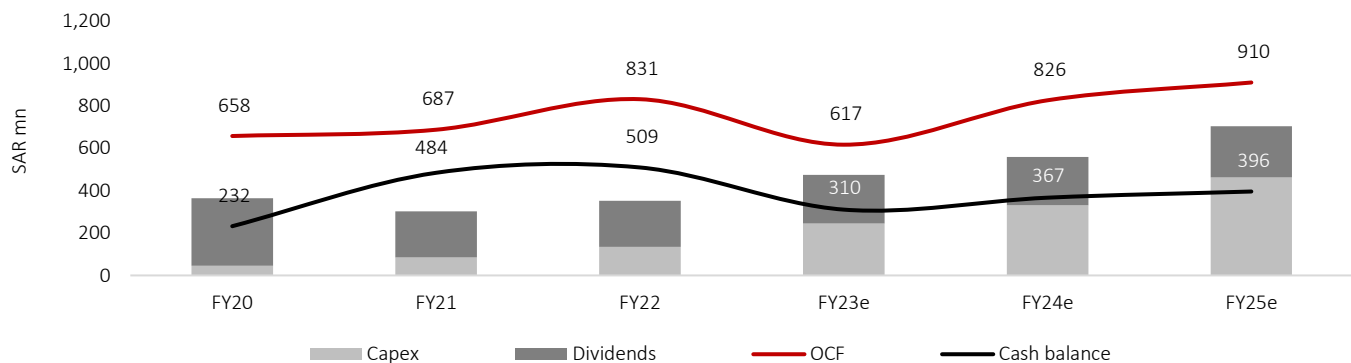


Source: Bloomberg, Company Reports, U Capital Research

A strong balance sheet to support BinDawood in pursuing its organic and inorganic expansion plans

Despite the financial turbulence experienced by the company over the last couple of years, it maintained healthy cash flows backed by prudent working capital management, thus maintaining a healthy cash balance with NIL borrowings. This helped BinDawood largely maintain its store additions pace during this period while it also executed a couple of M&A activities. Given our expectation of the company witnessing strong earnings growth over our forecast period accompanied by margins expansion, we contend liquidity position will strengthen further, thus allowing it to pursue its organic growth plans to add more brick & mortar stores, as well as Dark Stores for supporting online sales (BinDawood intends to reach 24 Dark Stores by FY 2024-end from 16 in 9M 2023). We opine the company also remains well positioned to capitalize on any inorganic growth opportunity, while it is already in negotiations about an acquisition in the GCC.

Fig. 7: BinDawood’s efficient working capital management helped it offset earnings pressure over the last couple of years and maintain good liquidity



Source: Bloomberg, Company Reports, U Capital Research

Moreover, we believe the company would also comfortably maintain its healthy dividend payouts. It has already declared a SAR 0.10 per share interim dividend for 1H 2023, slightly higher than the SAR 0.09 interim dividend for 1H 2022. Assuming BinDawood maintains the final dividend the same as the interim dividend, this gives a yield of around 3%, based on the current market price, and implies a payout of over 100%, based on our FY 2023 forecasted net profit.

Valuation

Our target price is based on blended valuation methodologies – (i) DCF and (ii) Relative Valuation (using P/E and EV/EBITDA).

We revised our target price for BinDawood to SAR 6.67 (previously, SAR 8.45), mainly owing to our lower store addition and earnings growth expectations for the company as compared to our previous estimate. At the current market price, our target price gives an upside of 9.8% and accordingly, we assign a **Hold** rating (previously, Accumulate) to the stock. Currently, the stock trades at FY'23e P/E of 39.4x and EV/EBITDA of 12.3x, at a premium to its 12 months (12m) blended forward 3-year daily average P/E of 27.5x, but near its 12m blended forward 3-year daily average EV/EBITDA of 12.7x.

Risks

Key downside risks:

- i) The company focuses more on enhancing the utilization of existing assets and adds fewer stores than is forecasted, probably due to the newer stores taking more than expected time to reach their optimum level.
- ii) The ongoing volatile geopolitical situation in the region, if escalates, might adversely impact consumer sentiments and spending, leading to lower-than-estimated average store sales.
- iii) Lesser-than-estimated expansion in margins owing to any unexpected cost pressure.

