

Q1 23 – COMPANY UPDATE

Higher pilgrims to drive profitability normalization

We remain Neutral on BinDawood with a PT of SAR64.8. We believe the company is well-placed to benefit from the normalization of Hajj and Umrah activities, as it is the number one retailer serving pilgrims. However, we highlight the pressure on consumer disposable income and the emergence of alternative spending avenues (such as Riyadh Season) will keep the company's margins under pressure. Following a difficult 2022, we expect net income to recover by 202% yoy to SAR243mn in 2023f (similar to 2021) but remains significantly lower than pre-2021 profitability. The stock is trading at 2023f P/E and EV/EBITDA of 28.2x and 7.6x vs the global peers average of 15.9x and 8.3x, respectively.

- Removal of Hajj and Umrah restrictions to drive profitability**

BDH has a strong presence in the holy cities, with 10 stores in Makkah and 6 stores in Madinah under BinDawood brand. In total, the stores account for c19% of BDH's total store count (c60% of BinDawood brand). We believe the normalization of Hajj and Umrah activities will significantly improve the operating environment of BinDawood brand, which came under pressure due to COVID-19 related restriction. We expect the brand sales to recover to cSAR1.76bn in 2023f vs cSAR1.21bn in 2021 and cSAR1.53bn in 2022f (similar to 2019 levels), and the brand's revenue contribution to improve to 33% in 2023f vs 28% and 32% in 2021 and 2022f, respectively.

- Margins to improve in 2023f but remain lower than 2017-2021 run-rate**

We believe the normalization of Hajj and Umrah activities will help BDH to improve its gross margins from 29.5% in 2022f to 31.0% in 2023f and 31.2% in 2024f. As volumes pick-up, BinDawood stores will improve the rebate component of margins. However, these margins are lower than our previous estimates of 33.9% and 34.0%, respectively and the 2017-2020 run-rates of 33.2%. We believe the pressure on consumer wallet and the emergence of alternative spending avenues (like Riyadh Season) will keep margins under pressure, particularly for Danube brand.

- Continuation of store openings and growing online sales**

During 2022, BDH opened 6 new Danube stores, including its first international store in Bahrain and 3 express stores, while it did not open any new stores of BinDawood brand. We project store openings to continue by 4 to 5 stores every year, taking the total store count to 93 stores by 2024f (from 84 stores in 2022). To diversify revenues stream, the company is venturing into the F&B space (one store already opened). However, this segment is in the infancy stage and our projections does not include F&B revenue contribution. Furthermore, we expect online contribution to increase marginally from c1.7% in 2022f to 1.8% in 2023f supported by the growth in dark stores. Overall, we expect BDH's revenues to increase by 11.0% yoy and 6.7% yoy to SAR5.33bn and SAR5.68bn in 2023f and 2024f, respectively. And we additionally expect the profitability to recover from SAR81mn in 2022f to SAR243mn in 2023f and to reach SAR298mn in 2024f.

- Remain Neutral with a revised PT of SAR64.8**

We maintain our Neutral rating on BinDawood with a revised PT of SAR64.8 (from SAR105.0). We believe the removal of Hajj and Umrah restrictions will help the company recover its profitability starting from 2023f. The stock trades at 2023f P/E and EV/EBITDA multiples of 28.2x and 7.6x, vs the peer group average of 15.9x and 8.3x, respectively.

Summary Financials

SAR mn	2021	2022f	2023f	2024f	CAGR
Revenues	4,382	4,798	5,325	5,682	9.0%
Gross income	1,439	1,416	1,651	1,773	7.2%
Gross margin (%)	32.8%	29.5%	31.0%	31.2%	
EBIT	275	151	287	338	7.1%
EBIT Margin (%)	6.3%	3.1%	5.4%	5.9%	
Net income	241	80.5	243	298	7.3%
Net margin (%)	5.5%	1.7%	4.6%	5.2%	
EPS (SAR)	2.10	0.70	2.13	2.60	7.3%

Source: Company Reports, SNB Capital Research

NEUTRAL

Price target (SAR)	64.8
Current price (SAR)	60.0
Upside/Downside (%)	8.0

VALUATION MULTIPLES

	21	22f	23f
P/E (x)	28.5	85.2	28.2
P/B (x)	4.9	5.2	5.0
EV/EBITDA (x)	9.2	8.5	7.6
Div Yield (%)	3.2	2.0	3.0

