Bawan Company
Engineering – Industrial
BAWAN AB: Saudi Arabia
18 May 2022

الراجحي المالية
Al Rajhi Capital

US$0.565bn	53%	US$6.34mn
Market cap	Free float	Avg. daily volume

Target price	35.00	-2.4% over current
Current price	35.85	as at 18/5/2022

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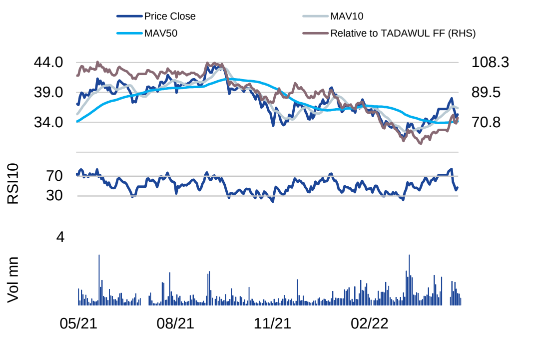
Existing rating

Underweight	**Neutral**	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2021A	2022E	2023E
Revenue	3,227	3,345	3,474
Revenue growth	33%	4%	4%
Gross profit	425	409	438
Gross margin	13%	12%	13%
EBITDA	267	255	279
EBITDA margin	8%	8%	8%
Net profit	170	148	169
Net margin	5%	4%	5%
EPS	2.84	2.46	2.81
DPS	1.50	1.50	1.50
Payout ratio	53%	61%	53%
EV/EBITDA	10.8x	11.3x	10.2x
P/E	12.6x	14.6x	12.7x
RoE	23.0%	18.5%	19.3%

Source: Company data, Al Rajhi Capital

Bawan Co

Revenue and margins to come under pressure; TP at SAR35/sh

Bawan Co (Bawan) registered revenue of SAR950 mn, a y-o-y growth of 10.2% and, was higher than our estimate of SAR895 mn. Sales were aided by growth in revenue across segments. Steel and wood segment revenue grew by 2.9% y-o-y, electrical product grew by 31.5% y-o-y, plastic grew by 16.8% y-o-y, and concrete grew by 33.9% y-o-y. Revenue growth was aided by improved prices in steel, wood, and electricity segments. Gross profits increased by 21.7% y-o-y, while operating profits increased by than 34.3% y-o-y and were driven mainly by higher revenue and operating leverage. Profitability improved across segments, but for the plastic segment, which came under pressure during the quarter, despite higher revenue, due to increase in raw-material prices. Net income of steel & wood segment increased by 52.3% y-o-y, while electricity segment net income more than doubled. Concrete segment on the other hand registered a net income of SAR2.2 mn during the quarter, corresponding to a loss for the same period previous year, while net income of the plastic segment fell by 41.3% y-o-y. Gross margins of Bawan have increased by 124-bps y-o-y to 13.1% during the quarter; however, we feel that these levels of margins are difficult to sustain, at the back of increasing raw-material prices and pressure on demand. Construction activity in the country have come under pressure due to increasing commodity prices and we expect this trend to continue in the medium term. Though we expect some recovery post H1 2022, we expect sales volume will remain under pressure. Overall, we have reduced our target price of Bawan to SAR35/sh, from the earlier target price of SAR48/share, and reduce our rating to "Neutral".

Q1 results: Gross margins of Bawan improved to 13.1% in Q1 2022, corresponding to 11.9% in Q1 2021, but was slightly lower than 13.2% in Q4 2021. This was at the back of improvement in profitability in most segments, except plastic segment, aided by improvement in revenue and the corresponding improvement in operating leverage. Net income margins, improved to 5.3% in Q1 2022, compared to 4.8% a year back and was in line with Q4 2021 levels.

Figure 1: Bawan: Summary of Q1 2022 results

(SARmn)	Q1 2022	Q1 2021	Q4 2021	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	950	862	849	10%	12%	895
Gross Profit	125	102	112	22%	12%	118
Gross Margin	13%	12%	13%	NA	NA	13%
Operating Profit	67	50	42	34%	58%	52
Net Profit	50	42	45	21%	13%	43

Source: Company data, Al Rajhi Capital

Valuation and risks: We value the company based on an equal mix of DCF and relative valuation. The DCF based target price has a 2% terminal growth and 8.6% WACC and comes to SAR34/sh. P/E based relative valuation has an 15x multiple and gives a target price of SAR35/sh. Thus, we have revised our target price for the company to SAR35/sh, a downside of 2.4%, which implies an "Neutral" rating. The key downside risks are oil price weakness, lower mortgage demand, adverse movement of commodity prices and an increase in the working capital requirement, resulting in an increase in leverage.

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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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