Key upside risks:

- i) Our store addition estimate is below the company's guidance on a conservative basis and considering the recent trend. However, if the company executes store additions as per its forecasts or exceeds them, it could increase revenue and/or earnings at a more-than-expected rate.
- ii) BinDawood is taking several steps towards cost optimization which could lead to a more-than-expected expansion in margins.
- iii) The company is actively pursuing inorganic transactions for expansion which is not modeled in our estimates and could lead to more than expected income growth.

Valuation

	BinDawood
(Currency)	SAR
DCF (Equal weight)	
PV of Free Cash Flow (mn)	
Year 1	335
Year 2	437
Year 3	367
Year 4	310
Year 5	404
Terminal	12,152
PV of Terminal Value	9,432
Assumptions	
Risk Free Rate (%)	5.2%
Adjusted Beta	0.65
Risk Premium (%)	2.8%
Cost of Equity (COE) (%)	7.0%
WACC (%)	6.4%
Equity value (mn)	9,478
Outstanding Shares (mn)	159.8
Target Price	8.29
P/E based Relative Valuation (Equal weight)	
Target P/E multiple for 2023e	24.5
EPS 2023e	0.15
Target Price	3.77
EV/EBITDA based Relative Valuation (Equal weight)	
Target EV/EBITDA Multiple for 2023e	12.3
EBITDA FY23e (mn)	734
Target Price	6.34
Weighted Average Target Price	6.67
<i>Current Market Price</i>	6.08
Upside/(Downside), %	9.8%
Recommendation	Hold

Source: Company Financials, Bloomberg, U Capital Research

Peer Group Valuation

Name	Mkt Cap (SAR mn)	Last Px (LC)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	EV/EBITDA'23e, (x)	P/E'23e, (x)	ROE'23e, (%)	Div Yield'23e, (%)	FCF Yield TTM (%)
Organized Retail										
Bindawood Holding Co.	6,949.4	6.08	5	-3	26	12.3	39.4	13.3%	3.3%	3.1%
Abdullah Al Othaim Markets	11,574.0	12.86	3	-12	24	14.6	24.0	37.6%	3.8%	4.0%
Savola	19,917.5	37.30	7	3	36	11.3	19.3	10.1%	2.0%	7.0%
Al Meera Consumer Goods Co.	2,750.9	12.98	-1	-7	-15	9.1	13.7	12.3%	34.7%	6.5%
Average						11.8	24.1	18.3%	10.9%	5.2%
Median						11.8	21.7	12.8%	3.5%	5.3%

Source: Bloomberg, U Capital Research, na - not available, nm - not meaningful; *valued as of 23 November 2023

Fig. 8: Organized retail - P/E & Dividend Yield

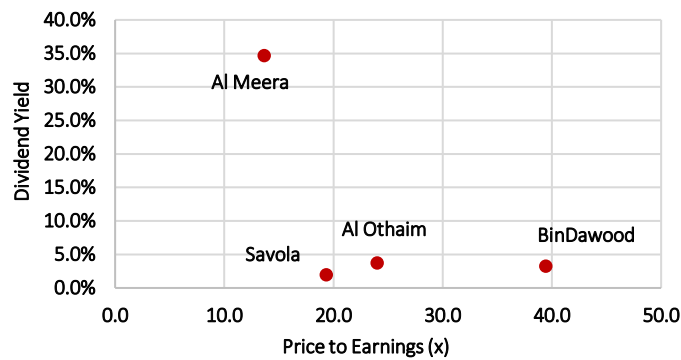
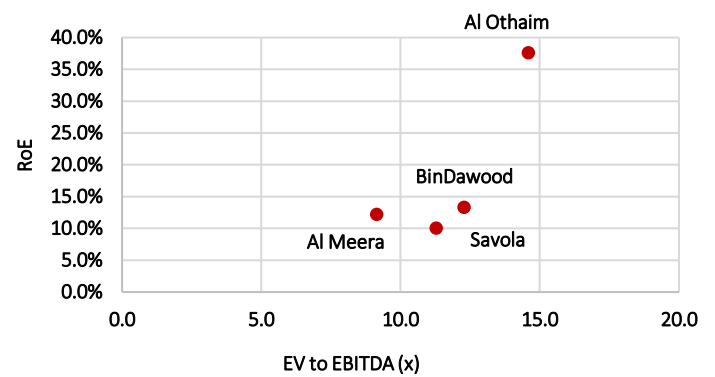


