

Fawaz Abdulaziz Alhokair Co.

Maintaining Neutral Rating

Neutral

Price Target (SAR): 8.5

Current: 8.06
Upside/Downside: 5.5% above current

Valuation Multiples	23A	24E	25E
P/S (x)	0.4	0.2	0.2
EV/EBITDA (x)	NA	6.7	6.4

Major Shareholders	% Ownership
Saudi FAS Holding Co.	37.51
Al Hokair Salman Abdul Aziz	6.84
Al Hokair Abdul Majeed Abdul Aziz	5.45

Price Performance	1M	3M	YTD
Absolute	-28.7%	-54.1%	-54.3%
Relative to TASI	-22.1%	-46.1%	-50.9%

Earnings

SAR mn	2023	2024E	2025E
Revenue	5,232	5,194	5,022
Revenue growth	NA	-0.7%	-3.3%
Gross profit	647	655	679
Gross margin	12.4%	12.6%	13.5%
EBITDA	(68)	735	735
EBITDA margin	-1.3%	14.2%	14.6%
Net profit	(1,178)	(165)	(16)
Net margin*	-22.5%	-3.2%	-0.3%
Adjusted Net Income #	(695)	(350)	(166)
EPS/LPS	(10.3)	(1.4)	(0.1)
P/S	0.4x	0.2x	0.2x

Source: Company data, Al Rajhi Capital. * Net Income attributable to shareholders, # Adjusted Net Income excludes one-offs

We revise our Fair Value of Cenomi Retail to SAR8.5/sh, (offering an upside of 5.5% to current market price) and maintain a Neutral rating on the stock. The stock has come down by ~50% since the company reported a loss of ~SAR1bn in 4Q23 and simultaneously announced board recommendation to decrease share capital by 91%. Going forward, the management plans to further divest 24 non-core brands to reduce its total debt which currently stands at SAR2.3bn (or 44% of the total assets). Post-divestment, we expect the company's gross margins to improve to ~14% since its topline would largely consist of relatively higher margins champion brands like Zara. Furthermore, we expect management's efforts to right size the company and reduce operating costs to yield positive results. However, despite these positives, we do not expect the company to break-even on an annual basis in the near-term. We value the company using an EV/EBITDA target multiple of 7.0x (as against its recent historical multiple of ~7.2x). Within our coverage, other retail companies currently trade at an EV/EBITDA in the range of 9x-12x. In our opinion, the relatively lower multiple for Cenomi Retail is justified since the other companies in the retail space are profitable and face less uncertainty about their future operations.

Sale/Exit from 24 brands to help reduce debt: After concluding the recent divestment from 16 brands, the company has identified 24 further non-core brands for sale/exit. The management expects the sale/exit from these 24 brands to result in net proceeds of ~SAR650mn (and result in a capital gain of ~SAR400mn; being conservative we expect a lower net proceed and a capital gain of SAR300mn in our estimates). The proceeds from the sale/exit are expected to be utilized in reducing the total debt of Cenomi Retail which currently stands at SAR2.3bn (or 44% of the total assets). As per our understanding, since these 24 brands currently contribute ~10% of the company's topline, the sales per store of the company should improve after the divestment of these brands.

Annual bottom-line likely to remain in red: Post-divestment, we expect the company's gross margins to improve to ~14% since its topline would largely consist of sales from relatively higher margins champion brands like Zara. Furthermore, we expect management's efforts to right-size the company and reduce operating costs to yield positive results. However, despite these positives, we do not expect the company to break-even on an annual basis in the near-term (though the company's bottom-line can be expected to turn green during the high sale seasons of the two Eids). Hence, in our opinion, it is possible that the management may plan for further increase in capital post the divestment of 24 brands (to recall the company's board had directed the management to study ways to restructure the company's capital and the need to increase it after completing the sale of non-essential brands).

Recommendation and Valuation:

We revise our Fair Value of Cenomi Retail to SAR8.5/sh, (offering an upside of 5.5% to current market price) and maintain a Neutral rating on the stock. We value the company using an EV/EBITDA target multiple of 7.0x (as against its recent historical multiple of ~7.2x). Within our coverage, other retail companies currently trade at an EV/EBITDA in the range of 9x-12x. In our opinion, the relatively lower multiple for Cenomi Retail is justified since the other companies in the retail space are profitable and face less uncertainty about their future operations.

Figure 1 **Valuation table**

Valuation Method	Upside/ downside
Target Multiple (x)	7.0
Enterprise Value (SAR mn)	5,143
Net Debt & Lease (SAR mn)	4,164
No of shares (No Mn)	115
Fair Value (SAR/sh)	8.5
CMP	8.1
Upside/(Downside)	5.5%

Source: Al Rajhi Capital estimates.

Financials

Figure 2 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	5,232	5,194	5,022
<i>y-o-y growth</i>	NA	-0.7%	-3.3%
Cost of Sales	4,586	4,539	4,343
Gross Profit	647	655	679
<i>y-o-y growth</i>	NA	1.4%	3.6%
<i>margins</i>	12.4%	12.6%	13.5%
Operating Profit	(640)	208	272
<i>y-o-y growth</i>	NA	NA	30.2%
<i>margins</i>	-12.2%	4.0%	5.4%
Net Income*	(1,178)	(165)	(16)
<i>y-o-y growth</i>	NA	-86.0%	-90.4%
<i>margins</i>	-22.5%	-3.2%	-0.3%
Adjusted Net Income #	(695)	(350)	(166)
EPS/LPS	(10.3)	(1.4)	(0.1)

Source: Company data, Al Rajhi Capital. * Net Income attributable to shareholders, # Adjusted Net Income excludes one-offs

Figure 4 **Ratios and Multiples**

	2023	2024E	2025E
Cash Conversion Cycle (days)	(27)	(45)	(44)
Debt + Lease/EBITDA (x)	NA	5.6	5.3
P/S (x)	0.4	0.2	0.2
EV/EBITDA (x)	NA	6.7	6.4

Source: Company data, Al Rajhi Capital.

Figure 3 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and cash equivalents	235	132	96
Inventories	794	514	528
Trade and other receivables	302	272	279
Others	26	44	44
Current Assets	1,357	963	947
Property and equipment	1,150	1,120	1,078
Right-of-use assets	2,045	1,704	1,521
Goodwill & Intangible assets	756	750	743
Investment property	1	1	1
Other Investments	139	106	106
Assets held for sale	310	-	-
Total Assets	5,758	4,643	4,396
Trade and other payables	1,400	1,262	1,295
Long term borrowings	2,298	2,000	1,800
Lease liabilities	579	484	467
Others	134	130	130
Current Liabilities	4,411	3,876	3,693
Long-term borrowings	209	200	200
Lease liabilities	1,556	1,452	1,402
Liabilities of Assets held for sale	268	-	-
Others	121	134	134
Total liabilities	6,564	5,662	5,429
Share capital	1,148	1,148	1,148
Retained earnings	(1,404)	(1,568)	(1,581)
Others	(550)	(599)	(599)
Total equity	(806)	(1,019)	(1,033)

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.

"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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Contact us

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

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