



More than Hammer and Nails

We initiate coverage on Saudi Company for Hardware (SACO) with a Buy recommendation and 12-month target price of SAR 102, representing 15% upside from current level. SACO's main product categories include home hardware, tools and outdoor supplies – making it a unique retailer in KSA. Further, SACO offers exposure to DIY segment projected to grow on increased home ownership at attractive valuation. Regulatory changes could force consolidation in a fragmented industry with SACO emerging as a beneficiary.

Favorable demographics and home ownership focus

Average household size is shrinking in KSA as young couples are moving away from an extended family setup. Consequently, expanding housing communities are pushing city limits. Research indicates that home owners tend to spend more on home improvement products than renters. Given the Vision 2030 target to raise home ownership to 52% from 47% by 2020, we see significant benefit for SACO. Expansion plans project raising number of stores to 35 from 27 by 2018 – consumer demand and balance sheet are supportive.

Regulatory changes could play to SACO's advantage

Job nationalization in retail sector could actually play to SACO's advantage as independent hardware retailers (82% market share) struggle to meet labor ratios. Store closures could direct increased traffic to SACO outlets. Second, impact of proposed 9:00 pm closure should moderate as consumers adjust shopping habits over time.

Changing consumer preferences

SACO's expansion will target under-penetrated areas and cities where the Company currently lacks presence. We believe new stores should comfortably boost revenues over the coming years, +13% Y/Y expected in 2016 and 2017 each. In our view, consumers are increasingly tilting towards organized retail format that meets their needs under one roof. While slowdown in discretionary spending is a concern, SACO's product mix could soften the brunt.

Opportunity to unlock cash tied in inventory

Customer preference to collect purchases immediately rather than wait for delivery drives the Company to hold surplus inventory, in effect tying up cash. Management is aiming to improve inventory processes which we believe could free up cash. Second, we like the Company's measured expansion plans through the next three years and see scope for moderation in capital expenditure which should also make access cash available to shareholders.

Room for expansion in valuation multiples

We applied DCF to value SACO and arrived at a fair value of SAR 102, representing 2017E 15.2x P/E and 12.1x EV/EBITDA. Relative to SFC Consumer-Retail coverage, SACO is trading at a discount on P/E and EV/EBITDA basis – implying room for multiples expansion. Further, on P/B basis, SACO is at a discount to Herfy and AlHokair, despite superior expected ROE.

SAR 102

12-Month Target Price

Buy

Recommendation

Stock Details (SAR)

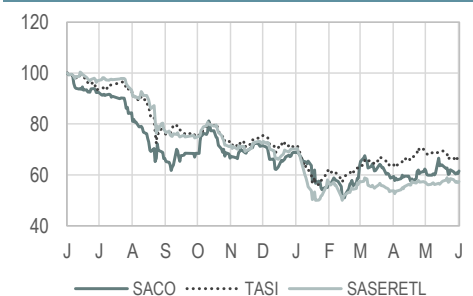
Last Close Price	89.00
Upside to Target	14.6%
Dividend Yield	2.2%
Expected Total Return	16.8%
Market Capitalization (mln)	2,136
Shares Outstanding (mln)	24
52-Week High / Low	146.00/73.00
Price Change (YTD)	(10.6%)
12-Mth ADTV (thd)	103
Reuters / Bloomberg	4008.SE/ SCH AB

SAR	2015	2016E	2017E
Revenue (mln)	1,277	1,437	1,627
EBITDA (mln)	162	184	215
EPS	5.25	5.82	6.70
DPS	2.00	2.00	2.00

Key Shareholders

Al-Hamidi Contracting Est.	33.3%
Abdulrahman Sharbatly	17.9%
Abrar International Holding Co.	17.9%
Others	31.1%

1-Year Share Performance



Source: Bloomberg, Tadawul

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Summary Financials

SAR mln, ending Dec-31st

Income Statement	2015	2016E	2017E	2018E
Sales	1,277	1,437	1,627	1,851
Cost of sales	989	1,114	1,261	1,434
Gross profit	287	323	366	416
G&A	156	172	195	231
Operating income	132	151	171	185
Other income	3	(1)	2	4
Zakat	8	11	12	13
Net income	126	140	161	176
Shares outstanding (mln)	24	24	24	24
EPS (SAR)	5.25	5.82	6.70	7.32
EBITDA	162	184	215	234
DPS (SAR)	2.00	2.00	2.00	3.00

