BinDawood Holdings Co.
Saudi Arabia
21 October 2020

الراجحي المالية
Al Rajhi Capital

US$2.926bn	20.0%	NA
Market cap	Free float	Avg. daily volume

Fair price	126.00	**+31.3% over LP**
Issue price	**96.00**	as on listing date

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Existing rating

Underweight	Neutral	Overweight

Key themes

Industry consolidation to increase market share of modern grocery retailers

Strong FCF generation supports higher payout ratio

Western region to outpace the growth of other region in near term

Financial highlights

(SARmn)	2019	2020E	2021E
Revenue	4,844	5,708	6,017
Y-o-Y	6.4%	17.8%	5.4%
Gross profit	1,645	1,828	1,939
Y-o-Y	5.9%	11.2%	6.0%
Gross margin	34.0%	32.0%	32.2%
EBITDA	938	1,046	1,059
Y-o-Y	71.5%	11.5%	1.2%
EBITDA margin	19.4%	18.3%	17.6%
Net profit	419	454	559
Y-o-Y	5.4%	8.3%	23.3%
Net margin	8.7%	8.0%	9.3%
EPS (SAR)	3.67	3.97	4.89
DPS (SAR)	2.14	2.38	2.94
Payout ratio	58.5%	60.0%	60.0%

Source: IPO prospectus, Al Rajhi Capital

BinDawood Holding Co

Market consolidation to increase market share; Initiate with a TP of SAR126/sh

BinDawood Holding Co is one of the largest supermarkets in the kingdom with significant dominance in the Western region. The company operates under the brand name of Danube and BinDawood and has ~73 stores (51 hypermarkets, 22 supermarkets) with a market share of ~8.7% as of 2019. We like the company for its strong earnings profile, return metrics, and overall positioning in the market. The overall grocery market is undergoing a consolidation over the last three years as strict regulatory requirements such as Saudization, expat levy and implementation of VAT has increased the cost of doing business for the unorganized players. Therefore, the consolidation is expected to increase the organized players' market share from 41% in 2019 to 48% in 2024e. This creates a strong opportunity for companies like BinDawood to gain market share from the smaller players. We expect the company's e-commerce to drive LFL growth in the future. We have assumed 3 store expansion per year from 2021e-2024e and expect e-commerce to drive the LFL growth, especially in the Danube segment. This should also support the gross margins going forward. Accordingly, we expect the company's overall revenue and net profit to grow at a CAGR of 6% and 14% respectively between 2020-2025e. We initiate coverage on BinDawood holding Co with a target price of SAR126/sh (based on an equal mix of relative and DCF valuations) which implies a +31% upside from the issue price of SAR96/sh. Key downside risks include the further rise in VAT, slower economic activity, lower religious tourists, and a delay in store expansion.

Modern grocery retailers are capturing market share from the traditional retailers: During the period between 2017-2019 the Middle East and Africa experienced the largest expansion in the grocery retailing market across regions at a global level (the market grew at a CAGR of 5.3% in nominal terms, source: company prospectus). Being one of the largest economies of the region, KSA is well placed to take advantage of increased spending on food and beverages. The changing consumer preferences towards better quality products, convenience, shopping experience, rapid urbanization, the advent of technology, and rising disposable income are driving the customers towards the supermarket.

Western Region to witness the highest growth in Saudi Arabia from 2020-2024: The central and western regions comprise the biggest chunk of the Saudi grocery market accounting for 37.1% and 30.3% of the country's total market respectively in 2019 (as per data provided in the prospectus). As per the market study mentioned in the prospectus the western region is expected to grow fastest by SAR5bn over 2020-2024e driven by expected investments on mega projects (such as Neom, King Abdullah Economic City, Red Sea project), government focus to increase religious as well as leisure tourism as a part of Saudi Vision 2030 and comparatively stronger rise of disposable income in the western part. The total value share of the western region is set to rise from 30.3% in 2019 to 31.6% in 2024 and since BinDawood has a strong presence in the western region the company should benefit significantly through this growth of western region.

Robust cash flow generation to support dividend payment: The company is net debt free and therefore has a strong FCF generation. We expect the store expansion to be modest and therefore capex requirement could be met mostly from internal accruals. Thus, we expect the company to maintain a payout ratio of ~60% in the near term.

Valuation: We value BinDawood using equal mix given to DCF and PE based relative valuation. Our DCF based target price based on 2% terminal growth and 8.17% WACC is SAR130/sh while relative valuation based on 24.7x (based on industry average of grocery retailer) FY 2021E EPS is SAR121/sh thus equal weighted target price stands at SAR126/sh which implies ~31% upside from listing price of SAR96/sh.

