

Rating **Buy**
 12- Month Target Price **SAR 20.00**

BAWAN COMPANY (BAWAN)

3Q2017 First Look

Expected Total Return

Price as on Nov-05, 2017	SAR 16.27
Upside to Target Price	22.9%
Expected Dividend Yield	6.1%
Expected Total Return	29.1%

Market Data

52 Week H/L	SAR 24.4/15.9
Market Capitalization	SAR 976 mln
Enterprise Value	SAR 1,506 mln
Shares Outstanding	60.0 mln
Free Float	42.9%
12-Month ADTV (000's)	548.6
Bloomberg Code	BAWAN AB

1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC. Est	Actuals
Revenue	441	507
Gross Profit	47	63
EBIT	15	29
Net Income	10	23
EPS (SAR)	0.17	0.39

Earnings Surprise

Bawan Company (Bawan) reported 3Q2017 results last week with an earnings surprise due to record margin expansion in a span of 10-11 quarters. This is commendable at times of economic contraction amid falling selling prices; suggest its focus on volumes. EPS of SAR 0.39 came significantly higher to our SAR 0.17 estimate, despite a +15% revenue beat, highlight being the expansion in net margins of 270 bps, the highest since 2Q2016, also second best since 4Q2014. A sudden rise in margins is expected to be driven by high off-take in volumes post Ramadan slowdown coupled with high utilization (inventories rose +14% Q/Q in 3Q), aiding some cost control. The data on prices augments our volume view, with changes in reference prices is modest on a Q/Q basis. We maintain our estimates for 2017-19 and target price at SAR 20.00 but upgrade our rating to Buy from Neutral, due to stock's recent correction amid its ideal valuation gap, with its 2018E P/E of 11.8x offers a 16% discount to TASI's 14.0x.

Revenue beats estimate

Revenue of SAR 507 million in 3Q2017 stood above our SAR 441 million estimate as we expected deep cut in selling prices, which did not materialize but volumes moved up, taking revenue growth in this quarter to +7% Q/Q though declined by -5% Y/Y. We expect metals segment to have contributed slight revenue growth in current quarter, mainly through volumes unlike prices, as average steel prices (local) witnessed a decline of -14% Y/Y and -5% Q/Q to SAR 2,137/ton. The average prices of wood have declined by -1% Q/Q and -5% Y/Y to SAR 2,483/M³ in 3Q2017, limited growth in this quarter. The management has also opined that electric segment revenue has declined by -5% Y/Y in this quarter, while some improvement is seen in ready-mix segment.

Margin improvement across the board

With a revenue beat, gross profit also followed suit; declined by -15% Y/Y but increased by +18% Q/Q to SAR 62.9 million, above our estimate of SAR 47.2 million. Gross margins of 12.4% have improved by 130 bps from last quarter though declined by 150 bps from 3Q2016. Operating margins also expanded 200 bps sequentially to 5.7% in 3Q2017 a notable improvement at tough times, though contracted 40 bps from 3Q2016. The decline in operating profit by -11% Y/Y is acceptable due to seasonality adjustment, but grew significantly by +69% Q/Q to SAR 29.1 million, came above our SAR 15.2 million estimate. Net income of SAR 23.3 million in 3Q2017 is impressive after a subtle low 2Q2017 numbers of SAR 8.9 million; recorded a growth of +10% Y/Y and +162% sequentially, beat our SAR 10.1 million estimate. Net margins also improved to 4.6%, increasing by +270 bps Q/Q and +70 bps Y/Y.

Stock offers large upside; upgrade to Buy

We believe re-rating to a Buy is driven by i) large earnings beat in 3Q2017 adds further credence ii) total return of 29%; including DPS of SAR 1.00 for 2018E currently offers 6.1% yield iii) the stock price correction of -30% YTD and iv) valuation gap of 16% to TASI; has compelled us for a re-rating without a revision in target. Upgrade to Buy.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	2,318	2,061	2,127
EBITDA	228	174	182
Net Profit	119	78	83
EPS (SAR)	1.98	1.30	1.38
DPS (SAR)	1.00	1.00	1.00
BVPS (SAR)	15.00	15.30	15.69

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	12%	6%	6%
ROAE	13%	8%	9%
P/E	8.2x	12.5x	11.8x
P/B	1.1x	1.1x	1.0x
EV/EBITDA	6.6x	8.7x	8.3x
EV/Sales	0.6x	0.7x	0.7x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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