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

Investor	% Ownership
Acacia Star Trading Co.	67.6
Abdullah Bin Dawood & Sons	6.8
Trade Expansion Development Co.	5.6
Foreign Investors	1.9

Source: Saudi Exchange, SNB Capital Research. As of 24 Jan 2023

STOCK DETAILS

M52-week range H/L (SAR)	105/45
Market cap (\$mn)	1,829
Shares outstanding (mn)	114
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	23.7	(11.1)	(37.9)
Rel. to market	18.0	(0.5)	(27.3)

Avg daily turnover (mn)	SR	US\$
3m	12.6	3.4
12m	13.8	3.7

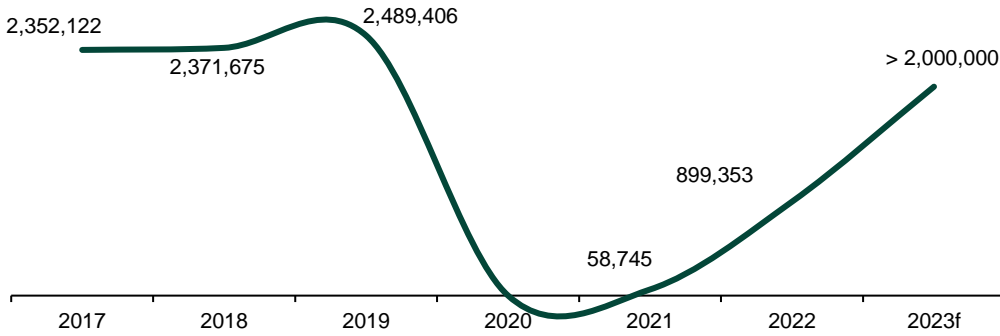
Reuters code	4161.SE
Bloomberg code	BINDAWOO AB
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Exhibit 1: Recovery in Hajj and Umrah is expected as COVID-19 restrictions removed