SAR mln, ending Dec-31st

Balance Sheet	2015	2016E	2017E	2018E
Cash & equivalents	24	59	20	9
Receivables	11	13	14	16
Other current items	650	726	818	927
Current assets	685	797	853	952
PP&E	170	209	231	261
Other assets	15	15	17	16
Total assets	870	1,021	1,101	1,230
Payables	126	137	155	177
ST debt	184	130	148	145
Other current items	63	155	83	93
Current liabilities	373	422	386	415
Medium-term debt	13	20	20	14
Other liabilities	28	31	34	37
Total liabilities	414	473	440	465
Total equity	456	548	661	765
Total liabilities & equity	870	1,021	1,101	1,230

SAR mln, ending Dec-31st

Statement of Cashflows	2015	2016E	2017E	2018E
Income before zakat	126	140	161	176
Non-cash items	51	33	44	49
Receivables	0	(2)	(2)	(1)
Prepayments	2	(4)	(10)	(12)
Inventories	(63)	(72)	(82)	(97)
Payables	(22)	11	18	21
Accruals and other items	11	95	(69)	13
Cash from operations	105	201	60	148
Purchase of PP&E	(44)	(74)	(67)	(80)
Other investing activities	(0)	2	(2)	2
Cash from investing	(44)	(71)	(69)	(78)
Dividends paid	(48)	(48)	(48)	(72)
Debt (payments) / proceeds	6	(47)	18	(9)
Cash from financing	(42)	(95)	(30)	(81)
Change in cash	19	34	(39)	(11)
Beginning cash	5	24	59	20
Ending cash	24	59	20	9

CAGR	
2012-15	2015-18E
15%	13%
15%	13%
16%	12%
18%	12%
17%	13%

2Q16E	2Q15	Y/Y Chg	1Q16	Q/Q Chg
406	349	16%	303	34%
325	269		243	
81	81	1%	60	35%
43	42		29	
39	38	1%	31	24%
1	(0)		(1)	
3	2		2	
37	36	3%	28	32%
24	24		24	
1.54	1.49	3%	1.17	32%
47	46	2%	39	21%

CAGR	
2012-15	2015-18E
23%	(28%)
22%	12%
21%	12%
22%	4%
11%	9%
28%	19%
21%	12%

Growth (Y/Y)	2015	2016E	2017E	2018E
Sales	18%	13%	13%	14%
EBITDA	19%	13%	17%	9%
EBIT	10%	14%	13%	8%
Net income	15%	11%	15%	9%
CFO	110%	91%	(70%)	148%
DPS	n.m.	-	-	50%
Margins	2015	2016E	2017E	2018E
Gross	23%	23%	23%	23%
EBITDA	13%	13%	13%	13%
EBIT	10%	11%	11%	10%
Net	10%	10%	10%	9%
Ratios	2015	2016E	2017E	2018E
Current	1.8x	1.9x	2.2x	2.3x
ROAE	30%	28%	27%	25%
ROAA	15.2%	14.8%	15.1%	15.1%
Payout	38%	34%	30%	41%
CCC	170	171	170	169
D / E	0.4x	0.3x	0.3x	0.2x
Net debt / EBITDA	1.1x	0.5x	0.7x	0.6x

CAGR	
2012-15	2015-18E
18%	12%
14%	12%
26%	21%
(6%)	25%

Valuation	2015	2016E	2017E	2018E
P / S	1.7x	1.5x	1.3x	1.2x
P / E	16.9x	15.3x	13.3x	12.2x
P / B	4.7x	3.9x	3.2x	2.8x
EV / EBITDA	14.1x	12.4x	10.6x	9.8x
Key Statistics	2015	2016E	2017E	2018E
Number of stores	25	27	31	35
Sales / store (SAR mln)	51	53	52	53
Profit / store (SAR mln)	5.0	5.2	5.2	5.0
Gross retail area (m ²)	135,356	148,892	171,225	196,909
Sales / m ² (SAR)	9,434	9,650	9,500	9,400

DCF Valuation Summary (SAR)

Risk-free rate	3.5%
WACC	7.8%
Enterprise value (SAR mln)	2,545
Equity value (SAR mln)	2,454
Fair value per share	102



Investment Thesis

SACO has enjoyed successful last 5 years, doubling sales between 2010 and 2015 to SAR 1.3 bln. Remarkably, gross margins have been resilient around 22% lacking volatility seen at other retailers. Moreover, low debt levels and liquid balance sheet can support capex plans as the Company raises store count from 27 to 35 by 2018E, targeting rising demand from home improvement-DIY customers. Management shows commitment to maintaining and possibly growing dividends in the coming years, which we believe is attractive for growth and income-oriented investors.