Figure 1 Direct Ownership of the Company Pre- and Post-Offering

Shareholder's Name	Shareholding (Pre-Offering)			Shareholding (Post-Offering)		
	No. of shares (mn)	Par value (SARmn)	%	No. of shares (mn)	Par value (SARmn)	%
Akasiya Star Trading Company Limited	96.54	965.43	84.5%	77.23	772.35	67.6%
Abdullah BinDawood Sons Company Limited	9.76	97.56	8.5%	7.80	78.04	6.8%
Commercial Growth Development Company	8.00	80.01	7.0%	6.40	64.01	5.6%
Public	0.00	0.00	0.0%	22.86	228.60	20.0%
Total	**114.30**	**1,143.00**	**100.0%**	**114.30**	**1,143.00**	**100.0%**

Source: IPO prospectus, Al Rajhi Capital

Key financials

Figure 2 Key financials

SARmn	2017	2018	2019	2020E	2021E	2022E
Sales	**4,766**	**4,554**	**4,844**	**5,708**	**6,017**	**6,366**
Cost of Sales	(3,763)	(3,001)	(3,199)	(3,880)	(4,078)	(4,303)
Gross Income	**1,004**	**1,553**	**1,645**	**1,828**	**1,939**	**2,063**
Selling and Distribution	(996)	(1,047)	(1,007)	(1,056)	(1,131)	(1,178)
General and administrative Expenses	(150)	(127)	(131)	(160)	(168)	(178)
Other operating income	546	13	11	13	14	15
Operating Expenses	**(601)**	**(1,161)**	**(1,126)**	**(1,202)**	**(1,286)**	**(1,341)**
Operating Income	**403**	**392**	**518**	**626**	**653**	**722**
Other income	14	7	8	(66)	10	10
Finance cost on lease liabilities	0	0	(96)	(95)	(89)	(85)
Profit before tax	**417**	**398**	**430**	**465**	**574**	**648**
Zakat & Tax	(3)	(0)	(11)	(12)	(14)	(16)
Net Profit Before Unusual Items	**414**	**398**	**419**	**454**	**559**	**632**
Extraordinary income/expense	0	0	0	0	0	0
Net Income	**414**	**398**	**419**	**454**	**559**	**632**

Source: IPO prospectus, Al Rajhi Capital

Figure 3 Cash flow statement

SARmn	2017	2018	2019	2020E	2021E	2022E
Cash flow from operations	645	381	678	934	1,041	1,099
Cash flow from investing	(352)	(143)	(36)	(255)	(118)	(164)
Cashflow from financing	(287)	(210)	(550)	(413)	(593)	(607)
Change in cash	6	28	92	266	330	328

Source: IPO prospectus, Al Rajhi Capital

Figure 4 Balance sheet

SARmn	2017	2018	2019	2020E	2021E	2022E
Cash & Cash Equivalents	95	123	215	481	811	1,138
Accounts Receivable	145	157	260	313	330	349
Inventory	760	806	919	1,078	1,133	1,195
Other	0	53	52	61	65	68
Total Current Assets	**1,000**	**1,138**	**1,446**	**1,933**	**2,338**	**2,751**
Non Current Assets						
Fixed Assets	1,078	1,065	940	846	720	600
Intangible assets	0	1	0	0	0	0
Right of use assets	0	0	2,357	2,287	2,124	2,011
Total Non-Current Assets	**1,078**	**1,066**	**3,297**	**3,133**	**2,845**	**2,611**
Total Assets	**2,078**	**2,204**	**4,744**	**5,066**	**5,183**	**5,362**
Current Liabilities						
Lease liabilities - current portion	0	0	221	247	230	216
Accounts Payable	1,152	1,059	884	1,063	1,117	1,179
Others	27	50	63	63	63	63
Total Current Liabilities	**1,179**	**1,110**	**1,168**	**1,373**	**1,411**	**1,458**
Non-current liabilities						
Lease liabilities	0	0	2,297	2,226	2,074	1,945
Other	76	80	92	99	106	114
Total Non-current liabilities	**76**	**80**	**2,389**	**2,324**	**2,180**	**2,059**
Total Liabilities	**1,255**	**1,190**	**3,557**	**3,698**	**3,591**	**3,518**
Shareholders' Equity						
Paid-up Capital	530	530	1,143	1,143	1,143	1,143
Statutory Reserve	90	130	42	88	144	207
Retained Earnings	204	355	1	137	305	494
Total Shareholders' Equity	**823**	**1,014**	**1,186**	**1,368**	**1,592**	**1,844**
Total Liabilities & Shareholder Equity	**2,078**	**2,204**	**4,744**	**5,066**	**5,183**	**5,362**

