BinDawood
Retail – Industrial
BINDAWOOD AB: Saudi Arabia
15 January 2023

الراجحي المالية
Al Rajhi Capital

US$1.719bn	20%	US$3.60mn
Market cap	Free float	Avg. daily volume

Target price	62.00	+9.7% over current
Current price	56.50	as at 1/12/2023

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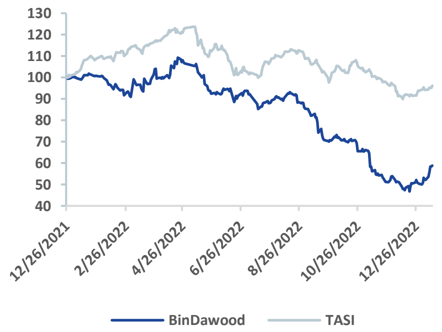
Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

(SARmn)	2021	2022E	2023E
Revenue	4,382	4,742	5,023
Y-o-Y	-15%	8%	6%
Gross profit	1,439	1,441	1,627
Y-o-Y	-14%	0%	13%
Gross margin	33%	30%	33%
EBITDA	695	603	781
Y-o-Y	-27%	-13%	30%
EBITDA margin	16%	13%	16%
Net profit	241	83	217
Y-o-Y	-46%	-66%	162%
Net margin	5%	2%	4%
EPS (SAR)	2.1	0.7	1.9
DPS (SAR)	1.9	1.5	1.5
P/E	26.8	78.1	29.8
EV/EBITDA	11.9	13.7	10.6

Source: Company data, Al Rajhi Capital

BinDawood

Continued OPEX pressure & erosion of earnings, hitting sentiment, maintain a neutral rating with a TP of SAR62/sh.

BinDawood reported unexpected negative numbers in Q3, reporting losses for the first time of around SAR48mn. The company attributed the losses to the corrective action undertaking by the company and attributing the losses mainly for realignment of supplier income, coupled with some other reasons, resulting in a SAR90mn difference in gross profit compared to 3Q21. In 2022, the company spent around SAR70mn for marketing related expense which the company believes to be a non-recurring expense. Adding to that, the supplier income restructuring efforts which the company believes could add around SAR80mn to SAR90mn in 2023. These two triggers could improve the results significantly.

Outlook:

We believe what happened recently was an overreaction and we expect the company to get back to profitability in Q4 and restore investors' confidence. We expect BinDawood's sales to grow by mid-single digit in the coming few years. For 2023 we expect the company to improve earnings for the following reasons 1) opening of delayed stores which will improve performance, 2) the restructuring of the supplier agreement, 3) lowering the aggressive spending towards marketing campaigns, 4) the higher spending to acquire customers for the loyalty program in its first year of starting (2022). However, we do not think that the company will reach its pre-covid levels any time soon. As a result, we revise our target price from SAR86/sh to SAR62/sh on the companies' inability to restore the level of earnings it used to generate, while the CMP is SAR56.5/sh (upside of 9.7%), we maintain a neutral rating.

3Q results commentary.

In the 3Q22, BinDawood revenue grew by 10% y-o-y as Umrah activities were eased, and Haramain stores' contribution to revenue increased by SAR65mn as compared to the 3Q21. Gross profit down by 23% y-o-y, due to what the management claims to be "corrective actions,". Operating expenses up 10% y-o-y, largely due to the recent acquisitions and the delay of the opening of some stores. All of these impacted the earnings negatively.

Figure 1: BinDawood's 3Q22 Results

(SAR mn)	3Q 2022	3Q 2021	*Y-o-Y*	2Q 2022	*Q-o-Q*	ARC est	*vs ARC*
Revenue	1,183	1,078	10%	1,221	*-3%*	*1142.5*	*4%*
Gross profit	307	397	*-23%*	378	*-19%*	400	*-23%*
Gross margin	26%	37%		31%		35%	
Operating profit	(27)	96	*-128%*	65	*-141%*	83	*-132%*
Operating margin	-2%	9%		5%		7%	
Net profit	(48)	70	*-168%*	42	*-213%*	61	*-178%*
Net margin	-4%	7%		3%		5%	

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 8.8% reaching to SAR72/share. The P/E target price based on 25x, and FY 2023 EPS is SAR52/sh. Overall, we change our target price to SAR62/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. Downside risks are, lower earnings, greater competition leading to thin margins, and the failure to restructure the back margin to the best interest of the company.

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"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.

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