

August 06, 2017

Rating
12- Month Target Price

Neutral
SAR 20.00

Expected Total Return

Price as on Aug-03, 2017	SAR 17.38
Upside to Target Price	15.1%
Expected Dividend Yield	5.8%
Expected Total Return	20.9%

Market Data

52 Week H/L	SAR 24.4/15.1
Market Capitalization	SAR 1,043 mln
Enterprise Value	SAR 1,587 mln
Shares Outstanding	60.0 mln
Free Float	42.9%
12-Month ADTV (000's)	584.8
Bloomberg Code	BAWAN AB

1-Year Price Performance

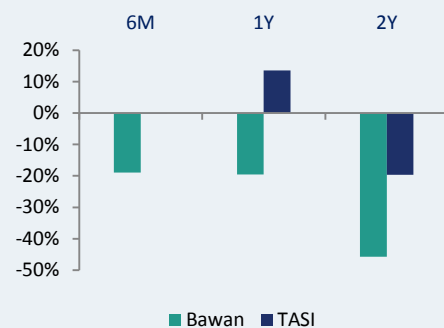


Fig in SAR mln	RC. Est	Actuals
Revenue	486	476
Gross Profit	61	53
EBIT	26	17
Net Income	19	9
EPS (SAR)	0.32	0.15

BAWAN COMPANY (BAWAN)

2Q2017 First Look

Record Low Earnings

Bawan Company (Bawan) reported 2Q2017 results with earnings miss; recording a bleak quarter as sector slowdown tightens but revenue came in-line with our estimate. EPS of SAR 0.15 was significantly lower to our SAR 0.32 estimate as margin contracted severely in this quarter. We re-iterate that the subdued revenue trends were the clear differentiator; as threshold volumes sales were not achieved due to dual impact of Ramadan and slowdown in construction activity. We revise our estimates for 2017-19 and our target price to SAR 20.00 from earlier SAR 22.00 as valuations appear to be unattractive. Bawan's current earnings trends is a mismatch to its 2017E P/E of 13.4x, which is unjustified with its 5% discount to TASI's 14.3x and when peers trades at lower valuations. We believe a 15-20% discount is ideal with its falling earnings trends. Maintain Neutral.

Revenue in-line with estimate

Revenue of SAR 476 million in 2Q2017 came in-line with our SAR 486 million estimate, down -13% Q/Q and -26% Y/Y. An initial view suggests, volume drop was seen across as Ramadan and lower construction activity has affected Bawan and the sector as a whole. With limited segment details; our view on segment performance suggest uneven decline across SBU's. Starting with metals segment, we believe weak demand and pricing pressure has led to steel prices (local) witnessing a -9% Y/Y and -4% Q/Q decline to SAR 2,197/ton coupled with industry's inventory pile-up. For woods and packaging, some softening is expected, as prices have not recovered fully since 2H2016. Wood prices of SAR 2,491/M³ in 2Q2017 fell by -1% Q/Q and -5% Y/Y and in similar range to 2016 levels. We believe these concerns from its core segments overshadowed in its group revenue. However, its electric segment is expected to have stayed at 1Q levels but some decline is set to be seen in ready-mix segment.

Margins contracts further; bleak earnings

Despite in-line revenue, gross profit declined by -56% Y/Y and -23% Q/Q to SAR 53.3 million, below our estimate of SAR 60.7 million as unit costs is expected to have spiraled up due to lack of breakeven volumes. We expected margins to stay at same levels in 1Q, but came-in weak with a contraction of 140 bps to 11.1% in 2Q2017. We attribute the lower operating leverage as the dampener as direct cost stands at SAR 423 million. The fall in revenue numbers below SAR 470-480 million would have resulted in adverse impact for Bawan as cost structure continues to be high amid lower volumes sales across most segments. The decline of -74% Y/Y and -44% Q/Q in operating profit to SAR 17.2 million, was unexpected and came below our SAR 25.7 million estimate. Margins also declined to 3.6% in 2Q2017 contracting 200 bps sequentially, proved dearer in a thin margin business. Net income of SAR 8.9 million was one of the lowest since its listing. It declined by -83% Y/Y and -59% sequentially, missing our SAR 18.9 million estimate, while seeing 200 bps fall in net margins to 1.9%.

Stock underperforms; maintain Neutral

We believe the continued weakness in the sector has resulted in Bawan, underperforming TASI by -18%. DPS at SAR 1.00 for 2017E currently offers yields of 5.8%, but not enough to convince investors for a positive call. Maintain Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	2,318	2,061	2,127
EBITDA	228	174	182
Net Profit	119	78	83
EPS (SAR)	1.98	1.30	1.38
DPS (SAR)	1.00	1.00	1.00
BVPS (SAR)	13.57	13.87	14.25

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	12%	6%	6%
ROAE	15%	9%	10%
P/E	8.8x	13.4x	12.6x
P/B	1.3x	1.3x	1.2x
EV/EBITDA	7.0x	9.1x	8.7x
EV/Sales	0.7x	0.8x	0.7x

Santhosh Balakrishnan

santhosh.balakrishnan@riyadcapital.com
+966-11-203-6809

Seham M Alzayed

siham.m.alzaed@riyadcapital.com
+966-11-203-6813

Riyad Capital is licensed by the Saudi Arabia
Capital Market Authority (No. 07070-37)

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

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.

الرياض المالية
riyad capital



إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299
riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 07070-37 وسجل تجاري رقم 1010239234
الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712