Source: IPO prospectus, Al Rajhi Capital

Figure 5 KPIs

	2017	2018	2019	2020E	2021E	2022E
Number of stores by store type:						
Hypermarkets	43	46	48	51	51	51
Supermarkets	18	21	21	23	25	28
Number of Stores by Subsidiary						
BinDawood	24	26	27	27	27	28
Danube	37	41	42	47	49	51
Total	**61**	**67**	**69**	**74**	**76**	**79**
Total selling area (m2)	319,456	341,306	350,873	366,425	371,662	378,674
Gross profit margin*	21.1%	34.1%	34.0%	32.0%	32.2%	32.4%
Adjusted gross profit margin**	32.4%	34.1%	34.0%	32.0%	32.2%	32.4%
Operating margin*	8.4%	8.6%	10.7%	11.0%	10.9%	11.3%
Net profit margin	8.7%	8.7%	8.7%	8.0%	9.3%	9.9%
Return on average equity	55.6%	43.3%	38.1%	35.5%	37.8%	36.8%
Return on average assets	21.7%	18.6%	12.1%	9.3%	10.9%	12.0%
Return on average capital employed	46.2%	39.3%	22.2%	17.2%	17.5%	18.8%
Return on average invested capital	49.8%	42.6%	21.4%	16.2%	16.5%	17.8%

Source: IPO prospectus, Al Rajhi Capital. * FY17 is not comparable to FY18G and FY19G due to the reclassifications in the FY19G financial statements. ** FY17 gross margin adjusted for gandola income, shop rentals and early payment discount

Valuation

Figure 6 Summary of DCF valuation

(In SARmn)	2020E	2021E	2022E	2023E	2024E	2025E
Pre-tax operating profit	626	653	722	809	881	966
Tax rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Post-tax operating profit	**610**	**637**	**704**	**789**	**859**	**942**
Add: Depreciation & amortisation	420	406	398	391	386	382
Change in working capital	(41)	(21)	(24)	(24)	(25)	(26)
Less: Capex	(255)	(118)	(164)	(166)	(168)	(170)
Free Cash Flow to Firm	**733**	**903**	**914**	**990**	**1,052**	**1,127**
Discount factor	*0.99*	*0.91*	*0.84*	*0.78*	*0.72*	*0.67*
PV of Free Cash Flows	723	823	770	771	757	750
Sum of present values of FCFs	**4,593**					
Terminal value as per DCF						
Long term growth rate	2.0%					
Free cash flow (t+1)	1,150					
Terminal value	18,651					
Present value of terminal value	**12,409**					
Value of the equity						
Appraised value of the enterprise	**17,002**					
Add:						
Value of associates and non-core assets	-					
Less:						
Net debt	(2,001)					
Employees' Termination Benefits	(99)					
Minorities	-					
Appraised value of the equity	**14,902**					
Number of shares ('mn)	114.3					
Appraised share price	**130.4**					

Source: Company data, Al Rajhi Capital

Figure 7 PE-based relative valuation

	2021E
Peers average multiple	24.7x
Disocunt	0.0%
Implied PE	**24.7x**
Expected EPS	4.89
Fair Value (SAR)	**121.0**

Source: Al Rajhi Capital

Figure 8 Weighted Average Target Price

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
DCF	130	50%	65
P/E	121	50%	61
Fair Value (SAR)		**100%**	**126**

Source: Al Rajhi Capital

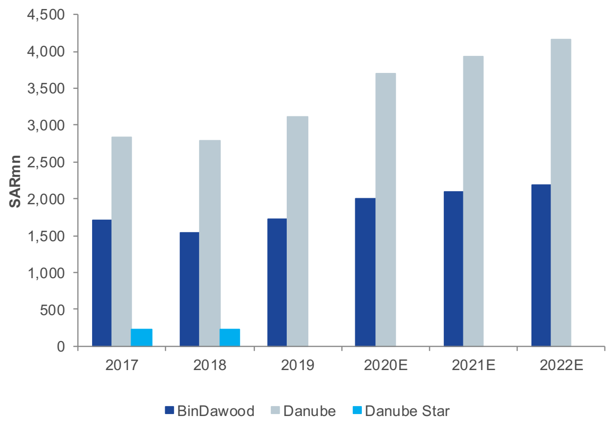
Figure 9 DCF Sensitivity Analysis

		Terminal growth				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
WACC	**7.2%**	135.6	146.2	158.8	174.1	193.1
	7.7%	124.2	133.0	143.3	155.7	170.7
	8.2%	114.3	121.7	**130.4**	140.5	152.7
	8.7%	105.7	112.1	119.4	127.8	137.8
	9.2%	98.2	103.7	109.9	117.0	125.3

