

BinDawood Holding

Target Price: SAR 84.50

Upside/ (Downside): 15.7%

Recommendation

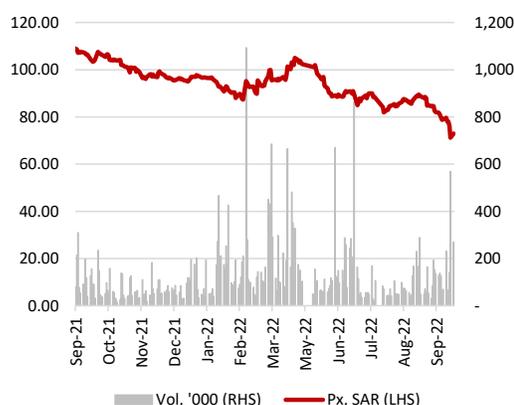
	Accumulate
Bloomberg Ticker	BINDAWOO AB
Current Market Price (SAR)	73.00
52wk High / Low (SAR)	113.80/71.20
12m Average Vol. (000)	129.6
Mkt. Cap. (USD/SAR Mn)	21,694/8,344
Shares Outstanding (mn)	114.3
Free Float (%)	20%
3m Avg Daily Turnover (SAR '000)	9,333.1
6m Avg Daily Turnover (SAR '000)	13,169.2
P/E'22e (x)	29.8
EV/EBITDA'22e (x)	13.0
Dividend Yield '22e (%)	3.0%

Price Performance:

1 month (%)	(17.7)
3 month (%)	(18.4)
12 month (%)	(35.3)

Source: Bloomberg, valued as of 18 September 2022

Price-Volume Performance



Source: Bloomberg

- **BinDawood Holding is expected to pursue organic expansion through new stores addition, though at a slightly reduced pace than estimated previously.**
- **The management is focusing to attract more footfalls at the cost of margins and hence we expect the profitability to take a hit in the near-term**
- **The company remained debt free by the end of 2Q 2022 which bodes well under the current rising interest rate environment**
- **The stock market price has corrected ~17% since our previous report in August which gives an Accumulate rating based on our revised lower target price**

BinDawood Holding has faced operational challenges during 1H 2022, with its costs outpacing top-line growth. The majority revenue provider Danube stores, which accounted for over 70% of total revenue in FY21, faced muted performance during 1H 2022 with their sales inching up 0.2% YoY. However, the company's Haramain stores, most of which fall under BinDawood, benefitted from Umrah pilgrims during Ramadan. Thus, these stores accounted for slightly over 5% revenue growth out of the total 6.6% revenue growth achieved during 1H 2022. Accordingly, we expect the recently concluded Hajj season would have further buoyed the performances of the Haramain stores. Yet, we lower our FY22 earnings expectations factoring in the recent cost pressures, which we expect to persist in the near future.

2Q 2022 earnings synopsis: BinDawood Holding's revenue in 2Q 2022 edged higher by 8.7% YoY, matching our estimate (-2% variance). Revenue growth in the quarter was driven by an increase in the customer count by about 20% YoY to 12.5mn, as a return of pilgrims boosted BinDawood stores' sales in the Ramadan season. However, sales of the more premium Danube stores slipped 0.5% YoY. The company witnessed a steep rise in its costs due to discounts offered to attract more customers, the addition of new stores, and the expenses related to a couple of acquisitions. Despite this, S&D and G&A expenses came in 3%-4% below our estimate, but with direct costs exceeding our estimate by ~5% and other operating income coming in c. 7% lower, operating profit of SAR 64.8mn missed our estimate by a wide margin (-48%). This gap further increased at the net income level resulting from sharply lower other income (SAR 6.7mn vs. our estimate of SAR 21.4mn). Consequently, net profit at SAR 42.3mn fell around 64% short (-55.4% YoY) of our estimate.

Valuation and risks: We continue to value the company based on blended valuation methodologies – (i) Discounted Cash Flow (DCF) and (ii) Relative Valuation (using P/E and EV/EBITDA multiples) with equal weights assigned to each of them. The company opened two Express stores during 1H 2022 and hence we estimate its total stores to have reached 80 by June 2022-end, one less than our forecast. The company plans to add 8 more Danube stores. However, in the absence of any specific timeline given and considering that Danube stores are currently facing pressure on sales, we expect BinDawood to be relatively less aggressive in stores expansion and add only two more Danube stores this year and most of the remaining stores next year. Overall, we estimate the company's store count to reach 84 by 2022-end (vs. 88 estimated earlier). Over the next couple of years, we forecast the company to add 5-6 stores per annum, including the BinDawood stores the company intends to open in Riyadh. Earlier, our Riyadh stores' estimate was over and above the 5-6 stores the company intended to open each year till FY 2024. Hence, we estimate the total store count to reach 96 by FY24e, which is four less than the management target of 100 stores as well as our earlier estimate of 103 stores. We expect the company to register an improved performance in 3Q 2022, as the return of Hajj pilgrims is expected to further boost BinDawood stores' sales, since over 50% of its stores are in the two holy cities