SACO offers wide range of products (home hardware, kitchenware) geared towards home owners making it lucrative to expand into new and existing residential communities. The Company's customer base includes both DIY-segment and professionals opting for product variety in an organized retail format. We believe this trend will accelerate in the coming years and potentially drive consolidation in a fragmented industry, aided by regulatory changes. We are cognizant of prevailing consumer caution and forecast +13% Y/Y revenue growth for 2016 down from +18% Y/Y in the past year. In addition, net income is estimated at SAR 140 mln (+11% Y/Y) for 2016. SACO's business model requires inventory on-hand and ties-up cash. However, management is targeting inventory efficiencies which could unlock free cashflow. Further, we project capital expenditure to ease over the next five years, resulting in greater cash available to shareholders.

We initiate coverage on Saudi Company for Hardware (SACO) with a Buy recommendation and 12-month target price of SAR 102, representing 2017E 15.2x P/E and 12.1x EV/EBITDA. On forward P/B basis, SACO is at a discount to Herfy and AlHokair, despite superior expected ROE. Similarly, shares are trading at a discount to SFC Consumer-Retail median 2017E P/E and EV/EBITDA, creating prospect for valuation expansion.

Investment Risks

The following risk factors could materially impact the Company's financial and consequent share performance.

Regulatory changes: Potential changes are in the pipeline including labor initiatives and early store closure. The cost of employing non-nationals could rise to narrow the wage differential resulting in higher overhead expenses. Second, 9:00 pm store closure could take effect later this year and impact retailers across the board. We note that SACO stores remain open as late as midnight currently. Early closure could impact sales and result in consumer behavior changes. Such changes are beyond the Company's control and mitigation may be limited.

Introduction of taxes: GCC-wide value-added tax (VAT) is expected in 2018 at 5%. Further, other taxes may be introduced (e.g. corporate) as the government aims to raise non-oil revenues. Sales tax may be difficult to pass through to consumers without impacting consumption and margins. Corporate taxes will bite into net income.

Consumer confidence: Spending could curtail on large ticket, discretionary items on waning consumer confidence. Higher utilities bills could further restrict spending power. Over the coming years, cost-of-living is expected to rise while salaries and allowances stagnate, leading to lower disposable income.

Rising interest rates: 3M SAIBOR is on an uptrend, gaining some 90 bps in the last six months. Potential hike in US rates could push SAIBOR over 2.5% this year. This in effect will raise SACO's borrowing costs and debt servicing requirements.



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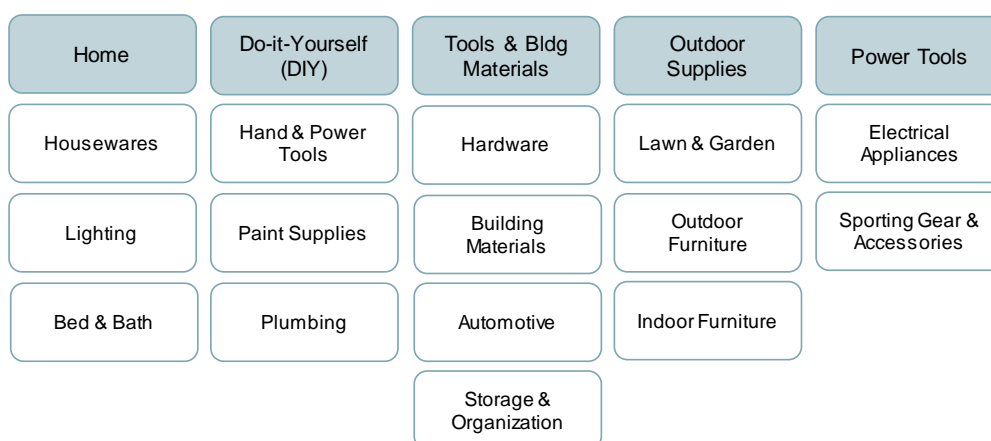


45k products in hardware, tools and outdoor supplies

Company Background

Saudi Company for Hardware (SACO), incorporated in 1985, is among the largest retailers providing home improvement products and hardware in Saudi Arabia. Currently SACO operates 27 stores across 15 cities (including three SACO World superstores). These stores cover an area of 2,000 - 24,500 m² and offer more than 45,000 products across home hardware, power tools and outdoor supplies categories. Wide range of product offering makes SACO unique, presenting itself as a one stop shopping destination for all household needs. The Company is headquartered in Riyadh and employees 2,481 personnel.