Source: Company data, Al Rajhi Capital

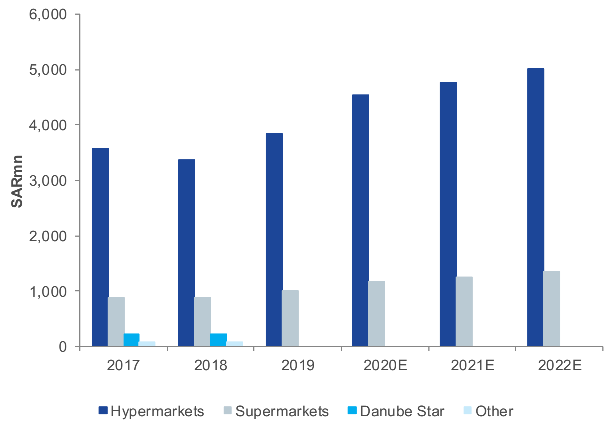
Key Operating Metrics

Figure 10 Consolidated revenues by segment



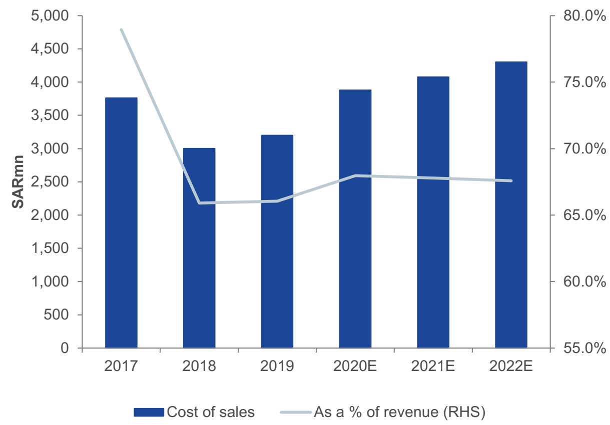
Source: Company data, Al Rajhi Capital

Figure 11 Consolidated revenues by store type



Source: Company data, Al Rajhi Capital

Figure 12 Cost of sales trend

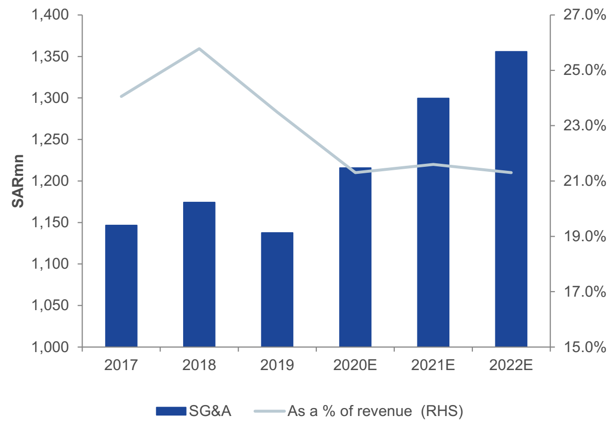


Source: Company data, Al Rajhi Capital

Figure 13 Gross profit and margin trend

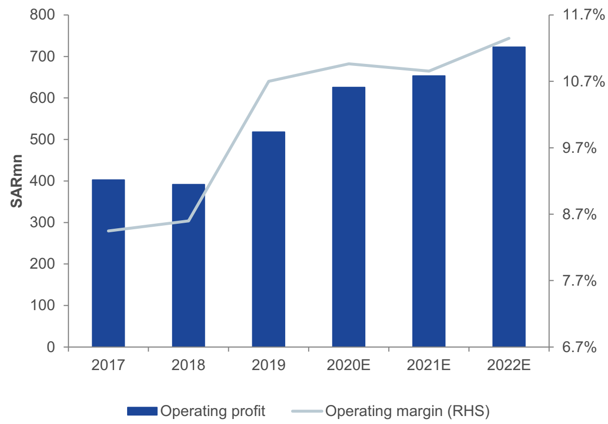
Source: Company data, Al Rajhi Capital

Figure 14 SG&A trend



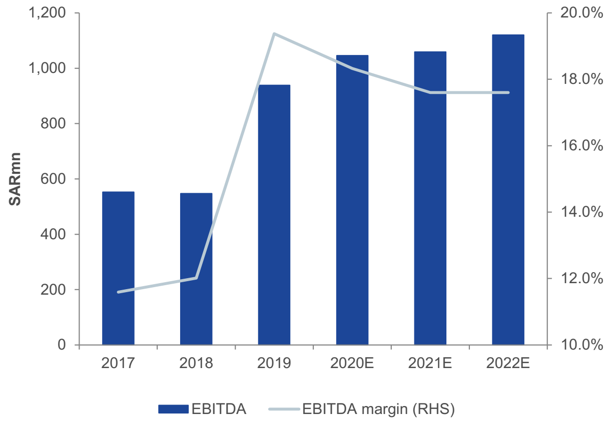
Source: Company data, Al Rajhi Capital

Figure 15 Operating profit and margin trend



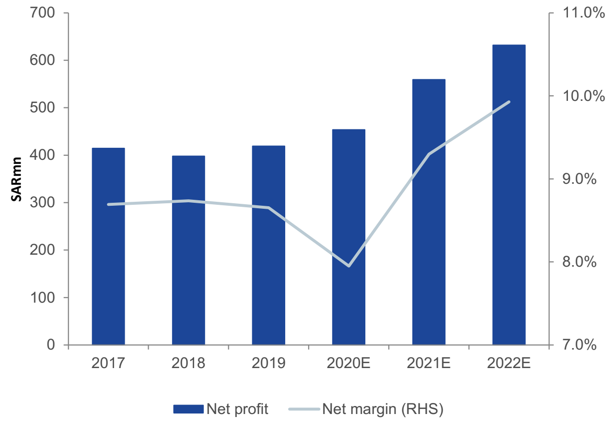
Source: Company data, Al Rajhi Capital

Figure 16 EBITDA and margin trend



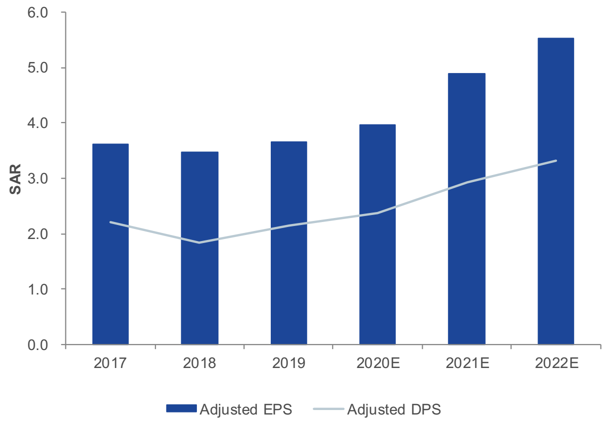
Source: Company data, Al Rajhi Capital

Figure 17 Net profit and margin trend



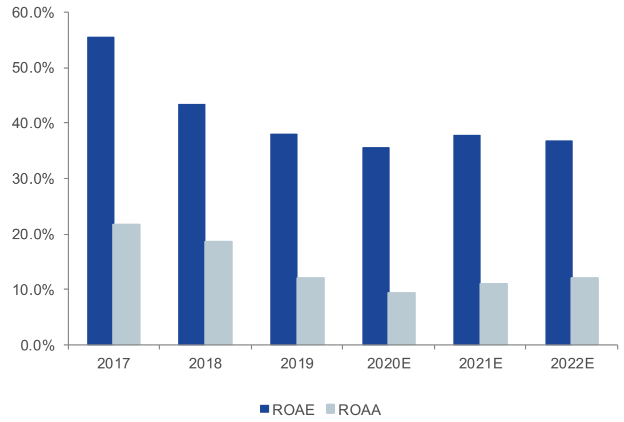
Source: Company data, Al Rajhi Capital

Figure 18 EPS and DPS trend



Source: Company data, Al Rajhi Capital

Figure 19 ROAE and ROAA trend



Source: Company data, Al Rajhi Capital

Company Overview

BinDawood Holding Co is the third-largest grocery retailer in KSA by market share (based on revenue as of 31st December 2019). It opened its first outlet in 1984 in Makkah under the brand name of "BinDawood. It is involved in the trading of FMCG, fresh food products, non-food products, household consumable items and manages in-house bakeries. The company caters to a wide spectrum of customers through its two brands "Danube and "BinDawood supermarkets". The Danube addresses high-end affluent families while BinDawood supermarkets target the mid-income segment of the society. It offers over 140,000 SKU's ranging from regional FMCG players such as Almarai, SADAFCO to leading international players such as Nestle, P&G, Mondelez, etc. The total number of stores currently stands at 73 (51 hypermarkets and 22 supermarkets) spread across KSA with a total selling area (TSA)of 364,475 sqm and a total area of 555,527sqm. The company's TSA increased at a CAGR of 4.8% from 2017 to 2019 while the number of stores increased from 61 in 2017 to 73 in H2 2020. The average basket size increased from SAR91.4 in 2017 to SAR104.3 in 2019.

