Cenomi Retail.

Retail – Industrial
CENOMI RETAIL AB: Saudi Arabia
14 December 2022

Al Rajhi Capital الراجحي المالية

US$0.485bn	31.5%	US$1.636mn
Market cap	Free float	Avg. daily volume

Target price	15.00	6% under current
Current price	15.90	as at 14/12/2022

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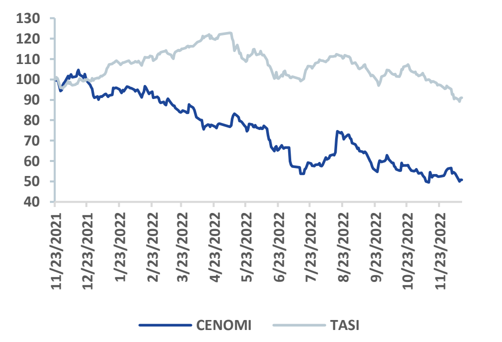
Existing rating

Underweight | **Neutral** | Overweight

Performance



Earnings

SARmn	FY22	FY23E	FY24E
Revenue (mn)	5,915	5,960	6,162
Revenue Growth	39.8%	0.0%	3.4%
Gross profit	991	856	960
Gross margin	16.8%	14.4%	15.6%
EBITDA (mn)	551	524	576
EBITDA margin	9.3%	8.8%	9.3%
Net Profit	44.7	56.8	61.0
Net Margin	0.76%	0.95%	0.99%
EPS	0.39	0.49	0.53
P/E	41.1	32.3	30.1
EV/EBITDA	8.72	9.17	8.34

Source: Company data, Al Rajhi Capital

Cenomi Retail

Difficulties in the time of E-commerce, we keep our neutral rating with a target price of SAR15/sh

Changes in Market Dynamics:

Cenomi Retail went through difficult times recently and still suffers from covid consequences. Post-covid, the company tried to turn the wheel and head back to 2019 numbers but could not, as many things in the market had changed, most importantly, customer behavior. We believe there are multiple reasons contributing to the issue. **1)** the weight and size of e-commerce has increased post-covid. E-commerce has increased competition as prices are usually lower on e-commerce platforms due to lower operating costs relative to traditional retailers. Also, product availability in e-commerce is stronger compared to regular stores. **2)** the level of fixed cost the company has, which got even more intense after the Saudization of the retail sector, adding extra pressure to the company's margins. We estimate the fixed cost to be in the range of 30 to 35% of total costs, and that is slightly high compared to other retailers. **3)** the change in spending patterns of consumers, as spending on entertainment is increasing, which is lowering spending in other sectors.

Company Outlook:

With that being said, we believe that the retail industry, especially traditional fashion and apparel, might face some difficulties in the coming period. With the current environment of higher costs arising from inflation, the Saudization of the retail sector, and the inability to pass on the increase in costs, we expect that to reflect negatively on traditional retailers. Thus, we assign Cenomi Retail a TP of SAR15/sh, which implies a downside of ~6% from the current market price of SAR15.9/sh with a "neutral" rating.

2Q 2023 earnings summary:

In the 2Q of 2023, Cenomi retail saw a 1.2% decline in domestic sales while international sales were up by 9.4%, leading to a 1% growth in revenue. Gross margin dropped to 14% on higher costs and competition. However, net income for the period saw 11% growth y-o-y, primarily driven by lower tax and financing expenses.

Figure 1 Summary of 2Q 2023 result:

(SAR mn)	2Q 2023	2Q 2022	*Y-o-Y*	1Q 2023	*Q-o-Q*	ARC est	*vs ARC*
Revenue	1,373	1,361	0.9%	1,706	-20%	1,361	0.9%
Gross profit	193	232	*-17%*	278	*-31%*	218	*-12%*
Gross margin	14%	17%		16%		16%	
Operating profit	78	116	*-33%*	144	*-46%*	109	*-29%*
Operating margin	6%	9%		8%		8%	
Net profit	23	21	*11%*	58	*-60%*	41	*-43%*
Net margin	2%	2%		3%		3%	

Source: Company data, Al Rajhi Capital

Valuation:

We value Cenomi Retail using equal mix given to DCF and PE based relative valuation. Our DCF based target price is SAR19/sh based on 2.5% terminal growth and 9% WACC and our PE based target price based on 22x FY 2023e is SAR11/sh. Thus, the equal weighted target price stands at SAR15/sh implying ~6% downside from the CMP of SAR15.9/sh. Thus, we maintain our neutral rating on "Cenomi Retail".

Key Risks:

There are a number of Upside risks which include the following 1) a strong synergy in the e-commerce business, thus lowering cost and improving margin. 2) higher pricing power which improves the performance. 3) higher cost optimization that reduces total cost below the level we estimate. Downside risks include the following 1) not able to lower cost to favourable levels. 2) lower than expected sales from the e-commerce business. Acquiring a company that does not deliver the expected synergies.

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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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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