

Fawaz Abdulaziz Alhokair Co.

Long Road Ahead; Underweight with a Fair Value of SAR 9.5/sh

Underweight

Price Target (SAR): 9.5

Current : 12.16

Upside/Downside: 21.9% below current

Valuation Multiples	24A	25E	26E
P/S (x)	0.3	0.3	0.3
EV/EBITDA (x)	5.9	7.1	6.8

Major Shareholders	% Ownership
FAS Saudi Holding Company	36.64
Salman Abdulaziz Fahd Alhokair	6.84
Abdul Majeed Abdulaziz Fahd Alhokair	5.45

Price Performance	1M	3M	YTD
Absolute	4.1%	-22.5%	-8.0%
Relative to TASI	5.9%	-15.9%	-4.0%

Earnings

(SAR Mn)	2024	2025E	2026E
Revenue	4,845	4,345	4,700
Revenue growth	-7.4%	-10.3%	8.2%
Gross profit	632	697	775
Gross margin	13.0%	16.0%	16.5%
EBITDA	772	650	697
EBITDA margin	15.9%	15.0%	14.8%
Shareholders Net Income	(204)	(67)	(17)
Net margin	-4.2%	-1.6%	-0.4%
EPS	(1.77)	(0.59)	(0.15)
P/S	0.3x	0.3x	0.3x
EV/EBITDA	5.9x	7.1x	6.8x

Source: Company data, Al Rajhi Capital.

We update our investment case for Cenomi Retail with a fair value of SAR9.5/sh, having a downside of 21.9% to the last close and hence we turn Underweight on the company. Our investment thesis is premised on company likely remaining in losses (on an annual basis and in the absence of one-offs) in the near-term due to its elevated finance cost. Furthermore, we opine that equity injection would only be possible once the company is able to demonstrate that it is no-longer a loss-making entity. In the meanwhile, company's accounts payable would likely need to be normalized, putting a strain on the Cenomi retail's cashflows. We value the company using target EV/EBITDA of 6.5x to arrive at our fair value of SAR9.5/sh.

Investment Thesis: Our Underweight stance on Cenomi Retail is based on the following:

- Company has largely completed its store/brand rationalization plan in the fashion segment (lower hanging fruit) and any further improvement in the company's financial performance would be a function of optimization/renovation of existing fashion store and disposal of loss-making brands in the food and beverages segment
- The above, however, would not be sufficient in turning the company profitable on an annual basis
- Company would have to inject equity (through right issue), after it is able to prove to the regulators that it has become profitable and use the resulting cash to payoff its debt (especially the debt whose covenants have already been breached). This, however, does not seem probable in the near-term.
- In the meanwhile, company's accounts payable would likely need to be normalized, putting a strain on the Cenomi retail's cashflows

2025/2026 Expectations & Assumptions: Cenomi Retail's earning is expected to remain in pressure in the near and medium term amid high finance cost and low probability of debt restructuring in the absence equity injection. We expect company's topline to decline by 10% in 2025 due to the full year impact of 558 stores closed in 2024 and some additional store closure expected in 2025. However, amid expectation of increase in store density and marginal increase in store network, revenue is expected to grow by 8% in 2026. Furthermore, we opine the company store/brand rationalization and optimization plan to bear fruit (as they have in the recent quarters) and expect gross margins to improve to 16.0%/16.5% in 2025/2026. Other major assumptions include:

- Operating expense as a percentage of revenue to remain at around 8% (in-line with recent history)
- Finance cost to remain elevated on account of high debt levels and high spread on debt
- Day's payable outstanding to reduce from recent high of 169days to 130days (but still remain elevated compared to company's history)

Recommendation and Valuation:

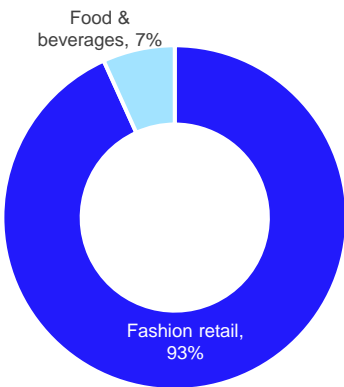
On the back of the above-mentioned factors, we turn Underweight on the company with a fair value of SAR9.5/sh, having a downside of 21.9% to the last close. We value the company using target EV/EBITDA of 6.5x taking into consideration international comparable, company's own history, and current financial performance.