combined. On a separate note, we expect the company would continue to dole out discounts and run promotional campaigns going forward to continue attracting more footfalls in the backdrop of rising inflationary pressures. Accordingly, we anticipate the ramp-up of the new stores would be slow and hence we have lowered our margins expectations for FY22e (OPM: 5.8% vs. 7.6% earlier; NPM: 4.5% vs. 7.1% earlier). Our 5-year net profit CAGR till FY26e is also down to 13% from 18%, previously. However, we would like to highlight that despite the weak financial performance in 1H 2022 and the addition of new stores, the company stood debt free which is a positive in the current rising interest rate environment. Considering the points discussed above, we reduce our target price on BinDawood Holding to SAR 84.50 from SAR 108.00, previously. The stock price has corrected around 17% since our last report in August, and the current market price of SAR 73.00 gives an **Accumulate** rating. Currently, the stock trades at 29.8x P/E and 13.0x EV/EBITDA, based on our FY23 estimates. Downside risks to our valuation include less than expected addition of new stores, below-expected growth in average per store realization, and lower than estimated margins. Key upside risks to our valuation include more than expected addition of new stores, better than estimated average store revenue, and higher than forecasted profitability.

Financials & valuation summary:

Year	FY19	FY20	FY21	FY22e	FY23e	FY24e
Revenues (SAR mn)	4,843.8	5,156.5	4,382.2	4,774.0	5,242.8	5,568.0
Net income (SAR mn)	419.1	447.7	240.6	215.8	279.8	338.8
Gross margin	34.0%	32.4%	32.8%	31.9%	32.0%	32.2%
Net profit margin	8.7%	8.7%	5.5%	4.5%	5.3%	6.1%
RoE	38.1%	35.8%	18.2%	15.5%	19.2%	22.8%
FCF (SAR/share)	5.1	3.0	4.7	4.8	3.8	5.0
DPS (SAR/share)	2.1	2.8	1.9	1.6	2.2	2.7
Dividend Yield	0.0%	2.3%	2.0%	1.8%	3.0%	3.7%
P/E (x)	0.0x	30.4x	45.5x	38.7x	29.8x	24.6x
EV/EBITDA (x)	0.0x	16.9x	18.7x	14.3x	13.0x	12.0x

Source: Company Reports, U Capital Research *P/E, EV/EBITDA and Div.yield from 2022 onwards calculated on price of 18/09/2022

Valuation

	BinDawood
(Currency)	SAR
DCF (Equal weight)	
PV of Free Cash Flow (mn)	
Year 1	562
Year 2	402
Year 3	497
Year 4	472
Year 5	468
Terminal	14,402
PV of Terminal Value	11,082
Assumptions	
Risk Free Rate (%)	3.9%
Adjusted Beta	0.49
Risk Premium (%)	7.1%
Cost of Equity (COE) (%)	7.4%
WACC (%)	6.3%
Equity value (mn)	11,596
Outstanding Shares (mn)	114.3
Target Price	101.45
P/E based Relative Valuation (Equal weight)	
Target P/E multiple for 2023e	30.0
EPS 2023e	2.45
Target Price	73.45
EV/EBITDA based Relative Valuation (Equal weight)	
Target EV/EBITDA Multiple for 2023e	14.0
EBITDA FY23e (mn)	776
Target Price	78.58
Weighted Average Target Price	84.50
Current Market Price	73.00
Upside/(Downside), %	15.7%
Recommendation	Accumulate

