



**US\$2.532bn** Market cap  
**30%** Free float  
**US\$5.18mn** Avg. daily volume

Target price **44.0** -8.0% over current  
Current price **47.8** as at 17/8/2017

Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

Period End (SAR)	03/16A	03/17A	03/18E	03/19E
Revenue (mn)	6,944	6,706	6,661	7,095
Revenue Growth	0.7%	-3.4%	-0.7%	6.5%
EBIT (mn)	852	592	604	661
EBIT Growth	3.7%	-19.5%	1.0%	7.0%
EPS	3.37	2.08	2.25	2.61
EPS Growth	7.2%	-38.1%	8.1%	15.7%

Source: Company data, Al Rajhi Capital

## Valuation

Period End (SAR)	03/16A	03/17A	03/18E	03/19E
P/E (x)	16.3	25.7	21.2	18.3
P/B (x)	3.8	3.5	3.2	2.9
EV/EBITDA (x)	10.7	13.3	13.2	12.3
RoE (%)	23.6%	13.5%	15.1%	15.9%

Source: Company data, Al Rajhi Capital

# Fawaz Al Hokair

## Q1FY18: Mixed set of results

Fawaz Al Hokair's Q1FY18 results are a mixed set with revenue coming below our estimates (5.5% decline y-o-y vs. estimate of 4.1% growth) but margin coming in-line with our estimates. For domestic business, we expected 1% y-o-y LFL growth despite a weak consumer spending environment to account for the holy month of Ramadan completely falling in Apr-June quarter this year while it spilled into July last year. However, the actual results suggest 8% y-o-y LFL decline based on our calculations, which points to consumer spending environment remaining weaker than our already soft expectations. Gross margin, though lower than our estimate, improved 60bps y-o-y and operating margin at 14.8% (up 70 bps y-o-y) was exactly in-line with our estimate. Based on our calculations, reported operating profit of SAR306mn should ideally result in approx. SAR260-265mn net profit (our estimate: SAR288mn). However, the reported net profit at SAR232mn indicates a likely one-off which finds no mention in the earnings release. We await the release of detailed financials to confirm the same. We cut our LFL growth estimates for the next two years (revenue estimates for FY18e/FY19e cut by ~6% each) but improve the margin estimates. Based on the revised estimates, our target price stands at SAR44.0 per share (earlier SAR38.9 per share). The stock rallied sharply post our overweight call in April 2017. We now downgrade the stock to Neutral as our target price implies 8% downside from current market price.

- Gross margin:** Though gross margin was lower than our estimate (26.6% vs. 27.6% estimate), it improved 60bps y-o-y and aligns with our view that gross margin will improve going forward as significant inventory provisions were already recognized last year and as various initiatives mature (i.e. closing unprofitable stores/ brands, better merchandizing and supply chain improvements and lowering discount windows).
- Valuation:** We continue to value Fawaz AlHokair based on equal weights for DCF and P/E based relative valuation. Our DCF based target price is SAR45.6 per share, assuming 8.68% WACC (30% debt in capital structure) and 3.0% terminal growth. Our target P/E is 18x FY19e earnings as we expect the earnings to have bottomed out in FY17e and expect 17% EPS CAGR over FY17-20e and RoE/ RoCE to reach 17%/18% by FY20e. Our P/E based target price stands at SAR42.3. The equal weighted target price stands at SAR44.0 per share (earlier SAR38.9/sh), implying 8.0% downside from the current price. Downgrade the stock to Neutral rating.

Figure 1 Al Hokair: Summary of Q1 FY18 results

(SAR mn)	Q1FY17	Q4FY17	Q1FY18	% Chg YoY	% Chg QoQ	ARC Est
Revenue	2,190	1,420	2,070	-5%	46%	2,280
Gross Profit	569	329	550	-3%	67%	629
Gross Profit margin	26.0%	23.2%	26.6%	-	-	27.6%
Operating Profit	319	97	306	-4%	214%	337
Net Profit	223	79	232	4%	193%	288

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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