Fig 1: Product Categories



Source: Company Reports

SACO was listed in May 2015 through an initial public offering at SAR 70 per share. 30% of share capital was offered to the public, equating to 7.2 mln shares. Current market capitalization is SAR 2.2 bln and the 52-week high-low ranges from SAR 147 to SAR 73. CEO Sameer Al-Hamidi is supported by COO Haytham Al-Hamidi and CFO Wassim Daye. We note that some 33% of the Company is owned by the Al-Hamidi family.

Growth Plan

Homeowners are more likely to spend on home improvement than renters. Despite decline in oil prices and government spending, growth will be driven by rising young Saudi population, increase in number of households and home ownership rates, targeted to rise to 52% by 2020 from 47% currently according to Vision 2030.

SACO's growth will be driven by store additions in an under-penetrated market across the Kingdom. Management is currently focusing on cities where it does not have presence. SACO plans to open 8 new stores by 2018. This year, the company opened a store in Hail city (population: 475,000) and Unaizah, Qassim (population: 185,000). Both stores happen to be among the first SACO stores to open in these locations therefore significant sales volume is expected given lack of prior presence. According to management, SACO will increase its sales space by 40% (10% in 2016, 15% in 2017 and 15% in 2018). Furthermore, the Company plans to open a SACO World store within the next 3 years (three SACO World stores accounted for 39% of sales 2011 – 2014).

Outside of KSA, Bahrain and Qatar are the possible next targets given their proximity to major cities in Saudi Arabia, providing logistical advantage. There is Al-Ahsa (70 KM from Doha) and Bahrain connected by King Fahad Causeway to the triplet cities (Dammam, Dhahran and Al-Khobar) where SACO has presence.

City	# of stores
Riyadh	10
Jeddah	4
Dammam	1
Dhahran	1
Al Khobar	1
Al Ahsa	1
Medina	1
Yanbu	1
Tabuk	1
Jubail	1
Buraidah	1
Khamis Mushait	1
Jizan	1
Unaizah	1
Hail	1
Total	27



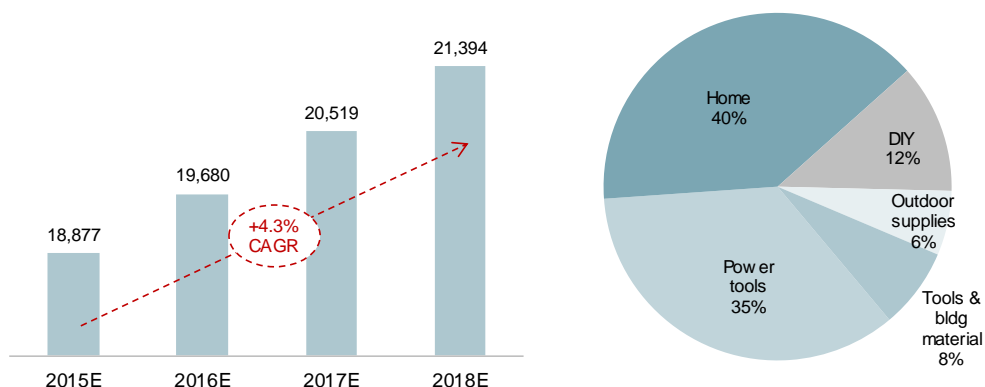
In addition, SACO plans to introduce online shopping this year. Consumers can browse product offering online and check prices and availability in desired stores. Online shopping is expected to increase SACO's sales and render them better positioned in the market for growth. Second, if there is any new regulation in the retail sector concerning 9:00 pm closure, online shopping would help address some of that concern. In our view, customers would prefer shopping at SACO over smaller competitors which have non-standard pricing. Furthermore, bargaining is expected at these stores which is not necessarily desired by the emerging customer base - preferring a quick, standardized shopping experience.

Industry Overview

Fragmented market

SACO operates in a fragmented industry, lacking a significant direct competitor. Competition comes from small shop owners particularly in the home hardware and DIY segments. Main franchise competitors such as eXtra, Panda, Ikea and Home Center target segments with some overlap with SACO. The industry size is estimated at SAR 18 bln according to Euromonitor. The home improvement and hardware market is expected to grow between 2015 and 2018 at a CAGR of 4.3%.