First grocery retailer to launch Danube applications in 2017: BinDawood was the first grocery retailer to start e-commerce operations by launching the Danube app to adopt digitalization in retail and changing consumer behavior. It also launched BinDawood app in 2019. Currently, the online app sources its orders from 31 of the company's stores and the company intends to increase it to 50 by the end of 2020e. In April 2019 the company won the most admired online retailer award

Competitive Strengths

Covering a wide consumer spectrum through two different brands: The company operates under two distinct brands BinDawood and Danube through which it addresses customers across all socioeconomic groups. The Danube caters to affluent customers while BinDawood targets the mid-income segment of the society. The company's key value proposition to customers is focused on a number of facets such as premium products offering, market-leading product assortments, fresh-oriented experience, and digitalization of grocery shopping experience. Other key players in the Kingdom focus on a specific audience rather than a wider spectrum.

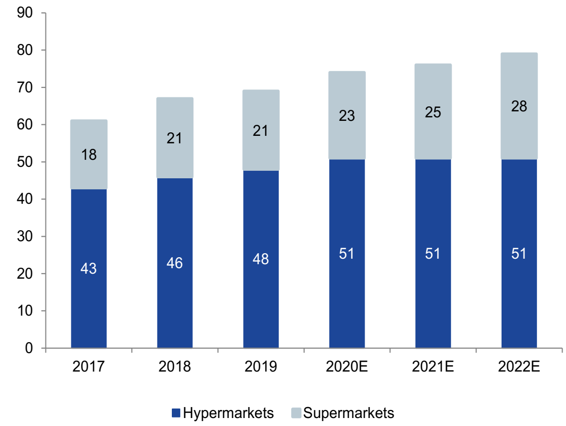
Stores spread across KSA with a stronger presence in the Western region: The company has 73 stores spread across the kingdom which helps the company in strengthening its brand value. It has a relatively stronger presence in the western region with ~13.2% market share in that region. It has its stores in the vicinity of the Holy Mosques which attracts religious tourists. With increasing tourists in the coming years as a part of Saudi Vision 2030, the company expects that it is well poised to capture the growing market in the western region.