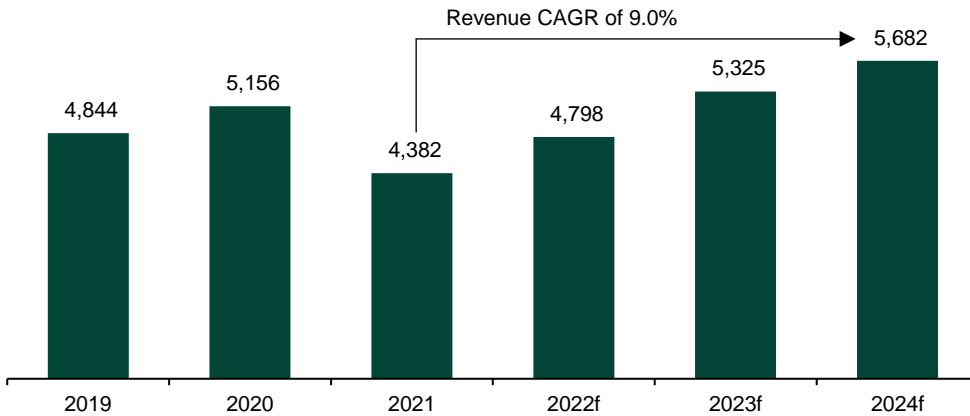
Pilgrims



Source: Gstats, SNB Capital Research

Exhibit 2: Revenues to recover in 2023f, but to remain below 2019 levels

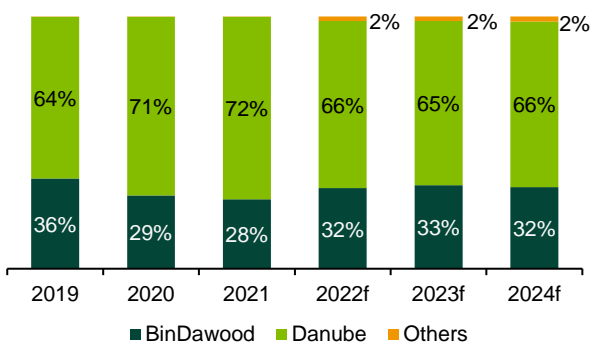
SAR mn



Source: Company Reports, SNB Capital Research

Exhibit 3: Revenue contribution of BinDawood brand to improve

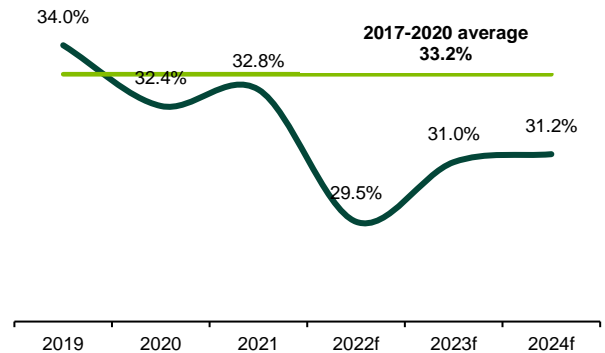
%



Source: Company Reports, SNB Capital Research

Exhibit 4: Gross margins to recover in 2023f, but to remain lower than the historical average

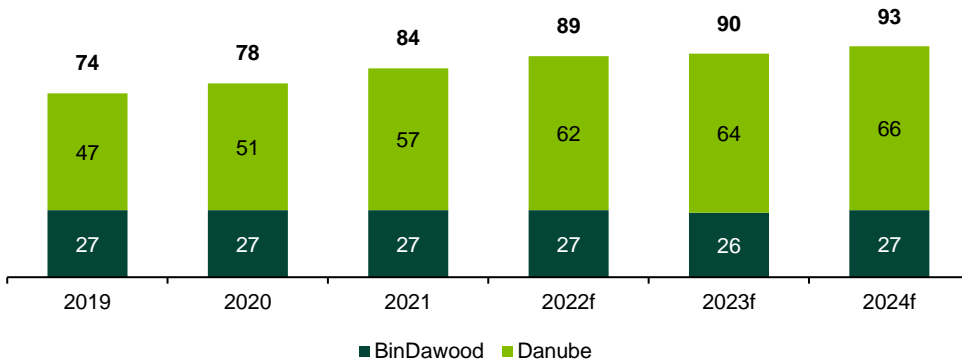
%



Source: Company Reports, SNB Capital Research

Exhibit 5: Evolution of store expansions

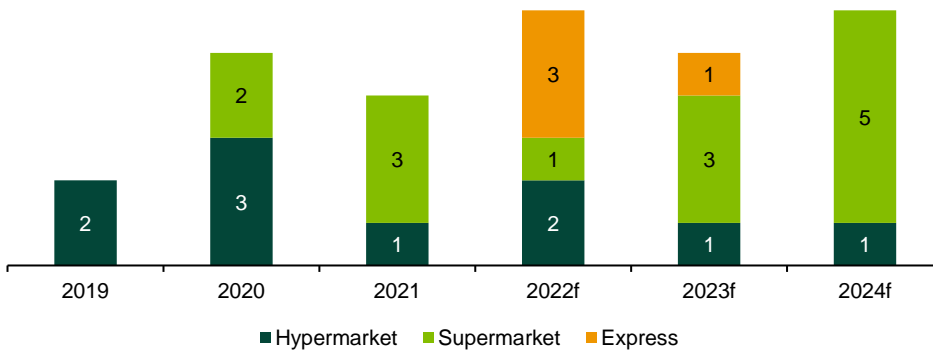
Number of stores



Source: Company Reports, SNB Capital Research. Danube store count in 2022f includes 3 express stores and 1 international branch, 2023f include one additional express store

Exhibit 6: Format wise breakdown of store expansion

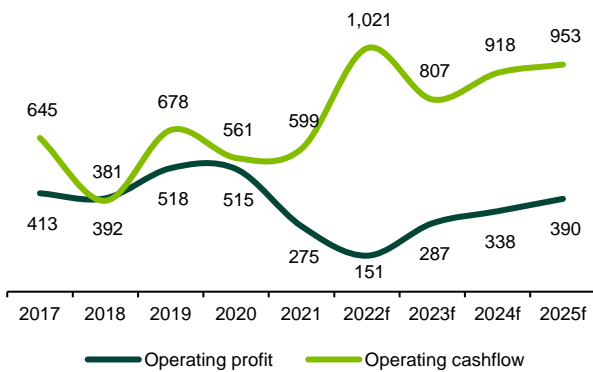
Number of stores



Source: Company Reports, SNB Capital Research. Hypermarkets in 2022f includes one in Bahrain

