



BinDawood Holding

Saudi's Premier Grocery Retailer With Premium Margins

Nauman Khan
n.khan@alahlicapital.com

Faisal Alasaad
f.alsaad@alahlicapital.com

Investing with confidence

BINDAWOOD HOLDING

NEUTRAL

CURRENT PRICE SAR124.8

INITIATING COVERAGE

DOWNSIDE -5.0%

TARGET PRICE SAR118.6

Saudi's Premier Grocery Retailer With Premium Margins

We initiate coverage on BinDawood Holding (BDH) with a Neutral rating and a PT of SAR118.6. BDH is the 3rd largest grocery retailer in terms of revenues and the most profitable in Saudi. It operates in a fast growing sector which is expected to benefit from consolidation and high disposable income. High profitability, strong supplier relations, measured expansion approach and strong management team are the stock's key strengths. Earnings are expected to grow at a CAGR of 10.8% during 2019-25f, driven by store expansion, positive LFL and cost efficiencies. The stock is trading at 2021f PE and EV/EBITDA of 25.8x and 15.0x vs peer group average of 22.3x and 11.2x, respectively.

- The most profitable grocery retailer in Saudi:** BDH's unique value proposition is driven by 1) a wide and deep product range (140,000 SKUs), 2) higher contribution of fresh and imported products, 3) number one retailer serving pilgrims, 4) a superior shopping experience and 5) efficient supply chain. These coupled with strong supplier support have made BDH the most profitable grocery chain operator in Saudi. In 2019, the company generated EBITDA margin of 19.4%, higher than the local peers average of 7.5%.
- Focus on profitable expansion:** BDH plans to expand its store network to a minimum of 100 stores by 2024f, from 73 as of September 2020. We project the company to open 108 stores by 2025f, with a capex of SAR704mn. BDH intends to mainly open supermarkets, which is the format that has the highest absolute growth in SAR terms and will largely be opened under the Danube brand. BDH takes a measured view on store expansion, with a systematic and disciplined approach to site selection, resulting in no store closures to date.
- Net income to deliver a 6 year CAGR of 10.8%:** We project revenues to grow by +49% to SAR7.21bn in 2025f from SAR4.84bn in 2019 and net income to grow by +85% to SAR774mn in 2025f from SAR419mn in 2019. Given the strong cash flows, we expect dividend payout of 80% during 2020-2025f, translating into a dividend yield of 2.9% in 2020f and growing to 4.3% in 2025f.
- Initiate with a Neutral rating and PT of SAR118.6:** We initiate coverage on BDH with a Neutral rating and a PT SAR118.6. The stock is trading at 2021f PE and EV/EBITDA of 25.8x and 15.0x vs the peers group average of 22.3x and 11.2x, respectively. We believe the premium is justified due to 1) high profitability and margins, 2) expansion pipeline and 3) strong management.

Summary Financials

SAR mn	2019a	2020f	2021f	2022f	2023f	2024f	2025f	CAGR (%)
Revenues	4,844	5,274	5,493	5,948	6,354	6,776	7,214	6.9%
Gross Income	1,645	1,790	1,854	2,002	2,132	2,267	2,406	6.5%
Gross margin (%)	34.0%	34.0%	33.8%	33.7%	33.6%	33.5%	33.4%	
Operating Income	518	602	659	709	763	819	876	9.1%
Operating margin (%)	10.7%	11.4%	12.0%	11.9%	12.0%	12.1%	12.1%	
Net Income	419	515	554	605	660	717	774	10.8%
Net margin (%)	8.7%	9.8%	10.1%	10.2%	10.4%	10.6%	10.7%	
EPS (SAR)	3.67	4.51	4.84	5.30	5.77	6.27	6.78	10.8%

Source: Company, NCBC Research estimates

الأهلي كابيتال
NCB Capital



This is an extract of our published report, the full version of which can be found on the Alahlicapital.com website.

STOCK DETAILS

M52-week range H/L (SAR)	131/106
Market cap (\$mn)	3,712
Shares outstanding (mn)	114
Listed on exchanges	TADAWUL

Price perform (%)	1M
Absolute	15.9
Rel. to market	14.8

Avg daily turnover (mn)	SAR	US\$
1M	148.2	39.5

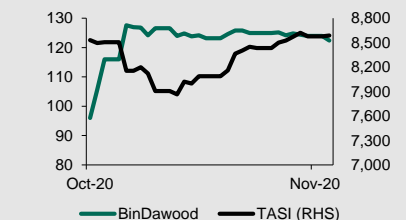
Reuters code	4161.SE
Bloomberg code	BINDAWOO AB
www.bindawoodholding.com	

VALUATION MULTIPLES

	19a	20f	21f
PE (x)	34.0	27.7	25.8
PB (x)	12.0	11.1	10.2
EV/EBITDA (x)	17.6	16.3	15.0
Div Yield (%)	1.7	2.9	3.1

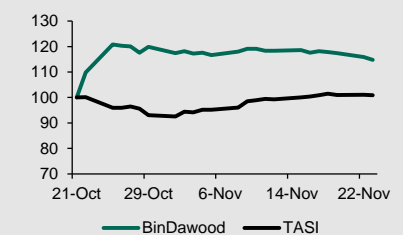
Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