Fig 2: Market Size (SAR mln) and Breakdown



Source: Company Reports

Table 1: Market Share - Home Improvement & Hardware

Company	Market Share
eXtra	5.3%
SACO	5.0%
Panda	3.7%
Ikea	2.9%
Home Center	0.7%
Others	82.5%

Source: Company Reports

The Others category comprises of small-medium businesses in the table above. As the government looks to nationalize the workforce in the retail sector, small and medium enterprises will be squeezed as many will struggle to hire Saudis as opposed to large retailers such as SACO which command "high green" zone (34.2%) in Nitaqat system. Moreover, large retailers tend to be better at attracting Saudis as they can offer higher salaries and flexible work hours. Further regulatory changes can result in large scale closures across the small-medium enterprises which can direct increased traffic to larger retailers.

Smaller retailers may be squeezed out



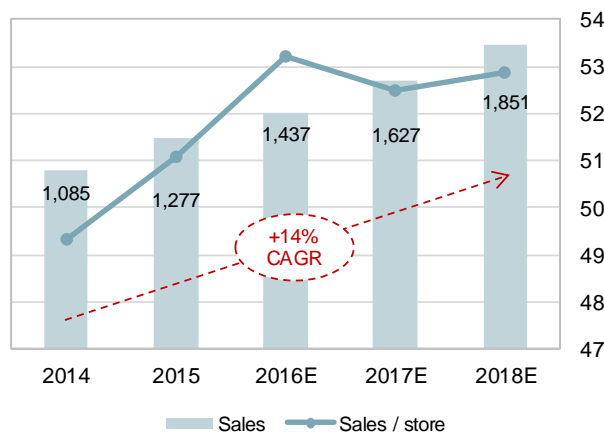
Financial Analysis

Revenue Forecast

Concerns around slowdown in discretionary spending and weak consumer confidence are expected to ease as greater clarity emerges on regulatory changes. In SACO's case, we believe store additions and revenue per store will be growth drivers in the coming years aided by greater home ownership which is one of the objectives of Vision 2030. The average SACO store size is 5,512 m² compared to 9,662 m² for Home Depot and 10,405 m² for Lowe's which means operating expenses per store are manageable particularly in the event of a drastic slowdown. We project revenues at +14% CAGR between 2014 and 2018, reaching some SAR 1.9 bln. Revenue per store is estimated to remain above SAR 50 mln as SACO expands into under-penetrated regions in KSA, limiting risk of cannibalization. Since 2011, SACO has added seven stores including SACO World in Dhahran with 24,681 m² of retail space. By 2018, total store count is expected to reach 35, up from 27 currently. We note that some 39% of sales volume comes from the SACO World format. In addition, the Company is striving to introduce online sales which, in our view, could propel revenues.

5,512 m² avg store size vs 9,662 m² and 10,405 m² for HD and Lowe's

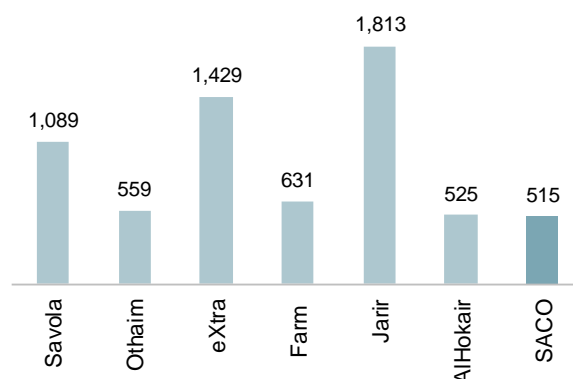
Fig 3: Sales and Sales per Store (SAR mln)



Source: Company Reports, SFC

In terms of sales per employee, SACO is inline with AlHokair, Farm and Othaim but below Jarir and eXtra given their mix of higher value items such as electronics and white goods.

Fig 4: Sales per Employee (SAR thd)

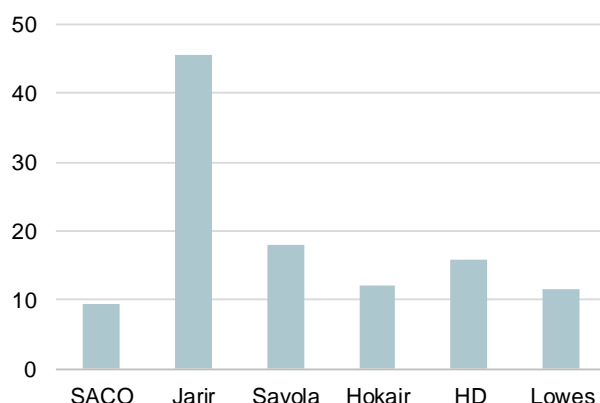


Source: Company Reports, SFC



Further, sales per square meter comparison puts SACO below Home Depot and Lowe's indicating potential for layout improvement, product mix and service offerings. HD and Lowe's offer installation and various value-add services which may be a contributing factor for slightly higher sales / m² measure.

