BinDawood

Retail – Industrial
BINDAWOOD AB: Saudi Arabia
31 Aug 2023

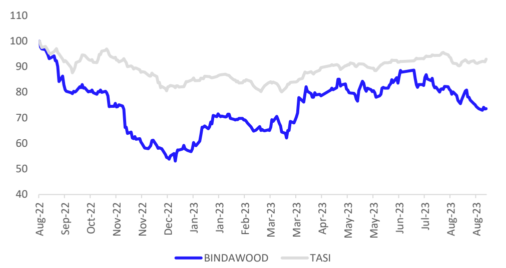
US$1.9bn	20.0%	US$2.6mn
Market Cap	Free Float	Avg. Daily Volume

Target price	**6.70**	**8.0% above current**
Current price	**6.20**	**as at 30/08/2023**

Existing rating

Underweight	**Neutral**	Overweight

Performance (Rebased to 100)



Earnings

(SARmn)	2022	2023E	2024E
Revenue	4,897	5,554	5,881
Y-o-Y	12%	13%	6%
Gross profit	1,437	1,759	1,869
Y-o-Y	0%	22%	6%
Gross margin	29%	33%	33%
EBITDA	590	835	890
Y-o-Y	-15%	41%	7%
EBITDA margin	12%	15%	15%
Net profit	119	268	301
Y-o-Y	-51%	126%	12%
Net margin	2%	5%	5%
EPS (SAR)	0.1	0.2	0.3
DPS (SAR)	0.2	0.2	0.2

Source: Company data, Al Rajhi Capital

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Earnings surprise; We revise TP to SAR6.7/sh and maintain neutral.

BinDawood reported better-than-expected results for 2Q23 with a 15.6% y-o-y jump in revenue to SAR1,412mn. The revenue growth is driven by both Danube (+8.5% y-o-y to SAR871mn) and BinDawood (+11.2% y-o-y to SAR466mn) stores, amidst a strong hajj season, while also benefitting from increasing traction for its loyalty customer program and higher revenue from the new digital revenue segment. Gross profit jumped 19.5% y-o-y to SAR452mn, supported by a better product mix and increase in supplier support. Growth at the operating level widened to 38.5% y-o-y, even as operating expenses increased by 15.5% y-o-y. The company reported an improvement in margins in 2Q23 with a gross margin of 32.0% (2Q22: 31.0%) and operating margin of 6.4% (2Q22: 5.3%), led by operational efficiencies. Furthermore, net profit increased 55.5% y-o-y to SAR66mn, reflecting a margin of 4.7% (2Q22: 3.5%). Overall, we believe the improved earnings provide a testament to the managements revised growth plan. Hence, we revise our target price for BinDawood from SAR6.2/sh to SAR6.7/sh, while the current market price is SAR6.2/sh (8.0% higher).

Figure:1 2Q23 earnings (SAR mn)

(SAR mn)	2Q 2023	2Q 2022	Y-o-Y	1Q 2023	Q-o-Q	ARC est	vs ARC
Revenue	1,412	1,221	15.6%	1,381	2.2%	1,404	0.5%
Gross profit	452	378	19.5%	417	8.5%	421	7.3%
Gross margin	32.0%	31.0%		30.2%		30.0%	
Operating profit	90	65	38.5%	76	17.6%	79	13.2%
Operating margin	6.4%	5.3%		5.5%		5.6%	
Net profit	66	42	55.5%	52	26.1%	53	23.2%
Net margin	4.7%	3.5%		3.8%		3.8%	

Source: Company data, Al Rajhi Capital

2Q23 Performance and outlook:

The second quarter net profit beat our estimate by 23.2% mainly led by higher than anticipated margins (2Q GM: 32.0% vs 30.0% estimated). we believe the higher margin was supported by the Hajj season as people came early June for the Hajj season, resulting in higher sales from Haramain stores. We have also seen rising operating expense pressure in 2Q23 due to the preparation of new stores that are expected to be opened in the 2H23.

Going forward, we expect the operating expense as a % of sales to decline mainly as new stores bring additional growth to the company. The company made a couple of acquisitions, which currently are impacting the cost structure and once these acquisitions start delivering, we expect to see better margins.

BinDawood is well positioned in the online delivery space with around 14 dark stores and an additional 22 online in-store locations, which is giving them an edge over competitors. While the contribution from the online segment is insignificant as of 2Q23, we believe that could help BinDawood strengthen their market share as well as improve the profitability by adopting to the change in consumer behaviour towards delivery apps.

Valuations:

We reviewed our coverage on BinDawood and maintain our rating to Neutral with a TP of SAR6.7/sh. We have valued BinDawood using a blended approach of DCF and P/E relative valuation (assigned equal weights).

We arrived at the DCF approach-based target price of SAR7.5/sh based on a 2.5% terminal growth and a WACC of 8.1%, while the P/E valuation-based TP of SAR5.9/sh is based on 26x multiple and 2023e EPS. Key upside risks to our valuations are higher-than-anticipated sales growth, better-than-expected improvement in gross margin, and lower-than-expected capex spending on store expansions. Downside risks are higher competition in the retail sector and slower-than-expected store additions.

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"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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