BinDawood

Retail – Industrial

BINDAWOOD AB: Saudi Arabia

13 September 2022

US$2.370bn	20%	US$6.35mn
Market cap	Free float	Avg. daily volume

Target price	86.0	+10% over current
Current price	78.1	as at 13/09/2022

Al Rajhi Capital

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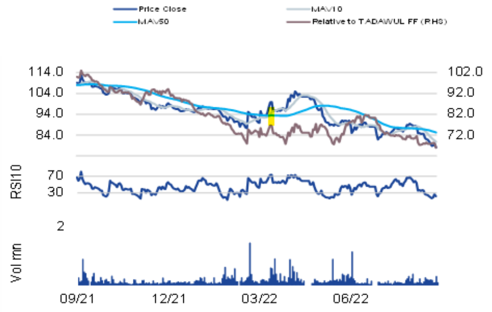
Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

(SARmn)	2021	2022E	2023E
Revenue	4,382	4,611	5,140
Y-o-Y	-15.0%	5.2%	11.5%
Gross profit	1,439	1,512	1,694
Y-o-Y	-13.9%	5.1%	12.0%
Gross margin	32.8%	32.8%	32.9%
EBITDA	695	754	905
Y-o-Y	-26.7%	8.5%	19.9%
EBITDA margin	15.9%	16.4%	17.6%
Net profit	241	268	396
Y-o-Y	-46.3%	11.4%	47.9%
Net margin	5.5%	5.8%	7.7%
EPS (SAR)	2.1	2.3	3.5
DPS (SAR)	1.9	2.0	2.5
P/E	38.0	34.1	23.1
EV/EBITDA	15.7	14.5	12.1

Source: Company data, Al Rajhi Capital

BinDawood

Inflation pressure and high OPEX hitting margins, maintain a neutral rating with a TP of SAR86/sh.

Year to date story:

BinDawood struggled in the 1H of 2022 as inflation rises, which deals more effect to premium supermarket chains. Although revenue in the 1H grew by 6.6% to reach SAR2.4bn, gross profit fell by 1.4% and reached SAR762mn (gross margin was 31.8% vs 34.4 y-o-y) which reflected the pressure in the company's margins which was mainly due to aggressive offers in the month of Ramadan and the loyalty program. Also, in the 1H22 operating expense witnessed a SAR55mn increase y-o-y which is due to new stores and the acquisition of IATC and Ykone. As purchasing power is weakening due to inflation, we expect Danube chain to face some challenges as it is considered a premium hyper/supermarket and discretionary products. Danube stores witnessed a decline of 0.5% in sales in the 2Q. Despite the rise in 2Q footfall, basket size fell by 8.7% to SAR97.4 as people are looking for better deals in a tight wallet. On the other side, BinDawood chain saw a relief after the easing of Umrah and Haji activities contributing positively to revenue (Haramain stores sales increased by SAR84mn in 2Q22 y-o-y).

Growth Drivers.

Going forward, we expect the company to open 5 to 7 new stores annually including expansions of BinDawood stores in Riyadh. The expansion to Dark stores is under progress as currently online sales represent around 1.2%, it is early to quantify the impact in sales; however, globally online groceries represent 6-8% of total revenue. Thus, we revise our target to SAR86/sh, implying a ~10% upside from the CMP of SAR78.1/sh.

2Q results commentary.

In the 2Q22, BinDawood revenue grew by 9% y-o-y as Haji and Umrah activities were eased, Haramain stores contribution to revenue increased by SAR84mn as compared to 2Q21 (4.7% y-o-y). Gross profit dropped by 5% due to loyalty program and aggressive Ramadan season offers to attract customers during this inflationary period. Operating expense increased by 11% y-o-y which could be partially offset due to the expected opening of new stores in 2H22. All of these impacted the net profit negatively, bringing the NP to SAR42mn compared to SAR95mn in 2Q21.

Figure 1: BinDawood's 2Q22 Results

(SAR mn)	2Q 2022	2Q 2021	*Y-o-Y*	1Q 2022	*Q-o-Q*	ARC est	*vs ARC*
Revenue	1,221	1,123	9%	1,175	*4%*	*1163*	*5%*
Gross profit	378	399	*-5%*	384	*-1%*	391	*-3%*
Gross margin	31%	36%		33%		34%	
Operating profit	65	117	*-45%*	73	*-11%*	98	*-34%*
Operating margin	5%	10%		6%		8%	
Net profit	42	95	*-55%*	65	*-35%*	78	*-46%*
Net margin	3%	8%		6%		7%	

Valuation.

We arrived at our 12m forward-looking target price for the company using equal mix of DCF and P/E. The DCF target price is based on a 2.5% terminal growth and a WACC of 8.3% reaching to SAR91/share. The P/E target price based on 26x and FY 2023 EPS is SAR81/sh. Overall, we change our target price to SAR86/sh and maintain a neutral rating. Upside risks to our valuation are, better than expected improvement in gross margin, lower than expected capex spending, higher growth than expected new stores opened annually.

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"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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