Source: Company Financials, Bloomberg, U Capital Research

Key financials

In SAR mn, except stated otherwise	FY19	FY20	FY21	Prev. FY22e	FY22e	Prev. FY23e	FY23e	Prev. FY24e	FY24e
Income Statement									
Revenue from contracts with customers	4,844	5,156	4,382	4,855	4,774	5,512	5,243	5,933	5,568
Cost of revenue	(3,199)	(3,485)	(2,943)	(3,198)	(3,253)	(3,628)	(3,567)	(3,927)	(3,777)
Gross profit	1,645	1,672	1,439	1,656	1,521	1,884	1,676	2,007	1,791
General and administration expenses	(131)	(164)	(171)	(193)	(193)	(211)	(207)	(223)	(219)
Selling and distribution expenses	(1,007)	(1,003)	(1,002)	(1,104)	(1,060)	(1,232)	(1,153)	(1,309)	(1,211)
Other operating income	11	9	9	9	8	12	12	19	18
Operating profit	518	515	275	368	276	453	328	494	379
Other income	8	17	60	84	40	98	47	107	52
Finance cost on lease liabilities	(96)	(69)	(81)	(84)	(84)	(81)	(79)	(77)	(72)
Income before zakat and income tax	430	463	254	368	233	470	296	524	358
Zakat	(11)	(15)	(13)	(23)	(17)	(30)	(16)	(33)	(20)
Net income for equity shareholders	419	448	241	345	216	441	280	491	339
Balance Sheet									
Cash and bank balances	215	232	342	585	326	544	201	549	184
Trade and other receivables	228	333	359	400	386	416	395	431	404
Inventories	919	1,000	950	921	875	994	977	1,022	983
Right-of-use assets	2,357	2,306	2,093	1,894	1,844	1,696	1,595	1,513	1,360
Property and equipment	940	820	749	816	753	946	814	1,060	880
Total assets	4,744	4,770	4,558	4,690	4,467	4,683	4,272	4,670	4,107
Unearned income and other payable	35	36	19	6	18	10	24	15	29
Lease liabilities	2,518	2,525	2,337	2,139	2,112	1,916	1,827	1,709	1,558
Accounts payable, and other financial liabilities	884	756	734	783	744	851	800	904	869
Total liabilities	3,557	3,457	3,224	3,163	3,023	3,012	2,800	2,862	2,605
Share capital	1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143
Retained earnings	1	83	82	239	168	338	169	426	165
Equity Attributable to Shareholders	1,186	1,313	1,336	1,528	1,444	1,671	1,472	1,808	1,503
Cash Flow Statement									
Net cash generated from operating activities	678	658	736	891	784	963	752	1,044	906
Net cash generated from investing activities	(36)	(46)	(105)	(306)	(402)	(403)	(261)	(400)	(273)
Net cash (used in) provided by financing activities	(550)	(595)	(518)	(484)	(540)	(601)	(616)	(639)	(650)
Cash and cash equivalents at the end of the period	215	232	344	585	326	544	201	549	184
Key Ratios									
Gross margin (%)	34.0%	32.4%	32.8%	34.1%	31.9%	34.2%	32.0%	33.8%	32.2%
EBITDA margin (%)	19.4%	18.4%	15.9%	16.8%	15.0%	16.7%	14.8%	16.2%	14.7%
Operating margin (%)	10.7%	10.0%	6.3%	7.6%	5.8%	8.2%	6.3%	8.3%	6.8%
Net margin (%)	8.7%	8.7%	5.5%	7.1%	4.5%	8.0%	5.3%	8.3%	6.1%
ROA	12.1%	9.4%	5.2%	7.5%	4.8%	9.4%	6.4%	10.5%	8.1%
ROE	38.1%	35.8%	18.2%	24.1%	15.5%	27.5%	19.2%	28.2%	22.8%
Current Ratio (x)	1.2x	1.5x	1.6x	1.7x	1.8x	1.7x	1.7x	1.7x	1.7x
Capex/Sales	0.9%	0.9%	2.4%	6.4%	3.9%	7.5%	5.1%	6.9%	5.1%
Debt-Equity Ratio	2.1x	1.9x	1.7x	1.4x	1.5x	1.1x	1.2x	0.9x	1.0x
Interest coverage ratio	5.4x	7.5x	3.4x	4.4x	3.3x	5.6x	4.2x	6.4x	5.3x
EPS	3.7	3.9	2.1	3.0	1.9	3.9	2.4	4.3	3.0
BVPS	10.4	11.5	11.7	13.4	12.6	14.6	12.9	15.8	13.1
DPS	2.1	2.8	1.9	2.0	1.6	2.6	2.2	3.1	2.7
Dividend Payout Ratio	58.5%	71.2%	90.3%	66.2%	84.7%	67.5%	89.9%	72.1%	91.1%
Dividend Yield (%)	0.0%	2.3%	2.0%	2.3%	1.8%	3.0%	3.0%	3.5%	3.7%
P/E (x)	0.0x	30.4x	45.5x	29.1x	38.7x	22.8x	29.8x	20.5x	24.6x
P/BV (x)	0.0x	10.4x	8.2x	6.6x	5.8x	6.0x	5.7x	5.6x	5.6x
EV/EBITDA (x)	0.0x	16.9x	18.7x	14.4x	14.3x	12.5x	13.0x	11.8x	12.0x
Price as at period end*	-	119.0	95.8	88.0	73.0	88.0	73.0	88.0	73.0

Source: Company Reports, U Capital Research

*Current market price is used for forecast periods

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net

PO Box 1137

PC 111, Sultanate of Oman

Tel: +968 2494 9000

Fax: +968 2494 9099

Email: research@u-capital.net

Disclaimer: This report has been prepared by Ubhar Capital (U Capital) Research and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute U Capital Research team's judgment as at the date of production of this report and are subject to change without notice. This report may not be reproduced, distributed or published by any recipient for any other purpose.