Strong relationship with key Suppliers: BinDawood is one of the oldest grocery chains and thus has a long-standing relationship with its suppliers. It has dedicated international agents who source selected international products not available elsewhere in KSA. This provides a competitive advantage to the company compared to its competitors especially in catering to affluent customers. It also has a diverse local supplier base (no single supplier accounting for more than 6% of the total gross purchases). It deals with suppliers across the globe to supply limited products bearing its own brand which includes non-food products such as Hajj and Umrah supplies, gifts, stationaries, etc.

Strong revenue and margin growth driven by the focus on core business: In 2017 the revenue grew 5.5% y-o-y while in 2018 the top-line shrinked 4.5% mainly due to strategic changes in the business undertaken by the management such as discontinuation of low margin electronic product sales, exit of wholesale channel and overall tough business environment due to VAT levy. As a result of these decisions, the gross margins expanded from 32.4% to 34.1% in 2018. In 2019 the revenue grew 6.4% y-o-y driven by 4% growth in LFL sales. The company's business had remained relatively resilient compared to its competitors even during 2017 and 2018 where macro-economic environment was weak due to expat exodus and the introduction of VAT.

Strong management team and knowledgeable shareholder's base: The company has a highly experienced management team with extensive experience in the grocery retail market and includes members of the founding family who continue to ensure a family-led culture.

Figure 20 No. of stores



Source: IPO prospectus, Al Rajhi Capital

Figure 21 Stores by city

City	Stores
Riyadh	17
Jeddah	16
Makkah	10
Madinah	6
Khamis Mushait	4
Dammam	4
Taif	3
Khobar	3
Al Hassa	3
Abha	2
Kharj	1
Jizan	1
Jubail	1
Unaizah	1
Hail	1

Source IPO prospectus, Al Rajhi Capital

Business Strategy

Key focus on driving LFL growth in existing stores: Company is taking initiatives to increase same store sales by focusing on enhancing the in-store shopping experience thereby increasing the basket size. It continues to conduct promotional activities including seasonal and festive events and adoption of the latest technology to improve the supply chain initiatives. This will ensure product availability and improve the company's revenue.

Incremental measures for recently opened stores: On an average it takes between six months to three years for a newly built stores to ramp up. The company is focusing on ramping up its newly opened stores to improve sales and gross margins. In case of stores that are adversely impacted due to one-off events, the company is adopting targeted marketing and promotional activities for those stores.

Nationwide store rollout: The company plans to implement a national store rollout plan to further consolidate its presence in the Central, Western, and Eastern regions. It will be using its current format model to expand both BinDawood and Danube supermarkets. Since the company have centralized warehouse in most of these cities the new store expansion should not lead to any significant surge in opex in our view.

Increasing penetration of e-commerce to generate incremental sales: The company intends to strategically grow its incremental online sales through its e-commerce website and Danube application thereby maintaining its first-mover advantage in the digitization of grocery shopping in the kingdom. The company intends to increase the number of stores that support online shopping to 51 by 2020e from 31 currently. This will improve the returns per store and drive the LFL growth.

Maintain focus on cash flow generation and operating efficiencies: The company continues to focus on managing its operating expenses at all levels by adopting the latest technology and digitalization measures. This should reduce the opex and enhance margins going forward.

Sector Overview:

The grocery sector in Saudi Arabia is marked by modern and traditional retailers. The share of modern retailers has increased over the years to 41% in 2019 and is expected to increase to 48% by 2024e. The main reasons driving this shift are urbanization, increasing disposable income, enjoyable shopping experience in supermarkets, quality of SKU's offered, and promotional activities offered by modern retailers. The Saudi grocery market, in particular, declined from SAR146bn in 2017 to SAR137bn in 2019 mainly due to the Saudization of the labor force which increased costs, low oil prices, expat exodus, and introduction of VAT in 2018. Nevertheless, the overall grocery market is expected to grow at a CAGR of 2.3% in nominal terms from 2020-2024e (as per the company's prospectus). The overall grocery segment is undergoing a consolidation since the last few years and this trend is expected to continue with rapid urbanization, rising disposable income, female employment, and aggressive expansion plans of modern grocery retailers:

Figure 22 Modern Grocery Retailing Value Sales in Saudi Arabia by key regions (SARmn)