Exhibit 7: Operating cashflow to remain high despite lower profitability

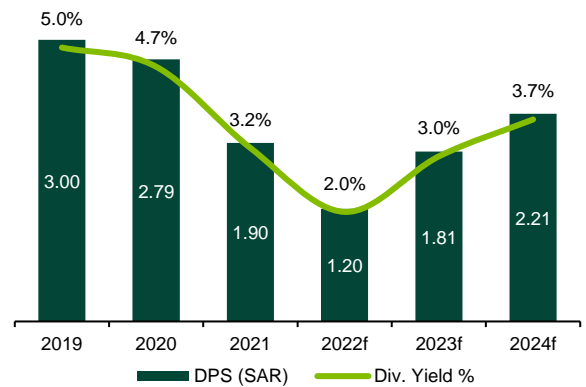
SAR mn



Source: Company Reports, SNB Capital Research

Exhibit 8: DPS and Dividend yield

SAR, %



Source: Company Reports, SNB Capital Research

Key risks

- **Inflation:** Higher than expected inflation levels is expected to put margins under pressure.
- **Lower store openings:** We project 15 additional store openings by 2024f. A delay in store expansion would result in a slower growth of earnings.
- **Less contribution of online sales:** We expect online sales to contribute SAR101mn to sales by 2024f. Lower than expected contribution would reduce our revenues projections.
- **A delay in the ease of Hajj and Umrah restrictions:** We expect earnings to recover by 2023f mainly driven by easing Hajj and Umrah restrictions. Any delay would lower our 2023f profit expectations.

Valuation

To determine our PT, we assigned a 60% weight to the DCF valuation, 20% weight to P/E valuation, and 20% to the EV/EBITDA valuation. Therefore, BinDawood's PT stood at SAR64.8. Below are the key inputs to our valuation:

Exhibit 9: Valuation summary

				PT	Weights
Risk free	US 10-year	3.7%	DCF	75.4	60%
Adj. Beta	3-year weekly	0.68	P/E	40.7	20%
WACC		8.4%	EV/EBITDA	56.9	20%
Terminal Growth rate		2.5%			
			Price Target (SAR)	64.8	

Source: SNB Capital Research estimates

Change in estimates

We reduce our 2022f-2023f net income estimates by 61.0%, due to the weak margins and earnings.

Exhibit 10: Changes to estimates

In SAR mn, unless otherwise stated

	Old 2022f	New 2022f	% Chg	Old 2023f	New 2023f	% Chg
Revenue	5,143	4,798	(6.7)%	5,591	5,325	(4.8)%
EBIT	498	151	(69.7)%	537	287	(46.6)%
Net income	399	80.5	(79.8)%	431	243	(43.6)%
Price target	SAR			105.0	64.8	(38.3)%

Source: SNB Capital Research estimates

Financials

Exhibit 11: Income statement

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Revenue	4,382	4,798	5,325	5,682
Growth (%)	(15.0)	9.5	11.0	6.7
Cost of sales	2,943	3,382	3,674	3,909
Gross income	1,439	1,416	1,651	1,773
Growth (%)	(13.9)	(1.6)	16.6	7.4
Gross margin (%)	32.8	29.5	31.0	31.2
Operating expenses	1,174	1,276	1,375	1,447
as % of Revenue	26.8	26.6	25.8	25.5
EBITDA	695	751	826	861
Growth (%)	(26.8)	8.0	10.0	4.3
EBITDA Margin (%)	15.9	15.6	15.5	15.2
Interest Expense	88	84	87	84
PBT	258	101	253	310
Tax (Zakat)	18	20	10	12
Minority interest	0	0	0	0
Net income	241	80.5	243	298
Growth (%)	(46.3)	(66.5)	202.1	22.4
Net margin (%)	5.5	1.7	4.6	5.2
EPS	2.10	0.70	2.13	2.60
DPS	1.90	1.20	1.81	2.21

