



US\$0.670bn Market cap
53% Free float
US\$4.460mn Avg. daily volume

Target price **48.00** 14.6% over current
Current price **41.90** as at 12/8/2021

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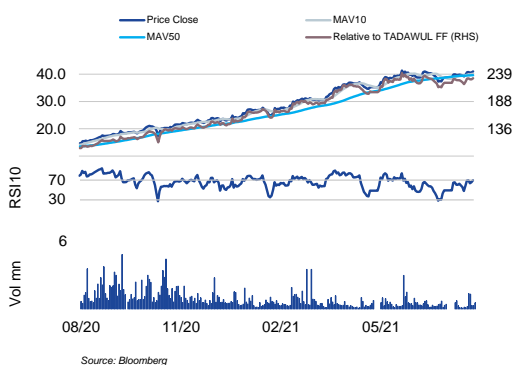
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2020A	2021E	2022E
Revenue	2,418	2,926	3,229
Revenue growth	8%	21%	10%
Gross profit	337	427	498
Gross margin	14%	15%	15%
EBITDA	202	277	338
EBITDA margin	8%	9%	10%
Net profit	90	159	211
Net margin	4%	5%	7%
EPS	1.50	2.65	3.52
DPS	1.00	1.00	1.00
Payout ratio	67%	38%	28%
EV/EBITDA	16.4x	11.8x	9.5x
P/E	27.9x	15.8x	11.9x
RoE	13.0%	20.1%	22.4%

Source: Company data, Al Rajhi Capital

Bawan Co

Operating performance continues to be strong; TP at SAR48/sh

Bawan Co (Bawan) registered revenue of SAR789 mn, a y-o-y growth of 51.4% and, was higher than our estimate of SAR680 mn. Sales were aided by growth in revenue across segments, but for concrete. Steel and wood segment revenue grew by 57.8% y-o-y, electrical product grew by 50.6% y-o-y and plastic grew by 51.7% y-o-y. Concrete on the other hand fell by 11.5% y-o-y. Gross profits increased by 88.6% y-o-y, while operating profits increased by more than 2x y-o-y and were driven mainly by improved scale of operations and higher operating leverage. Profitability improved across segment, especially electricity segment, where losses fell from SAR6mn in 2Q20 to a loss of SAR1mn in 2Q21. The performance from this segment would have been better, but for a prior period claim impacting the profitability of the segment. Net income of steel & wood and plastic segments increased by more than 2x and 4x y-o-y respectively in 2Q21. The performance of concrete segment however deteriorated, with losses from this segment increasing by more than 3x. Going forward, we expect growth rates of Bawan to continue to remain strong and we expect steel segment to continue to drive revenue growth, aided by sustained offtake from the construction segment. We expect electricity product revenue to continue to grow, aided by improved demand environment in the segment. We also feel that Bawan still has room to pass on any increase in raw material cost. Overall, we have increased our target price of Bawan to SAR48/share from the earlier target price of SAR42/share, and maintain our rating at "Overweight".

Q2 results: Gross margins of Bawan improved and increased to 14.6% in Q2 2021, corresponding to 11.9% in Q1 2021 and 11.8% a year back. This was at the back of improvement in margins in most segments, except concrete segment, aided by improvement in revenue and operating leverage. Net income margins, improved to 5.5% in Q2 2021, compared to 3.0% a year back and 4.8% in the previous quarter.

Figure 1: Bawan: Summary of Q2 2021 results

(SARmn)	Q2 2021	Q2 2020	Q1 2021	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	789	521	862	51%	-9%	680
Gross Profit	115	61	102	89%	13%	85
Gross Margin	15%	12%	12%	NA	NA	13%
Operating Profit	53	19	50	184%	7%	32
Net Profit	43	15	42	179%	3%	23

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 SAR47/sh. P/E based relative valuation has an 18x multiple and gives a target price of SAR48/sh. Thus, we have revised our target price for the company to SAR48/sh, an upside of 14.6%, 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.

"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.

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