Fig 5: Sales per m² (SAR thd)

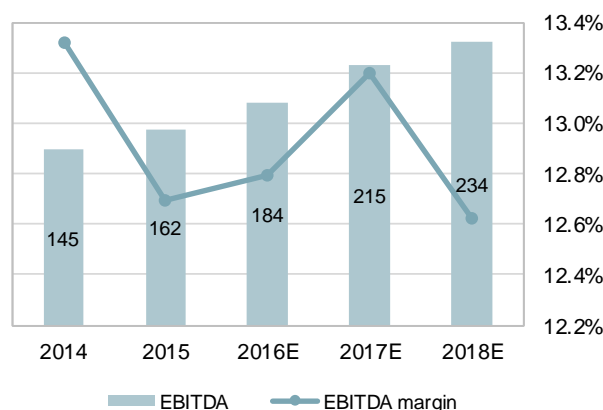


Source: Company Reports, SFC

EBITDA and Margins

Between 2014 and 2018, we forecast EBITDA to expand at +13% CAGR, reaching SAR 234 mln from SAR 145 mln in 2014. Overhead expenses are expected to remain between 12% and 13% with modest variation due to store additions. Key risk in our view will be higher wages as potentially greater number of nationals enter the workforce.

Fig 6: EBITDA and Margins (SAR mln)



Source: Company Reports, SFC

Gross margins dropped to 20% in 1Q16 from 24% in 1Q15

Following a drop in EBITDA margins from 13.3% in 2014 to 12.7% in 2015, we are projecting an average 12.9% through 2018. In the outgoing quarter, we observed that retailers witnessed margins shrink in KSA on promotions and discounts to attract customers. SACO was not immune as gross margins shrank to 19.8% in 1Q16 from 24.0% in the same quarter of last year. As a comparison, KSA retailers reported median 9.2% EBITDA margins in the last fiscal year – below SACO. On the other hand, home improvement retailers including HD and Lowe's achieved EBITDA margins of 15.6% and 11.5%, respectively, placing SACO somewhere in between. Relative to emerging markets retailers' 6.9% EBITDA margin, SACO commands a significant premium.



Table 2: Margins Comparison

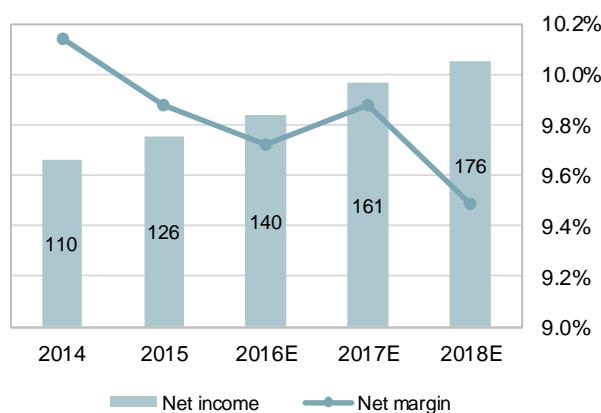
Last Fiscal Year	Margins				ROE	ROA
	Gross	EBITDA	Operating	Net		
Jarir	15.2%	13.2%	12.7%	13.0%	55%	34%
Savola	19.5%	10.0%	7.5%	7.3%	17%	7%
AlHokair	27.1%	13.9%	9.3%	8.5%	24%	8%
eXtra	15.4%	2.7%	1.5%	1.3%	9%	4%
Othaim	16.5%	5.6%	3.4%	3.8%	20%	7%
Farm Superstores	24.1%	8.3%	6.3%	5.7%	19%	8%
HD	33.5%	15.6%	13.5%	8.0%	93%	18%
Lowes	34.2%	11.5%	0.1%	4.6%	33%	9%
Median EM Retailers	20.7%	6.9%	5.7%	2.4%	8%	10%
Median	20.7%	10.0%	6.3%	5.7%	20%	8%
SACO	22.5%	12.7%	10.3%	9.9%	28%	14%

Source: Company Reports, Bloomberg, SFC

Net Income

Earnings are expected to steadily grow over the coming years. For 2016, we project net income of SAR 140 mln (+11% Y/Y) to yield 10% net margin. We believe margins will be under pressure, similar to other retailers in KSA.