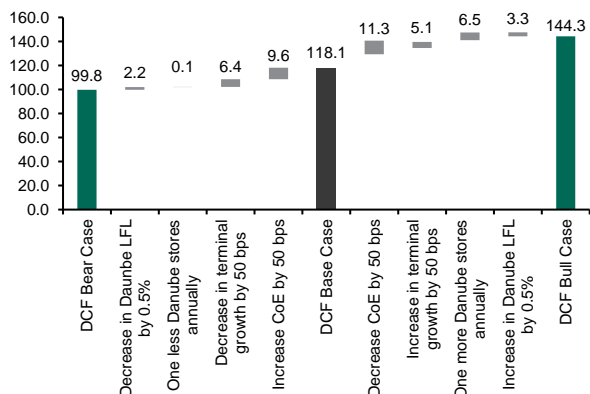
Source: Tadawul

Nauman Khan +966 11 874 9774
n.khan@alahlicapital.com

Faisal Alasaad +966 11 874 7176
f.alasaad@alahlicapital.com

Investment View and Scenario Analysis

Scenario analysis on DCF valuation

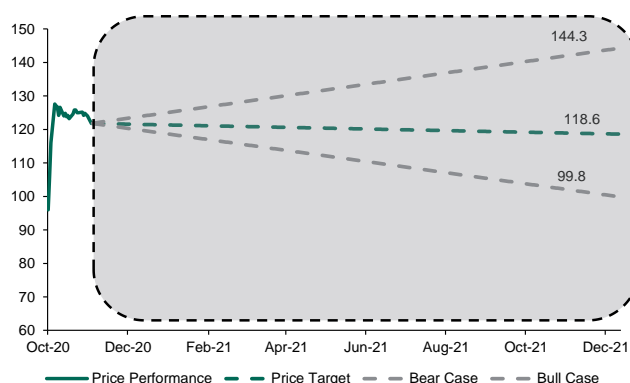


Source: NCBC Research

Investment view

- The most profitable grocery retailer in Saudi:** BDH's unique value proposition is driven by 1) a wide and deep product range, 2) higher contribution of fresh and imported products, 3) customer centric approach, 4) number one retailer serving pilgrims, 5) a superior shopping experience and 6) efficient supply chain. These coupled with strong supplier support have made BDH the most profitable grocery chain operator in Saudi. In 2019, the company generated EBITDA margin of 19.4% respectively, higher than the local peers average of 7.5%.
- Two brands, targeting different segments:** BDH operates its stores under two brands, namely Danube and BinDawood, targeting different segments of the population, allowing the company to target a broader customer base than its competitors
- The pilgrims' choice:** The company has an especially strong presence in the Holy cities of Makkah and Madinah, where it has 10 and 6 stores, respectively under the BinDawood brand. In total, the stores account for c22% of BDH's store count. These stores should benefit from the substantial increase in the number of pilgrims, with Vision 2030 initiatives targeting growth of 275% to 30mn by 2030.
- Focus on profitable expansion:** BDH plans to expand its store network to a minimum of 100 stores by 2024, from 73 as of September 2020. We project the company to open 108 stores by 2025f, with a capex of SAR704mn. BDH intends to mainly open supermarkets, which is the format that has the highest absolute growth in SAR terms and will be opened under the Danube brand. BDH takes a measured view on store expansion, with a systematic and disciplined approach to locations, resulting in no store closures to date.

Historical and expected price performance



Source: NCBC Research

Investment scenarios

Price target: Weighting of DCF base case is 70%, PE is 15% and EV/EBITDA is 15%. PE is calculated using 2021f EPS of SAR4.8.
SAR118.6

DCF bull case: Strong LFL growth, coupled with a higher than expected growth in Danube stores and an improved economic outlook are key growth catalysts leading to a 7.4% CAGR in sales and 11.6% CAGR in net profit during 2019-2025f.
SAR144.3

DCF base case: We project revenue to grow by +49% to SAR7.21bn in 2025f from SAR4.84bn in 2019, and net income to grow by +85% to SAR774mn in 2025f from SAR419mn in 2019. This will be supported by increasing the number of stores from 73 to 108 by 2025f.
SAR118.1

DCF bear case: Slower expansion and weaker LFL will translate into a revenue growth of 6.3% CAGR between 2019-2025f, with net income growing at a CAGR of 9.9% during the period.
SAR99.8

الأهلي كابيتال
NCB Capital



AIAhli Capital www.alahlicapital.com
 Alahli Tadawul www.alahlitadawul.com
 NCBC Research <http://research.alahlicapital.com>
 Twitter @alahlicapital
 Call Center 920000232

NCBC Investment Ratings

- OVERWEIGHT: Target price represents an increase in the share price in excess of 15% in the next 12 months
- NEUTRAL: Target price represents a change in the share price between -10% and +15% in the next 12 months
- UNDERWEIGHT: Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET: Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

- NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
- CS: Coverage Suspended. NCBC has suspended coverage of this company
- NC: Not covered. NCBC does not cover this company

Important information

The authors of this report hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependents (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The investment banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting, tax and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by the author are from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute the author's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of NCB Capital is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.

Research Disclosures

Third Party Research

This research is prepared by NCB Capital, with headquarters in Riyadh, Saudi Arabia. NCB Capital is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. NCB Capital has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by NCB Capital.

NCB Capital is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S.

NOVEMBER 2020

institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at Floor 36, 444 Madison Avenue, Floor 36, New York, NY 10022. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person including major U.S. institutional investors.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from Tellimer and NCB Capital.

NCB Capital is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries ("Tellimer") provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer's conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer and NCB Capital, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.