Fawaz Abdulaziz Alhokair

Retail – Industrial
ALHOKAIR AB: Saudi Arabia
17 February 2021

Al Rajhi Capital
الراجحي المالية

US$1.076bn	30%	US$9.63mn
Market cap	Free float	Avg. daily volume

Target price	18.00	-6% over current
Current price	19.00	as at 16/2/2021

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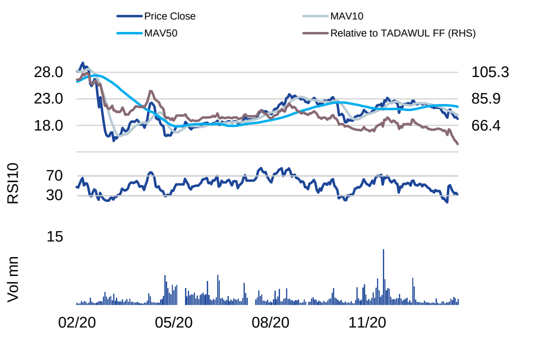
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	3/20A	3/21E	3/22E
Revenue (mn)	5,342	4,220	5,099
Revenue Growth	-1.5%	-21.0%	20.8%
Gross profit	408	206	1,178
Gross margin	7.6%	4.9%	23.1%
EBIT(mn)	(133)	(548)	592
Net Profit	(656)	(828)	232
Net Margin	-12.29%	-19.61%	4.54%
EPS	(3.13)	(3.94)	1.10

Source: Company data, Al Rajhi Capital

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Missed Estimates; Remain Neutral

Fawaz Alhokair Q3 FY 2021 net profits missed our estimate of SAR11mn loss due to lower gross margins arising from inventory write off and other non-recurring expenses. The top-line however beat our estimates mainly due to the growth in F&B segment. We note the improving LFL growth specially of inditex brand and expect gross margins to improve on the back of higher revenue and lower provisioning in FY2022e, despite this we expect that positives are mostly priced in at current levels as the stock trades at 17x FY 2022e EPS which in our view is fair given the uncertainty regarding the clothing and apparel business as the segment faces strong competition from e-commerce and other retailers. We also expect the local spending to be impacted once the traveling resumes which might affect the overall business. Accordingly, we keep our tp at SAR18/sh and remain "neutral" on Fawaz Alhokair.

Q3 2021 earnings summary: Fawaz Alhokair's reported a loss of SAR128mn v/s our estimates of SAR11mn loss and consensus estimates of SAR21mn profits. The overall revenue grew 5% y-o-y driven by 5.7% y-o-y growth in KSA business, 13% q-o-q growth in F&B segment and 438% y-o-y growth in online sales. The international business was impacted due to store closure amid pandemic, the segment de-grew 42% y-o-y due to COVID related restrictions. The consolidated LFL growth of the company declined 8.4% y-o-y mainly due to 34% y-o-y decline in international sales, KSA business experienced a flattish LFL growth despite being adversely impacted by stores in Mecca and Medina (-27.4% y-o-y) indicating a positive LFL growth in other cities. The gross margins diluted significantly by -833bps y-o-y due to SAR92mn inventory write-off. The company has guided for an inventory write-off of ~SAR50mn in Q4 FY 2021e. The opex also increased 37% y-o-y to SAR116mn though on a lower base in Q3 2020. The company closed a net of 31 fashion stores as a part of its restructuring plan to maximize yields from high-quality stores.

Figure 1 FY3Q21 earnings summary

(SAR mn)	Q3 2021	Q3 2020	*Y-o-Y*	Q2 2021	*Q-o-Q*	ARC est	*vs ARC*
Revenue	1,350	1,290	*5%*	1,186	*14%*	1,264	*7%*
Gross profit	157	258	*-39%*	52	*203%*	225	*-30%*
Gross margin	12%	20%		4%		18%	
Operating profit	(18)	152	*NM*	(4)	*-329%*	55	*NM*
Operating margin	-1%	12%		0%		4%	
Net profit	(128)	36	*NM*	(98)	*-30%*	(11)	*NM*
Net margin	-9%	3%		-8%		-1%	

Source: Company data, Al Rajhi Capital

Valuation: We value Fawaz Alhokair using equal mix given to DCF and PE based relative valuation. Our DCF based target price is SAR17/sh based on 2% terminal growth and 8.18% WACC and our PE based target price based on 17x FY 2022e is SAR19/sh thus equal weighted target price stands at SAR18/sh implying ~6% downside from CMP of SAR19/sh. We remain neutral on "Fawaz Alhokair".

Key Risks:

Upside risks to our valuation includes:

1) Significant increase in consumer spending locally due to delay in flight resumption will have a positive impact on company's LFL, revenue and our valuation.

2) Faster than expected ramp up of newly acquired brands will have a positive impact on company's revenue and our valuations.

Downside risks to our valuation includes:

1) Further inventory write offs in FY 2022e will dilute the gross margin and poses a downside risk to our valuation.

2) Any prolonged lockdown (over than 30 days in February 2021) will have a negative impact on company's revenue and our valuations.

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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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