



US\$0.450bn Market Cap 76.09% Free Float US\$3.36mn Avg. Daily Volume

Target price **32.00** 13.9% above current
Current price **28.10** as at 14/03/2023

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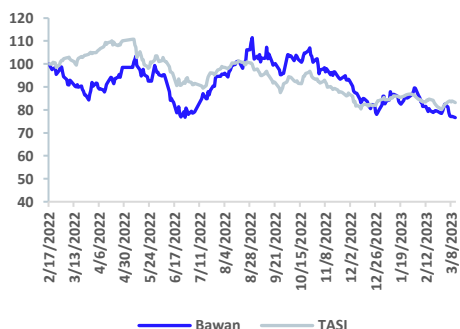
Existing rating

Underweight

Neutral

Overweight

Performance (Rebased to 100)



Earnings

(SARmn)	2022A	2023E	2024E
Revenue	3,632	3,564	3,658
Revenue growth	13%	-2%	3%
Gross profit	447	437	454
Gross margin	12%	12%	12%
EBITDA	303	291	304
EBITDA margin	8%	8%	8%
Net profit	163	145	163
Net margin	4%	4%	4%
EPS	2.7	2.4	2.7
DPS	1.5	1.3	1.5
Payout ratio	55%	55%	55%
EV/EBITDA	7.7x	7.7x	7.2x
P/E	10.4x	11.6x	10.3x
RoE	18.9%	15.6%	16.3%

Source: Company data, Al Rajhi Capital.

Bawan Co

Target price reduced to SAR32/sh, rating maintained

Bawan's revenue for Q4 2022 came in at SAR951mn (+12.0% y-o-y) and is likely to have been aided by higher revenues across all segments but for Steel and Plastic. The revenue was higher than our estimate of SAR896mn. Steel and Wood segment revenues grew by 6.7% y-o-y. Revenues in the plastic segment remained flat due to competition and the ongoing replacement of XPS factory while revenues in the Electrical products and Concrete segments increased by 35.6% and 52.9% respectively. However, Gross profit increased marginally by 2.0% y-o-y, due to inflationary pressures weighing on raw material prices while operating income grew by 23% y-o-y, at the back of lower impairments and administrative expenses. Gross Margins of Bawan Company fell from 13.1% in Q4 2021 to 11.9% in Q4 2022 at the back of increased cost of sales. We expect overall revenues to be subdued for 2023, due to slower mortgage offtake owing to the current interest rate scenario. Overall, net income fell by 33.0% y-o-y. The net income was lower than our estimate of SAR39mn. Net income margins decreased to 3.14% in Q4 2022 corresponding to 4.32% in Q4 2021 and 5.25% in Q3 2022 due to higher interest outgo and tax burden. We think the level of demand in the steel segment may continue to be tepid due to a slowdown in the construction space. We expect an uptick in the revenues in plastic segment due to increased capacities as resultant of capex incurred for paper packaging products. Going forward, we also expect the Electricity vertical to show decent revenues. However, revenues for 2023 are expected to be similar to 2022 levels. On a full year basis, Steel and Wood accounted for 66% revenues, coupled with 10%, 17% and 7% from Plastics, Electrical Products and Concrete respectively. Overall, post-Q4 2022 earnings we have reduced the target price to SAR32/sh, from the earlier target price of SAR36/sh and maintained our rating at "Overweight".

Figure 1 Earnings Summary Q4 2022

(SARmn)	Q4 2022	Q4 2021	Q3 2022	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	951	849	882	12%	8%	896
Gross Profit	113	112	101	2%	13%	108
Gross Margin	12%	13%	11%	NA	NA	12%
Operating Profit	52	42	53	23%	-2%	55
Operating Margin	5%	5%	6%	NA	NA	6%
Net Profit	30	45	38	-33%	-22%	39
Net Margin	3%	5%	4%	NA	NA	4%

Source: Company data, Al Rajhi Capital

Valuations: 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 12.9% WACC and comes to SAR32/sh. P/E based relative valuation has a 13x multiple and gives a target price of SAR31/sh. Thus, we have revised our target price for the company to SAR32/sh, an upside of 13.9%, and maintained our rating at "Overweight". The key downside risks to our valuation assumptions 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.

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