May 08, 2017

الرياض المالية
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Rating	Neutral
12- Month Target Price	SAR 22.00

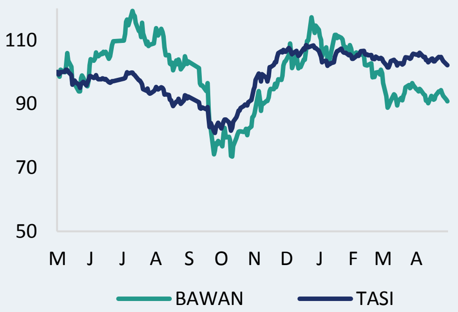
Bawan Company (BAWAN)

1Q2017 First Look

Expected Total Return	
Price as on May-07, 2017	SAR 18.56
Upside to Target Price	18.5%
Expected Dividend Yield	5.4%
Expected Total Return	23.9%

Market Data	
52 Week H/L	SAR 25.9/15.1
Market Capitalization	SAR 1,107 mln
Enterprise Value	SAR 1,701 mln
Shares Outstanding	60.0 mln
Free Float	42.9%
12-Month ADTV (000's)	603.6
Bloomberg Code	BAWAN AB

1-Year Price Performance



Source: Bloomberg

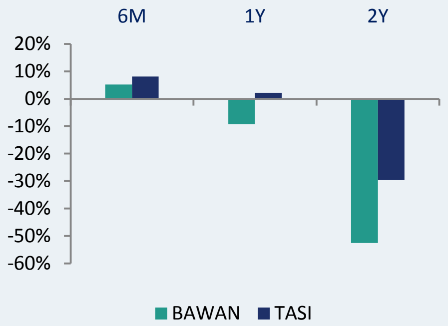


Fig in SAR mln	RC. Est	Actuals
Revenue	542	550
Gross Profit	78	69
EBIT	31	30
Net Income	15	22
EPS (SAR)	0.25	0.36

Non-Operating Income Boosts Earnings

Bawan Company (Bawan) reported an upbeat 1Q2017 earnings last week due to boost in other income, but revenues stood in-line with estimates with less than 2% deviation. EPS of SAR 0.36 was significantly higher to our SAR 0.25 estimate; posted a pleasing surprise. At first look, net margins expanded due to a robust other income while core margins declined upon cost buildup on impact of low prices and falling utilization. We believe 1Q trends are unlikely to be sustainable; would wait how trends change over the next 2-3 quarters. We maintain the same estimates for 2017-19, till then retain our SAR 22.00 target price. Valuations continue to offer slight attraction for investors at this point and 2017E P/E of 11.7x offering discount to TASI's 14.2x, but wait to see sustainable profitability trends for a re-rating. Maintain Neutral.

Revenue close to our estimates

Revenue of SAR 550 million in 1Q2017 was close to our SAR 542 million estimate, grew by +4% Q/Q but declined by -10% Y/Y. Though details are not divulged, we believe slight increase of +8% Q/Q and +9% Y/Y in metal (steel rebar) prices has helped Bawan to maintain its revenue levels in metals segment (46% of total revenue in 4Q2016). Though prices slightly recovered (steel rebar prices rose to SAR 2,287/ton in 1Q2017 from SAR 2,110/ton in 4Q2016), but netbacks would have been lower due to tough competition. Revenue from wood and packaging is also projected to be lower as wood prices of SAR 2,504/M^3 in 1Q2017 fell by -1% Q/Q and -4% Y/Y due to ailing demand from contractors, though slight improvement in packaging is likely. Revenue from concrete segment looks subdued, as double-digit decline in cement prices has directed for lower realization to concrete producers aided by lower demand, thus affecting this segment. Barring subdued growth in all segments, electric segment would have offered some respite, but most segment revenues are expected to be in-line.

Operating margins weakened this quarter

Gross profit declined by -17% Y/Y and -7% Q/Q to SAR 68.8 million, below our estimate of SAR 77.6 million as cost remains slightly out of control. We expect costs in the metals and concrete segment to have witnessed volatility as tough competition plays out, followed by weaker utilization. Gross margins declined by 110 bps to 12.5% this quarter from 13.5% in 1Q2016. The added cost pressure led to a -24% Y/Y fall in operating profit to SAR 30.5 million, came in-line with our SAR 30.8 million estimate. However, operating profit grew by +18% Q/Q as margins improved sequentially but declined on a Y/Y basis to 5.5% in in 1Q2017 from 6.5% in 1Q2016. Though operating margins declined, a boost in other income has led to an earnings beat in 1Q2017. Net income of SAR 21.6 million beat our SAR 15.0 million estimate, declined by -24% Y/Y but doubled sequentially from SAR 11.1 million in 4Q2016. Net margins of 3.9% declined 80 bps from 4.7% in 1Q2016 but higher than 2.1% in 4Q2016.

Maintain Neutral

We maintain DPS at SAR 1.00 for 2017E, currently offers good yields of 5.4% and valuations with 2017E P/E of 11.7x is cheaper to TASI but outlook for the rest of 2017 continues to be tough. We believe persistent gloom is likely to affect the producers operating in the segment, despite Bawan's diversified revenue mix. Maintain Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	2,318	2,276	2,354
EBITDA	228	193	204
Net Profit	119	95	99
EPS (SAR)	1.98	1.58	1.65
DPS (SAR)	1.00	1.00	1.00
BVPS (SAR)	13.57	14.01	14.52

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	12%	9%	9%
ROAE	15%	11%	11%
P/E	9.3x	11.7x	11.2x
P/B	1.4x	1.3x	1.3x
EV/EBITDA	7.5x	8.8x	8.3x
EV/Sales	0.7x	0.7x	0.7x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

** The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors*

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