

October 20, 2016

Rating Buy
12- Month Target Price SAR 18.00

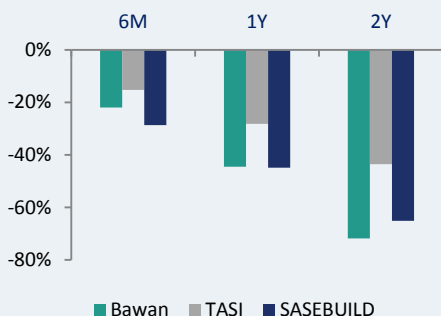
Expected Total Return

| | |
|--------------------------|-----------|
| Price as on Oct-19, 2016 | SAR 15.35 |
| Upside to Target Price | 17.3% |
| Expected Dividend Yield | 5.2% |
| Expected Total Return | 22.5% |

Market Data

| | |
|-----------------------|---------------|
| 52 Week H/L | SAR 26.7/13.7 |
| Market Capitalization | SAR 921 mln |
| Enterprise Value | SAR 1,582 mln |
| Shares Outstanding | 60.0 mln |
| Free Float | 43.0% |
| 12-Month ADTV (000's) | 590.2 |
| Bloomberg Code | BAWAN AB |

1-Year Price Performance



| Fig in SAR mln | RC. Est | Actuals |
|----------------|---------|---------|
| Revenue | 570 | 535 |
| Gross Profit | 91 | 74 |
| EBIT | 51 | 36 |
| Net Income | 43 | 22 |
| EPS (SAR) | 0.72 | 0.36 |

BAWAN COMPANY (BAWAN)

3Q2016 First Look

Margins Halved

Bawan Company (Bawan) reported 3Q2016 results, recording a dismal performance. Earnings missed expectations but revenues were in-line with estimates. EPS of SAR 0.36 was significantly lower to our SAR 0.72 estimate, a wide miss. In our earlier note, we mentioned the possible impact of low cost inventory to be a near term catalyst. However, the scenario did not extent in 3Q unlike a margin expansion in 2Q, believed to be due to weaker sales volumes. We believe Bawan's outperformance is unlikely to be sustainable over the short term, while medium term weakness in industry points to a further gloomy view. We trim our 2016-18 estimates and our target price to SAR 18.00 from SAR 24.00 on the back of overall bearishness. However, valuation still looks attractive at 8.8x 2017E earnings, still lower to TASI's 11.6x and sector's 10.4x. Maintain Buy.

Revenue close to estimate

Revenue of SAR 535 million in 3Q2016 were in-line with our estimate of SAR 570 million, declined by -2% Y/Y and -17% Q/Q. Global iron ore prices remained flat Q/Q at USD 56/ton in 3Q2016 after a sharp rally in 1Q. We believe product prices especially local metals prices, which stayed flat since start of 2Q did not boost topline. Additionally, weak demand has led to inventory destocking from contractors affecting volumes. We believe most segments displayed a decent growth in topline in 3Q, expect ready-mix and electric impacted by seasonal trends.

Ready-mix segment continues to be weak

We expect margin growth across metals segment unlikely to continue despite its procurement at low prices, hence continue to be bearish on metals segment in the coming quarters. Electric segment did not witness high order growth from SEC due to government spending cuts on the sector, while packaging segment continues to be stable on stable export growth in petrochemical sector. We remain bearish on ready-mix as cement and construction outlook remains weaker.

Cost pressure and demand slowdown affects margins

Gross profit declined by -38% Q/Q but increased by +6% Y/Y to SAR 74 million, missed our expectations of SAR 91 million. Gross margins declined to 14% this quarter from 19% in 2Q2016 but higher than 13% in 3Q2015 as costs increased and demand weakened, keeping a check on utilization rates. Operating profit of SAR 36 million missed our SAR 51 million estimate, margins declined to 7% in 3Q2016 from 10% last quarter. Net income of SAR 22 million missed our SAR 43 million estimate as margins dropped sharply, net margin halved to 4% in 3Q from 8% in 2Q2016. As a result, earnings declined by -59% Q/Q but increased by +8% Y/Y.

Cutting target prices and DPS, maintain Buy

We cut DPS to SAR 0.80 for 2017, which yields 5.2%. Bawan could see possible earnings erosion if construction outlook continues to weaken more than our expectations in 2017. However, maintain Buy as valuation upside of +17% is decent in a gloomy scenario.

Key Financial Figures

| FY Dec31 (SAR mln) | 2015A | 2016E | 2017E |
|--------------------|-------|-------|-------|
| Revenue | 2,404 | 2,300 | 2,100 |
| EBITDA | 178 | 235 | 220 |
| Net Profit | 88 | 125 | 105 |
| EPS (SAR) | 1.47 | 2.08 | 1.75 |
| DPS (SAR) | 1.00 | 1.00 | 0.80 |
| BVPS (SAR) | 14.17 | 14.80 | 15.27 |

Key Financial Ratios

| FY Dec31 | 2015A | 2016E | 2017E |
|-----------|-------|-------|-------|
| ROAA | 4% | 6% | 5% |
| ROAE | 10% | 14% | 11% |
| P/E | 10.5x | 7.4x | 8.8x |
| P/B | 1.1x | 1.0x | 1.0x |
| EV/EBITDA | 8.9x | 6.7x | 7.2x |
| EV/Sales | 0.7x | 0.7x | 0.8x |

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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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