Bawan Company
Engineering – Industrial
BAWAN AB: Saudi Arabia
11 August 2022

US$0.583bn	53%	US$4.876mn
Market cap	Free float	Avg. daily volume

Target price	42.00	14.9% over current
Current price	36.55	as at 11/8/2022

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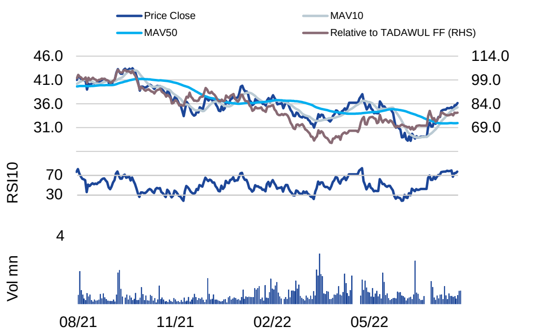
Existing rating

Underweight	Neutral	**Overweight**

Performance



Earnings

(SARmn)	2021A	2022E	2023E
Revenue	3,227	3,429	3,552
Revenue growth	33%	6%	4%
Gross profit	425	444	486
Gross margin	13%	13%	14%
EBITDA	267	296	337
EBITDA margin	8%	9%	9%
Net profit	170	169	199
Net margin	5%	5%	6%
EPS	2.84	2.82	3.31
DPS	1.50	1.69	1.99
Payout ratio	53%	60%	60%
EV/EBITDA	10.9x	10.0x	8.8x
P/E	12.9x	13.0x	11.0x
RoE	23.0%	20.9%	22.4%

Source: Company data, Al Rajhi Capital

Bawan Co

Performance to recover; TP at SAR42/sh

Bawan Co (Bawan) registered revenue of SAR849 mn, a y-o-y growth of 7.6%, but was lower than our estimate of SAR928 mn. Sales were aided by growth in revenue across segments. Steel and wood segment revenue grew by 2% y-o-y, the electrical product grew by 17% y-o-y, plastic grew by 10% y-o-y, and concrete grew by 66% y-o-y. We expect revenue growth to have been aided by improved prices in the steel, wood, and electricity segments and improved volumes in the concrete segment. Gross profits fell by 6.2% y-o-y, on the back of higher raw-material costs, due to increasing commodity prices, as gross margins fell to 12.8% in Q2 2022, compared to 14.6% a year back. Operating profits however increased by 1.0% y-o-y and were aided by a 12.3% y-o-y fall in operating costs. Improvement in the profitability of the electricity segment and concrete segment, aided overall profitability, even as the profitability of steel & wood and plastic segments came under pressure. The net income of the steel and wood segment fell by 18% y-o-y to SAR39mn, while the plastic segment's net income fell by 40% y-o-y. The electricity segment on the other hand reported a net income of SAR5 mn compared to a loss of SAR1 mn a year back, while the concrete segment reported a net loss of SAR4 mn, compared to a net loss of SAR7 mn a year back. Overall, the performance of the company during the quarter was impacted by increasing commodity prices, due to adverse global political scenarios, which affected both demand and the margins of the company. However, commodity prices have started to come down, which is expected to aid the margins of the company positively. Added to this, we also expect the construction activity in the Kingdom to improve in H2 2022. Overall, we have increased our target price of Bawan to SAR42/sh, from the earlier target price of SAR35/share, and have increased our rating to "Overweight".

Q2 results: Gross margins of Bawan fell to 12.8% in Q2 2022, corresponding to 14.6% in Q2 2021, and 13.1% in Q1 2022. This was at the back of higher raw material prices, especially in the steel & wood, and plastic segments. In line with this, net income margins, fell to 5.2% in Q2 2022, compared to 5.5% a year back and 5.3% in the previous quarter.

Figure 1: Bawan: Summary of Q2 2022 results

(SARmn)	Q2 2022	Q2 2021	Q1 2022	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	849	789	950	8%	-11%	928
Gross Profit	108	115	125	-6%	-13%	111
Gross Margin	13%	15%	13%	NA	NA	12%
Operating Profit	54	53	67	1%	-19%	53
Net Profit	45	43	50	3%	-12%	44

Source: Company data, Al Rajhi Capital

Valuation and risks: We value the company based on an equal mix of DCF and relative valuation. The DCF-based target price has a 2% terminal growth and 8.6% WACC and comes to SAR42/sh. P/E based relative valuation has a 15x multiple and gives a target price of SAR41/sh. Thus, we have revised our target price for the company to SAR42/sh, an upside of 14.9%, which implies an *"Overweight"* rating. The key downside risks are oil price weakness, lower mortgage demand, adverse movement of commodity prices, and an increase in the working capital requirement, resulting in an increase in leverage.

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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.

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