Fig. 9: Organized retail - RoE & EV to EBITDA



Source: Bloomberg, U Capital Research; As of 23 November 2023

Key financials

In SAR mn, except stated otherwise	FY20	FY21	FY22	FY23e	FY24e	FY25e
Income Statement						
Revenue from contracts with customers	5,156	4,382	4,897	5,544	5,761	5,961
Cost of revenue	(3,485)	(2,943)	(3,460)	(3,855)	(3,965)	(4,050)
Gross profit	1,672	1,439	1,437	1,689	1,796	1,911
General and administration expenses	(164)	(165)	(196)	(256)	(254)	(263)
Selling and distribution expenses	(1,003)	(1,009)	(1,099)	(1,177)	(1,226)	(1,276)
Other operating income	9	10	9	9	15	21
Operating profit	515	275	151	264	331	394
Other income	17	72	84	19	21	24
Finance cost on lease liabilities	(69)	(88)	(85)	(91)	(93)	(88)
Income before zakat and income tax	463	258	150	192	259	329
Zakat	(15)	(18)	(25)	(16)	(22)	(27)
Net income after zakat and tax	448	241	119	176	238	301
Balance Sheet						
Cash and bank balances	232	484	509	310	367	396
Trade and other receivables	333	377	372	360	380	393
Inventories	1,000	818	877	1,034	1,032	1,054
Right-of-use assets	2,306	2,083	1,986	1,926	1,864	1,801
Property and equipment	820	740	714	764	671	674
Total assets	4,770	4,631	4,803	4,744	4,653	4,646
Unearned income and other payable	36	46	48	18	22	27
Lease liabilities	2,525	2,374	2,298	2,256	2,135	2,041
Accounts payable, accruals and other financial liabilities	756	657	935	961	978	999
Total liabilities	3,457	3,220	3,421	3,385	3,285	3,217
Share capital	1,143	1,143	1,143	1,143	1,143	1,143
Retained earnings	83	157	101	175	189	256
Equity Attributable to Shareholders	1,313	1,411	1,347	1,299	1,313	1,380
Cash Flow Statement						
Net cash generated from operating activities	658	687	831	617	826	910
Net cash generated from investing activities	(46)	(84)	(346)	(250)	(327)	(459)
Net cash (used in) provided by financing activities	(595)	(351)	(461)	(564)	(443)	(422)
Cash and cash equivalents at the end of the period	232	484	509	310	367	396
Key Ratios						
Gross margin (%)	32.4%	32.8%	29.3%	30.5%	31.2%	32.1%
EBITDA margin (%)	18.4%	15.9%	12.1%	13.2%	14.4%	15.6%
Operating margin (%)	10.0%	6.3%	3.1%	4.8%	5.7%	6.6%
Net margin (%)	8.7%	5.5%	2.4%	3.2%	4.1%	5.1%
ROA	9.4%	5.1%	2.5%	3.7%	5.1%	6.5%
ROE	35.8%	17.7%	8.6%	13.3%	18.2%	22.4%
Current Ratio (x)	1.5x	1.8x	1.4x	1.4x	1.4x	1.5x
Capex/Sales	0.9%	1.9%	2.8%	4.4%	5.7%	7.8%
Debt-Equity Ratio	1.9x	1.7x	1.7x	1.7x	1.6x	1.5x
Interest coverage ratio	7.5x	3.1x	1.8x	2.9x	3.6x	4.5x
EPS	0.3	0.2	0.1	0.2	0.2	0.3
BVPS	1.1	1.2	1.2	1.1	1.1	1.2
DPS	0.3	0.2	0.2	0.2	0.2	0.2
Dividend Payout Ratio	71.2%	90.3%	183.0%	129.8%	96.1%	79.6%
Dividend Yield (%)	2.3%	2.0%	3.9%	3.3%	3.3%	3.5%
P/E (x)	34.7x	45.5x	46.6x	39.4x	29.2x	23.1x
P/BV (x)	10.4x	7.8x	4.1x	5.4x	5.3x	5.0x
EV/EBITDA (x)	16.9x	18.6x	12.6x	12.3x	10.7x	9.4x
Price as at period end*	11.9	9.6	4.8	6.1	6.1	6.1


Source: Company Reports, U Capital Research; *Current market price is used for forecast periods