Source: Company Reports, SNB Capital Research estimates

Exhibit 12: Balance sheet

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Cash & cash equivalents	484	472	561	667
Accounts receivable	445	415	448	462
Inventories	818	880	946	996
Other current assets	60	0	0	0
Total Current Assets	1,808	1,768	1,955	2,125
Property and Equipment	740	724	714	712
Intangibles	1	170	85	42
Right of use assets	2,083	2,046	1,986	1,921
Other non-current assets	0	0	0	0
Total Non-current assets	2,824	2,940	2,785	2,676
Total assets	4,631	4,708	4,740	4,800
Short term debt	0	0	0	0
Accounts payable	704	921	946	1,012
Lease Liab.	298	306	297	287
Other current liabilities	27	27	27	27
Total current liabilities	1,029	1,255	1,270	1,326
Long-term debt	0	0	0	0
Lease liab. Non-current	2,077	2,011	1,950	1,884
Others	115	126	137	148
Total non-current liabilities	2,192	2,137	2,087	2,032
Total liabilities	3,220	3,392	3,357	3,358
Share capital	1,143	1,143	1,143	1,143
RE & Reserves	268	173	240	300
Total stockholders' equity	1,411	1,316	1,383	1,442
Minority interest	0	0	0	0
Total equity & liabilities	4,631	4,708	4,740	4,800

Source: Company Reports, SNB Capital Research estimates

Exhibit 13: Cash flow statement

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Cash flow from op. (a)	599	1021	807	918
Cash flow from inv.(b)	(84)	(522)	(196)	(214)
NOPLAT	329	269	378	427
WC	(47)	217	(93)	(21)
Capex	(85)	(482)	(152)	(167)
Depreciation	421	600	539	524
Free cash flow	278	271	328	404
Dividend	(120)	(177)	(179)	(239)
Cash flow from fin. (c)	(263)	(511)	(522)	(598)
Net chg. in cash (a+b+c)	252	(12)	89	106
Cash at start of the year	232	484	472	561
Cash at end of the year	484	472	561	667

Source: Company Reports, SNB Capital Research estimates

Exhibit 14: Key ratios

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Per share ratios				
EPS	2.1	0.7	2.1	2.6
FCF per share	2.4	2.9	3.5	3.7
Cash per share	3.5	3.6	4.3	4.5
BVPS	12.3	11.5	12.1	12.6
DPS	1.9	1.2	1.8	2.2
Profitability ratios				
Gross margin (%)	32.8	29.5	31.0	31.2
Operating margin (%)	6.3	3.1	5.4	5.9
EBITDA margin (%)	15.9	15.6	15.5	15.2
Net margin (%)	5.5	1.7	4.6	5.2
Operation ratios				
Receivable days (x)	18.8	20.4	19.7	19.6
Inventory days (x)	112.8	91.7	90.7	90.7
Payable days (x)	56.8	52.5	55.1	53.3
Cash cycle	74.8	59.6	55.3	56.9
Return ratios				
ROE (%)	17.7	5.9	18.0	21.1
ROA (%)	5.1	1.7	5.1	6.2
ROCE (%)	7.5	4.3	8.3	9.7
Payout Ratio (%)	90.3	170.4	85.0	85.0
Valuation ratios				
P/E (x)	28.5	85.2	28.2	23.1
P/FCF (x)	25.3	20.9	17.0	16.2
P/BV (x)	4.9	5.2	5.0	4.8
EV/Sales (x)	1.5	1.3	1.2	1.1
EV/EBITDA (x)	9.2	8.5	7.6	7.2
Div. yield (%)	3.2	2.0	3.0	3.7
PEG (x)	(0.6)	(1.3)	0.1	1.0
Solvency ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.4)	(0.4)	(0.5)
Net Debt/ EBITDA	(0.7)	(0.6)	(0.7)	(0.8)
Interest coverage ratio	3.1	1.8	3.3	4.0
Current ratio	1.8	1.4	1.5	1.6
Quick ratio	1.0	0.7	0.8	0.9
Operating metrics				
Store count	78	84	89	93
Selling space (000 sqm)	378	392	409	428

Source: Company Reports, SNB Capital Research estimates

JANUARY 2023

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