Indicator	2017	2018	2019	2024	CAGR 2017-19	CAGR 2020-24
Modern Grocery Retailers	59,566	56,429	56,501	72,564	-2.6%	5.5%
Northern Region	2,614	2,517	2,540	3,620	-1.4%	7.7%
Southern Region	5,888	5,572	5,576	7,250	-2.7%	5.8%
Eastern Region	11,238	10,294	10,291	12,665	-4.3%	4.6%
Central Region	21,634	20,914	20,964	26,092	-1.6%	4.3%
Western Region	18,192	17,132	17,130	22,936	-3.0%	6.4%

Source: IPO prospectus, Al Rajhi Capital

Figure 23 Modern Grocery Retailing Value Split (by %) by Key Players, 2017G-2019G

Name of Key Player	2017	2018	2019
Panda Retail Co	19.6%	19.7%	19.8%
Abdullah Al-Othaim Markets	10.2%	11.1%	11.3%
BinDawood Holding	**8.1%**	**8.2%**	**8.7%**
Saudi Hypermarket LLC	3.0%	2.9%	3.0%
Saudi Marketing Co	2.6%	2.7%	2.7%
Others	56.5%	55.4%	54.5%

Source: IPO prospectus, Al Rajhi Capital

Figure 24 Number of Modern Grocery Stores by Key Players, 2017G-2019G

Name of Key Player	2017	2018	2019
Panda Retail Co	367	219	214
Abdullah Al-Othaim Markets	175	203	214
BinDawood Holding	**61**	**67**	**69**
Saudi Hypermarket LLC	17	17	17
Saudi Marketing Co	87	99	103
Others	4041	3961	4019

Source: IPO prospectus, Al Rajhi Capital

Industry Growth Drivers

Favorable demographic mix with increasing government focus on tourism to drive the grocery market growth: Saudi Arabia has a relatively young and fast-growing population this bodes well for the overall grocery segment. Apart from this, continued structural reforms seeking economic diversification and the greater private sector investing, increasing female participation in the workforce and government increased focus towards tourism are the main key growth drivers for the grocery market in Saudi Arabia.

Modern grocery retailing are capturing market share from the traditional retailers: During the period between 2017-2019 the Middle East and Africa experienced the largest expansion in the grocery retailing market across regions at a global level (the market grew at a CAGR of 5.3% in nominal terms as per the data provided by the company in the prospectus). Being one of the largest economies of the region, KSA is well placed to take advantage of increased spending on food and beverages. The changing consumer preferences towards better quality products, convenience, shopping experience, rapid urbanization, the advent of technology, and rising disposable income are driving the customers towards the supermarket.

Western Region to witness the highest growth in Saudi Arabia from 2020-2024: The central and western regions comprise the biggest chunk of the Saudi grocery market accounting for 37.1% and 30.3% of the country's total market respectively in 2019 (as per data provided in the prospectus). As per the market study mentioned in the prospectus the western region is expected to grow fastest by SAR5bn over 2020-2024e driven by expected investments on mega projects (such as Neom, King Abdullah Economic City, Red Sea project), government focus to increase religious as well as leisure tourism as a part of Saudi Vision 2030 and comparatively stronger rise of disposable income in the western part. The total value share of the western region is set to rise from 30.3% in 2019 to 31.6% in 2024 and since BinDawood has a strong presence in the western region the company should benefit significantly through this growth.

Figure 25 Modern Grocery Retailing Selling Space in Saudi Arabia by key regions (1000 sq.m)

Indicator	2017	2018	2019	2024	CAGR 2017-19	CAGR 2020-24
Modern Grocery Retailers	3,722	3,700	3,762	4,413	0.5%	3.4%
Northern Region	151	151	155	203	1.2%	5.7%
Southern Region	368	365	371	441	0.5%	3.6%
Eastern Region	712	698	700	786	-0.8%	2.5%
Central Region	1,352	1,357	1,393	1,583	1.5%	2.7%
Western Region	1,139	1,128	1,143	1,400	0.2%	4.3%

Source: IPO prospectus, Al Rajhi Capital

Comparative analysis of BinDawood with regional peers

Figure 26 Number of stores

Company	Segment	2017	2018	2019	Latest	2020E
BinDawood	BinDawood	24	26	27	27	27
	Danube	37	41	42	46	47
	Total	**61**	**67**	**69**	**73**	**74**
Savola	Panda	162	153	145	146	148
	Hyper Panda	67	66	60	60	60
	Pandati	138	0	0	0	0
	Total	**367**	**219**	**205**	**206**	**208**
Al Othaim		224	260	288	293	312
Farm Superstores		73	83	88	89	91
Total		**725**	**629**	**650**	**661**	**403**