Investment Research

Ubhar-Research@u-capital.net

Head of Research


Neetika Gupta


 +968 2494 9036

 neetika@u-capital.net


Research Team


Ahlam Al-Harthi

 +968 2494 9024


 ahlam.harthi@u-capital.net

Said Ghawas

 +968 2494 9034

 said.ghawas@u-capital.net


Amira Al Alawi


 +968 2494 9112

 amira.alalawi@u-capital.net

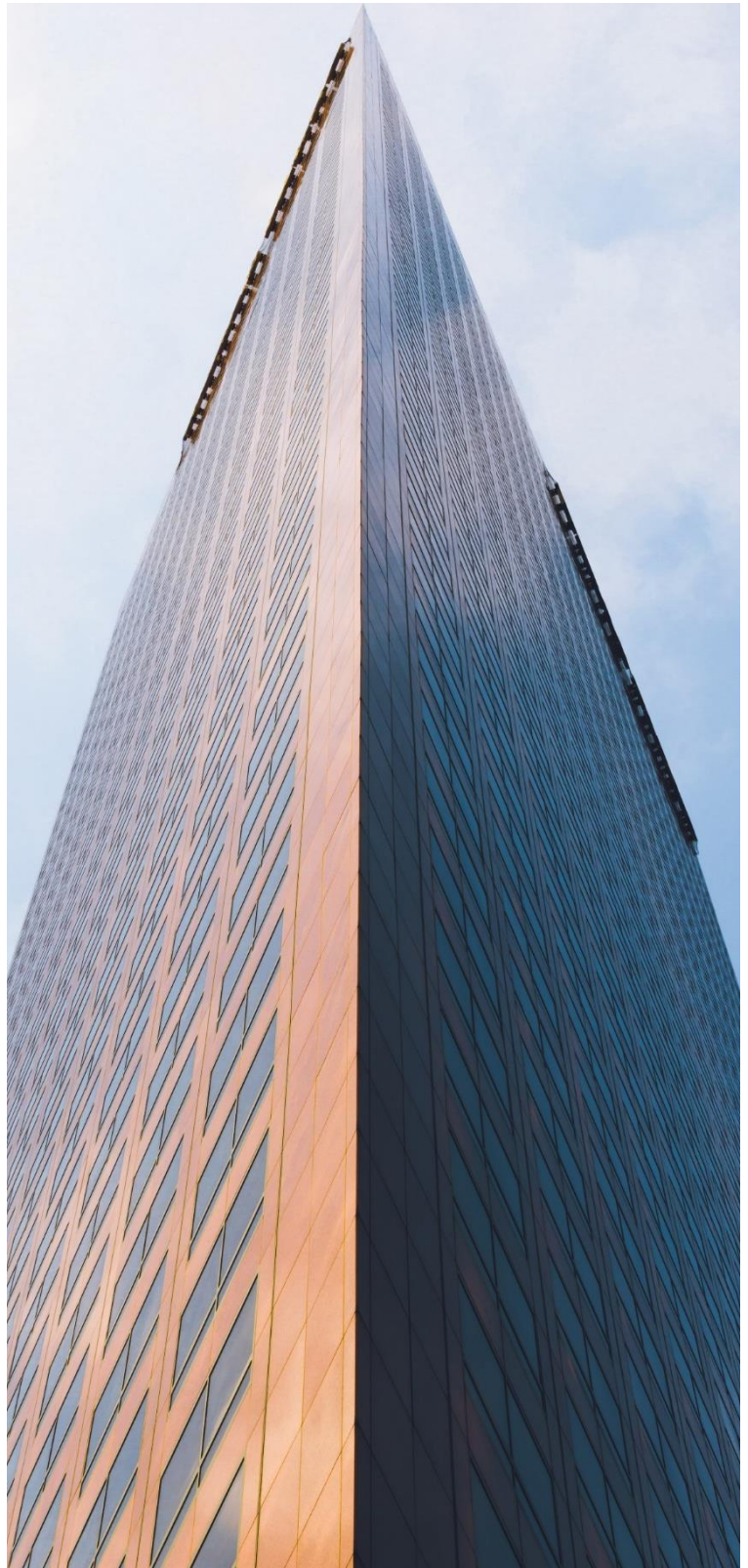
Head of Brokerage

Talal Al Balushi

 +968 2494 9051

 talal@u-capital.net

Visit us at: www.u-capital.net



Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net
PO Box 1137
PC 111, Sultanate of Oman
Tel: +968 2494 9036
Fax: +968 2494 9099
Email: research@u-capital.net

Disclaimer: This report has been prepared by Ubhar Capital (U Capital) Research and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute U Capital Research team's judgment as at the date of production of this report and are subject to change without notice. This report may not be reproduced, distributed, or published by any recipient for any other purpose.