Fig 7: Net Income and Margins (SAR mln)

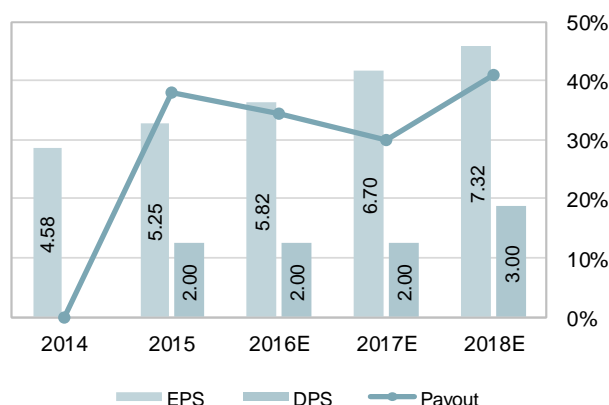


Source: Company Reports, SFC

The Company paid SAR 2.00 DPS for 2015 and we believe this level can be sustained through 2017, which is attractive in the current operating environment. By 2018, we see scope for dividend increase as more stores become operational. Payout ratio is estimated between 30% and 40% as we forecast the Company to comfortably balance capex and debt servicing requirements.



Fig 8: EPS and DPS (SAR)

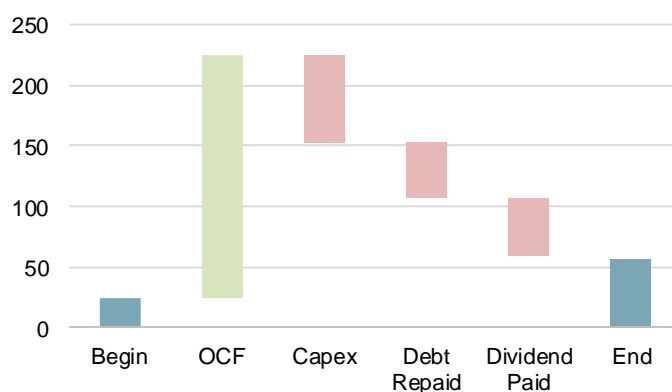


Source: Company Reports, SFC

**SAR 3,300 per m²
capex estimated**

We are estimating capital expenditure of SAR 3,300 per m², higher than management guidance of SAR 1,800, which can be funded primarily through operating cash flow (OCF). Debt-to-equity ratio is projected to moderate from 43% in 2015 to 21% by 2018. Further, we see potential to free-up cash tied in inventory as management aims to improve inventory control (SAP roll-out). We note that SACO maintains excess inventory on hand to boost sales – customers want product immediately rather than wait for delivery. Consequently, cash conversion cycle of 170 days appears longer than other KSA retailers (for example Jarir's 21 days) but inline with AlHokair's 162 days.

Fig 9: 2016E Cash Bridge (SAR mln)



Source: SFC



Valuation

We applied discounted cashflow to value SACO. We forecast the Company to generate escalating free cashflow in the coming years as more cash frees up from improved inventory management and moderating capital expenditure. Our key assumptions include a risk-free rate of 3.5% and long-term growth rate of 3.0%. The calculated weighted-average cost of capital (WACC) is 7.8% to arrive at a fair value of SAR 102 per share.

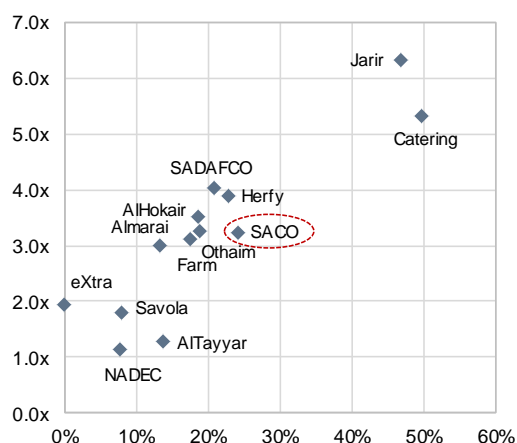
Fig 10: DCF Valuation

SAR mln	2017E	2018E	2019E	2020E	Assumptions	
EBIT	171	185	200	201	Risk-free rate	3.5%
+ Depreciation & amort	44	49	52	57	LT growth rate	3.0%
- Zakat	12	13	15	15	Beta	0.9
- Working capital changes	130	82	103	55	Equity risk premium	6.0%
- Capex	67	80	52	42	Cost of equity	8.6%
FCFF	6	59	82	147	Cost of debt	5.0%
PV of FCFF	230				% Debt	21%
PV of terminal value	2,315				% Equity	79%
Enterprise value	2,545				WACC	7.8%
Net debt	91					
Equity value	2,454					
Shares outstanding (mln)	24					
Value per share (SAR)	102					