Source: Company data, Al Rajhi Capital

Figure 27 Peer - Operating performance

Retail sales (SARmn)	2017	2018	2019	Avg growth
Savola	11,643	11,118	11,497	-0.6%
Al Othaim	7,981	7,359	7,916	-0.4%
BinDawood	4,766	4,554	4,844	0.8%
Farm Superstores	1,547	1,512	1,528	-0.6%
Sector	**25,937**	**24,543**	**25,785**	-0.3%
Net income (SARmn)				
Savola	(1,016)	(917)	(342)	NM
Al Othaim	263	209	242	-4.0%
BinDawood	414	398	419	0.6%
Farm Superstores	44	3	13	-46.3%
Sector	**(295)**	**(307)**	**331**	NM
Retail - GPM				
Savola	20.0%	20.8%	5.9%	
Al Othaim	17.7%	20.2%	20.7%	
BinDawood	21.1%	34.1%	34.0%	
Farm Superstores	27.3%	28.3%	29.9%	
Sector	**19.9%**	**23.6%**	**24.4%**	

Source: Company data, Al Rajhi Capital (For AlOthaim and Farm retail revenue and net income has been taken and for Farm's only retail segment revenue is considered for comparison *Excluding SAR41.2mn provisions for property impairment in 2017 for Farm Superstores)

Figure 28 Average sales per store - 2019

Company	Sales (SARmn)	Number of stores	Sales/store (SARmn)
BinDawood	4,844	69	70.2
Savola*	11,497	205	56.1
Al Othaim*	7,916	288	27.5
Farm Superstores*	1,528	88	17.4
Sector	**25,785**	**650**	**39.7**

Source: Company data, Al Rajhi Capital. * Retail segment

Figure 29 Key balance sheet items - Jun-2020

SARmn	Assets	Loans	Lease liabilities	Equity
Savola	26,719	7,147	4,573	7,724
Al Othaim	5,036	0	1,246	1,573
BinDawood	4,879	0	2,533	1,408
Farm Superstores	2,246	450	707	604
Total	**38,880**	**7,597**	**9,059**	**11,309**

Source: Company data, Al Rajhi Capital

Figure 30 Dividend Distribution by Company in 2019

Company	DPS	Yield	Payout
Al Othaim	3.00	2.2%	78.3%
BinDawood	1.84	1.9%	58.5%
Savola	0.30	0.6%	NA
Farm Superstores	NA	NA	NA

Source: Company data, Al Rajhi Capital

Figure 31 Peer comparisons

	Bindawood				Alothaim				Savola			
Details	**2019**	**2020E**	**2021E**	**2022E**	**2019**	**2020E**	**2021E**	**2022E**	**2019**	**2020E**	**2021E**	**2022E**
Margins												
Gross	34.0%	32.0%	32.2%	32.4%	20.7%	20.3%	20.3%	20.3%	20.3%	19.7%	19.7%	19.7%
Operating	10.7%	11.0%	10.9%	11.3%	4.9%	4.7%	5.7%	6.8%	5.9%	3.2%	3.3%	3.5%
Return												
ROE	38.1%	35.5%	37.8%	36.8%	22.0%	24.4%	30.8%	37.8%	5.7%	8.3%	8.9%	9.4%
ROCE	22.2%	17.2%	17.5%	18.8%	24.8%	27.4%	33.9%	40.9%	8.8%	4.3%	4.4%	4.5%
Valuations												
P/E	26.2x	24.2x	19.6x	17.4x	36.2x	32.9x	24.4x	18.3x	60.4x	38.7x	32.5x	27.6x
P/BV	9.2x	8.0x	6.9x	5.9x	8.4x	7.9x	7.3x	6.7x	3.8x	3.4x	3.1x	2.8x

Source: Company data, Al Rajhi Capital

Valuation: We value BinDawood using equal mix given to DCF and PE based relative valuation. Our DCF based target price based on 2% terminal growth and 8.17% WACC is SAR130/sh while relative valuation based on 24.7x (based on industry average of grocery retailer) FY 2021E EPS is SAR121/sh thus equal weighted target price stands at SAR126/sh which implies ~31% upside from listing price of SAR96/sh.

Key Risks:

- The burden of incremental VAT will reduce the disposable income of the people; this might impact the spending on groceries as people might down-trade in food and beverages. This might impact the BinDawood supermarket in the near term.
- Reduced religious tourists currently and less visibility on the resumption of religious tourism in the kingdom poses a risk to the company's growth especially in the Makkah region.
- The company is planning to open express stores (ranging from 100-1000sqm), currently, it doesn't operate any such kind of stores. We have seen in the past how pandati (convenience) store expansion by Panda supermarkets led to a significant increase in operating costs and erosion of operating margins.
- A prolonged spell of lower oil prices might lead to a reduction in allowances and perks of government employees which might impact the discretionary spending and growth of Danube supermarkets, a niche segment offering relatively premium products.
- Slower than expected ramping up of new stores might have a negative impact on the company's top-line growth and its margins.
- The company's ROE is in a declining trajectory since 2017 mainly due to lower incremental ROE from recent investments. The ramp-up of new stores has been relatively slow since 2017, on average it takes anywhere from 6 months to 3 years for new stores to ramp-up but off late this average seems to be near to the higher end of the spectrum.

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