

US\$0.7bn Market Cap. 76.1% Free Float US\$2.6mn Avg. Daily Value traded

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Neutral

Price Target (SAR): 41

Current (9th June 2024): 43.05
Upside/Downside: 4.8% below current

Valuation Multiples	23A	24E	25E
P/E (x)	19.0	20.9	18.1
EV/EBITDA (x)	11.0	11.6	10.7

Major Shareholders % Ownership

Al Fozan Holding Co.	20.87
Abdul Qadir Al Muhaidib & Sons Co.	13.38

Price Performance	1M	3M	YTD
Absolute	-7.6%	-12.6%	-5.6%
Relative to TASI	-3.5%	-6.8%	-4.7%

Earnings

SARmn	2023	2024E	2025E
Revenue	3,352	3,412	3,466
Revenue growth	-0.4%	1.8%	1.6%
Gross profit	386	379	399
Gross margin	11.5%	11.1%	11.5%
EBITDA	273	254	269
EBITDA margin	8.1%	7.4%	7.8%
Net profit	136	124	142
Net margin	4.1%	3.6%	4.1%
EPS	2.3	2.1	2.4
DPS	1.5	1.5	1.6
Payout ratio	66.2%	72.7%	65.3%
P/E	19.0x	20.9x	18.1x
RoE	15.3%	14.0%	15.3%

Source: Company data, Al Rajhi Capital.

Bawan Co.

Maintain Neutral Rating

We revise our Fair Value of Bawan to SAR41/sh (a downside of 4.8% to the last close) and maintain our neutral rating on the stock. Since 2021, Bawan's profitability has been in consistent decline due to the combined impact of several externalities. Going forward, we expect the company's topline to grow by a muted ~2% YoY as flattish growth in the metal and steel segment is expected to largely offset the 7% YoY growth expected in electrical segment. Topline growth of the metal & woods segment (which accounts for ~70% of the company's topline) is expected to remain relatively subdued amid the expectation of single low-digit growth in volumes and stable prices. Within the electrical segment, apart from organic growth from existing products, the company's entrance into the business of modular data centers can be expected to positively contribute towards the company's profitability. The stock currently trades at a forward P/E of 20.9x and offers a dividend yield of 3.5%. In our opinion, the current stock prices balance the risks and rewards associated with the company.

Victim of externalities: Since 2021, Bawan's bottom-line has been in consistent decline due to the combined impact of several externalities. Due to decline in international commodity prices, realized prices for the metal/wood segment have declined by 18%/33% between 2021 and 2023 resulting in inventory loss. Additionally, within the wooden pallets business, overall industry volumes declined due to contraction in demand from the petrochemical segment. During this period, other players in the metal and wood segment have curtailed their business in-order to manage inventory losses.

Going forward, we expect the company's topline to grow by a muted ~2% YoY as flattish growth in the metal and steel segment is expected to largely offset the 7% growth expected in electrical segment. Our expectation is premised on stable steel & wood prices amid single low-digit growth in volumes. We opine that even if the overall demand for steel and wood pallets were to increase it should result in other players (who had previously reduced their business volumes) trying to regain their market share.

Electricity Segment; the White Knight: While other segments have remained under pressure due to decline in commodity prices, the electrical segment has provided much-needed support to Bawan's bottom-line over recent years. Going forward, apart from organic growth from existing products (transformers, substations, and switchgears), the company's entrance into the business of modular data center can be expected to positively contribute towards the company's profitability. As per our understanding, the financial impact of this new business is expected to start reflecting in the company's accounts from 2025 onwards.

Recommendation and Valuation:

We revise our Fair Value of Bawan to SAR41/sh (a downside of 4.8% to the last close) and maintain our neutral rating on the stock. We value the company using the discounted cash flow method and EV/EBITDA method, giving equal weight to both. For the discounted cashflow method, we use an average WACC of 8.4% and a terminal growth rate of 2.5%. For the target EV/EBITDA method, we use a historical average EV/EBITDA of 11.5x.

Figure 1 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	38	50.0%	19	-12%
EV/EBITDA	43	50.0%	22	0%
Target price			41	
CMP			43.05	
Upside/(Downside)			-4.8%	
Dividend yield			3.5%	
Total returns			-1.3%	

Source: Al Rajhi Capital estimates.

Figure 2 **EV/EBITDA Valuation Method**

EV/EBITDA Valuation method		
	Multiple	
Target EV/EBITDA		11.5
2024 EBITDA	SAR	254
Enterprise value	SAR	2,918
Net debt	SAR	357
EV/EBITDA based Fair Value	SAR/sh	43.0

Source: Al Rajhi Capital estimates.

Financials

Figure 3 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	3,352	3,412	3,466
<i>y-o-y growth</i>	-0.4%	1.8%	1.6%
Cost of Sales	2,966	3,033	3,067
Gross Profit	386	379	399
<i>y-o-y growth</i>	-4.5%	-1.8%	5.2%
<i>margins</i>	11.5%	11.1%	11.5%
Operating Profit	199	184	193
<i>y-o-y growth</i>	-5.6%	-7.6%	4.8%
<i>margins</i>	5.9%	5.4%	5.6%
Net Income	136	124	142
<i>y-o-y growth</i>	-16.5%	-9.0%	15.1%
<i>margins</i>	4.1%	3.6%	4.1%
EPS	2.3	2.1	2.4

Source: Company data, Al Rajhi Capital.

Figure 5 **Ratios and Multiples**

	2023	2024E	2025E
RoE	15.3%	14.0%	15.3%
Debt/EBITDA (x)	1.5	1.5	1.2
P/E (x)	19.0	20.9	18.1
D/Y	3.5%	3.5%	3.6%
EV/EBITDA (x)	11.0	11.6	10.7

Source: Company data, Al Rajhi Capital.

Figure 4 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and cash equivalents	32	51	69
Inventories	782	705	756
Trade and other receivables	593	656	617
Others	30	31	31
Current Assets	1,438	1,443	1,474
Property and equipment	672	708	690
Intangible assets and goodwill	4	4	4
Right-of-use assets	28	31	35
Others	21	11	11
Total Assets	2,164	2,198	2,215
Trade and other payables	599	622	630
Short-term borrowings	289	250	200
Long term borrowings	23	30	30
Contract liabilities	62	63	63
Lease liabilities	4	3	3
Others	27	85	85
Current Liabilities	1,003	1,052	1,011
Long-term borrowings	108	100	100
Lease liabilities	24	24	26
Others	69	70	70
Total liabilities	1,203	1,247	1,207
Share capital	600	600	600
Retained earnings	253	240	297
Others	107	111	111
Total equity	961	951	1,008

Source: Company data, Al Rajhi Capital.

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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.

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