Figure 1 Valuation

EV/EBITDA		
Target Multiple	multiple	6.5
Enterprise Value	SAR Mn	4,225
Net Debt & Lease	"	3,133
Fair Value	SAR/sh	9.5
CMP	SAR/sh	12.2
Upside/(Downside)	%	-21.9%

Source: Company Data, Al Rajhi Capital estimates

Figure 2 Revenue Mix (as of 2024)

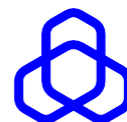


Source: Company data, Al Rajhi Capital.

Figure 3 Store Rationalization



Source: Company data, Al Rajhi Capital.



Financials

Figure 4 **Income Statement**

SAR Mn	2024	2025E	2026E
Revenue	4,845	4,345	4,700
<i>y-o-y growth</i>	-7.4%	-10.3%	8.2%
Cost of Sales	4,213	3,649	3,924
Gross Profit	632	697	775
<i>y-o-y growth</i>	-2.3%	10.3%	11.3%
<i>margins</i>	13.0%	16.0%	16.5%
Operating Profit	237	217	269
<i>y-o-y growth</i>	NM	-8.5%	23.7%
<i>margins</i>	4.9%	5.0%	5.7%
Shareholders Net Income	(204)	(67)	(17)
<i>y-o-y growth</i>	-82.7%	-66.9%	-75.0%
<i>margins</i>	-4.2%	-1.6%	-0.4%
EPS	(1.77)	(0.59)	(0.15)

Source: Company Data, Al Rajhi Capital estimates

Figure 6 **Ratios and Multiples**

	2024	2025E	2026E
Cash Conversion Cycle (Days)	(96)	(78)	(55)
(Debt+Lease)/EBITDA (x)	4.4	5.4	5.3
P/S (x)	0.3	0.3	0.3
EV/EBITDA (x)	5.9	7.1	6.8

Source: Company Data, Al Rajhi Capital estimates

Figure 5 **Balance Sheet**

SAR Mn	2024	2025E	2026E
Cash and cash equivalents	256	339	380
Inventories	632	582	699
Trade and other receivables	169	233	258
Others	35	35	35
Current Assets	1,093	1,189	1,371
Property and equipment	1,081	1,100	1,117
Right-of-use assets	1,455	1,369	1,290
Goodwill & Intangible assets	627	623	617
Investment property	1	1	1
Other Investments	130	130	130
Assets held for sale	198	-	-
Total Assets	4,586	4,413	4,527
Trade and other payables	1,800	1,553	1,505
Current portion of long term borrowi	1,760	1,800	2,000
Current Portion of Lease liabilities	358	352	376
Others	99	99	99
Current Liabilities	4,017	3,804	3,981
Long-term borrowings	82	200	200
Non-Current Portion of Lease liabili	1,189	1,178	1,129
Liabilities of Assets held for sale	241	241	241
Others	74	74	74
Total liabilities	5,604	5,497	5,626
Share capital	1,148	1,148	1,148
Retained earnings	(1,607)	(1,672)	(1,687)
Others	(559)	(559)	(559)
Total equity	(1,018)	(1,084)	(1,098)
Total Liabilities & Equity	4,586	4,413	4,527

Source: Company Data, Al Rajhi Capital estimates

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Contact us

Dr. Sultan Altowaim

Head of Research

Tel : +966 11 836 5468

Email: AltowaimS@alrajhi-capital.sa

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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