Source: SFC

On 2017E P/B versus ROE basis, SACO is at a discount relative to Herfy and AlHokair. In our view, SACO's P/B of 3.2x could potentially rise to meet Herfy's 3.9x and AlHokair's 3.5x over the next year.

Fig 11: Forward P / B vs ROE



Source: SFC

Comparing SACO to SFC Consumer-Retail coverage, shares are trading at a discount to group median 2017E P/E at 13.3x versus 17.0x and EV/EBITDA at 10.6x versus 12.6x. On relative basis, SACO's multiples are not stretched and have room for expansion.



Table 3: Valuation Table

Company	Last Price	Shr O/S mIn	Mkt Cap SAR mIn	EV	P / E			EV / EBITDA		
					2015	2016E	2017E	2015	2016E	2017E
Jarir Marketing Co	116.75	90	10,508	10,399	12.7x	14.1x	13.4x	12.4x	13.7x	13.0x
United Electronics Co (eXtra)	27.40	36	986	959	20.1x	n.m.	n.m.	9.4x	32.9x	15.9x
Abdullah Al Othaim Markets	99.00	45	4,455	4,836	19.3x	19.0x	17.1x	14.4x	12.0x	9.8x
Farm Superstores	43.60	45	1,962	2,311	18.3x	18.6x	17.6x	14.7x	14.0x	12.9x
Fawaz AlHokair	45.00	210	9,450	12,572	15.3x	18.8x	15.5x	12.5x	12.7x	11.2x
Almarai	54.50	800	43,600	55,618	22.8x	22.8x	21.9x	16.7x	16.3x	15.4x
SADAFCO	150.75	33	4,899	4,579	18.8x	19.1x	19.2x	12.8x	12.9x	13.0x
NADEC	21.00	85	1,779	3,362	12.6x	11.5x	14.5x	7.5x	6.7x	6.6x
Savola Group	39.00	534	20,825	29,501	10.9x	21.2x	21.4x	11.3x	13.9x	14.8x
Herfy Foods	79.75	46	3,684	4,035	18.2x	17.8x	17.0x	14.0x	13.2x	12.2x
Saudi Airlines Catering	97.00	82	7,954	7,803	11.4x	12.0x	10.6x	11.3x	11.7x	10.5x
AlTayyar Group	38.50	210	8,072	6,951	6.9x	9.1x	9.2x	5.4x	6.7x	6.7x
Median					16.8x	18.6x	17.0x	12.4x	13.0x	12.6x
SACO	89.00	24	2,136	2,227	16.9x	15.3x	13.3x	14.1x	12.4x	10.6x

Source: SFC

Recommendation and Conclusion

We initiate coverage on Saudi Company for Hardware (SACO) with a Buy recommendation and 12-month target price of SAR 102, representing 2017E 15.2x P/E and 12.1x EV/EBITDA. In our view, valuation multiples have room for expansion and current levels are not fully reflecting the Company's potential to unlock free cashflow. Further, management appears committed to maintaining and possibly growing dividends which in our view is positive for investors seeking growth and income.

We believe key drivers for SACO will be greater home ownership as outlined in Vision 2030 to reach 52% in the next five years from 47% currently. To meet expected demand, the Company is projected to increase stores from 27 to 41 by 2020. Scope for expansion into underserved communities is favorable as we believe customers will opt for organized retail format. Further, potential regulatory changes impacting the retail sector play to SACO's advantage if independent store closure accelerates.

Key risks stem from implementation of VAT, expected in 2018, and potentially other taxes on household items which could erode consumers' purchasing power. The prevailing consumer caution could increase if economic environment weakens and large ticket purchases are deferred. Further, margin pressure could heighten, inline with other retailers, resulting in below expectations earnings growth.

In summary, SACO offers attractive exposure to KSA retail sector at a reasonable price. Favorable demographics and rising workforce should sustain product demand.



Research and Advisory Department

Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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