Bindawood Holding Co.

Investment Update

Retail business to grow through store expansions; entry into pharma & logistics to enhance synergies & customer engagement

BinDawood's Q3-24 result was in-line with our forecast, gross margins were better than expectation, however, operating expenses came in higher than our estimates due to acquisitions and branch openings. The company is broadening its retail foot print into to the pharma sector, through acquisition of Zahrat al Rawdah pharmacies co (subject to regulatory approvals). In order to have a better control over supply chain, earn distribution margin and improve profitability through cost synergies Bindawood holding acquired Jumairah Trading Company (JTC). The company has also entered into franchise agreement with 'The Regional Group Company' a well-known brand in Qatar to open eight BinDawood stores in Qatar. We expect the company to add 21 stores by 2028 (as of Q3-24 Bindawood had total 92 stores - 25 Bindawood brand stores and 67 Danube brand stores), and revenue per store to improve by 3.0% to SAR 67.5mn by 2028. Overall, we expect revenues to grow by 2.8/6.9% in 2024/2025 and at 4.8% CAGR over 2023-28, whereas net profit is expected to grow at a CAGR of 8.6% over 2023-28. We maintain our 'Neutral' recommendation on Bindawood with a revised TP of SAR 7.4/share.

Net income grew by 2.8% Y/Y to SAR 35mn in Q3-24, driven by improvement in gross margins which were partially offset by higher operating expenses: Bindawood posted net income of SAR 35mn in Q3-24 up 2.8% Y/Y, down 53.4% Q/Q. The net income was broadly in line with our estimate of SAR 35mn. Revenues increased by 0.2% Y/Y to SAR 1,361.3mn (down 4% sequentially) deviation of + 0.6% from our estimate of SAR 1353.5mn. Despite high competition company maintained its sales and gained market share among point-of sales customers. Sales of BinDawood stores declined slightly to SAR 361.9mn in Q3-24 compared to SAR 414.6mn in same period last year. The decline is owed to seasonal shift due to higher number of pilgrims last year. Danube sales declined by 2.7% Y/Y to SAR 844.4mn in Q3-24 from SAR 867.2mn in Q3-23. Gross profit stood at SAR 449.5mn up 6.8% Y/Y (down 6.4% Q/Q) +5.2% deviation to AJC estimate of SAR 427.4mn. The improvement in gross profit came mainly on account of better than expect gross margins of 33% (+205 bps Y/Y) +145bps deviation to AJC estimates of 31.6%. The improvement in gross margins is owed to optimization of product mix and better visibility on supplier support compared to last year. Operating expenses grew from SAR 367mn in Q3-23 to SAR 395.9mn in Q3-24. The ratio of opex to sales increased from 27.0% in Q3-24 to 29.1% in Q3-24. This increase is owed to new store openings, acquisition of JTC and investment in human capital. Overall the company recorded a 2.8% increase in net profit, due to improvement in gross margins, which were partially offset by higher operating expenses.

Bindawood's revenue growth is projected to be in the single digits, with an anticipated revenue/earnings CAGR of 4.8%/8.6% over 2023-28, driven by store additions: Bindawood holding's revenues have grown by 4.3% Y/Y in trailing 12 months to SAR 5,704mn. The aforementioned improvement in revenues is driven by 5.3% Y/Y increase in average number of stores to 92 despite 1.0% decrease in revenue per store to SAR 64.1mn. Revenues for Bindawood brand decreased by 0.5% Y/Y to SAR 1,693mn in trailing 12 months (due to store closures), while Danube's revenues grew by 3.1% to SAR 3,589mn. Other segment (digital) saw revenues grow by 45.7% Y/Y in trailing 12 months. The revenue growth is driven by the improvement in product mix, enhanced customer experience and the loyalty program. In terms of breakdown, Danube constituted 62.8% to the total revenues, Bindawood's share in total revenues stood at 29.6%, while digital segment's contribution to total sales was 7.6% in trailing 12 months. We expect the company to add 18 stores by 2028 (as of Q3-24 Bindawood had total 92 stores - 25 Bindawood brand stores and 67 Danube brand stores), and revenue per store to improve by 3.0% to SAR 67.5mn by 2028. Overall, we expect revenues to grow by 2.8% in 2024 and at 4.8% CAGR over 2023-28, where earnings is expected to grow at a CAGR of 8.6% over 2023-28.

Recommendation	**Neutral**
Target Price (SAR)	**7.4**
Upside / (Downside)*	**11.7%**

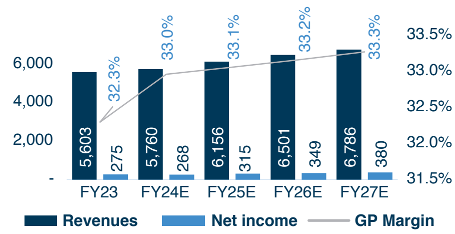
Source: Tadawul *prices as of 5th December 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	4,897	5,603	5,760	6,156
Growth %	11.7%	14.4%	2.8%	6.9%
Gross Profit	1,437	1,810	1,899	2,036
Net Income	125	275	268	315
Growth %	-48.1%	120.5%	-2.6%	17.4%
EPS	0.11	0.24	0.23	0.28
DPS	0.19	0.20	0.20	0.21

Source: Company reports, Aljazira Capital Research

Fig 1: Revenue (SAR mn) and GP Margin



Source: Company reports, AlJazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
GP Margin	29.3%	32.3%	33.0%	33.1%
Net Margin	2.5%	4.9%	4.7%	5.1%
P/E	44.4	25.7	28.4	24.2
P/B	4.1	5.1	5.3	5.0
ROE	9.0%	20.0%	18.9%	21.3%
EV/EBITDA	12.4	10.9	12.1	11.6
Div Yield (%)	3.9%	3.2%	3.0%	3.1%

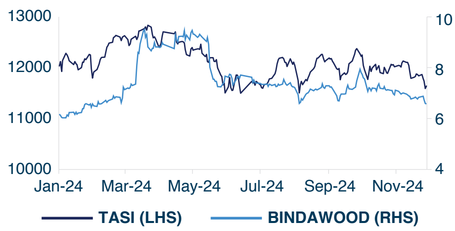
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	7.8
YTD%	7.59%
52 weeks (High)/(Low)	9.7/5.9
Share Outstanding (mn)	1,143.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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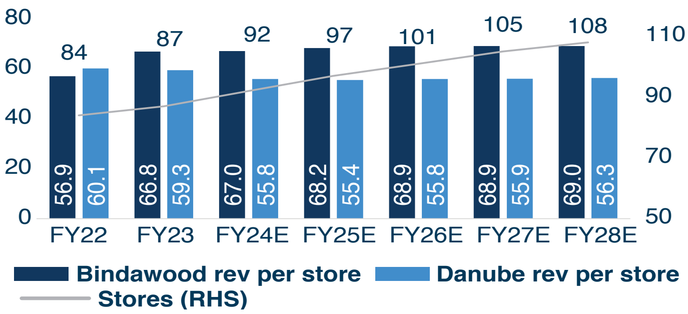
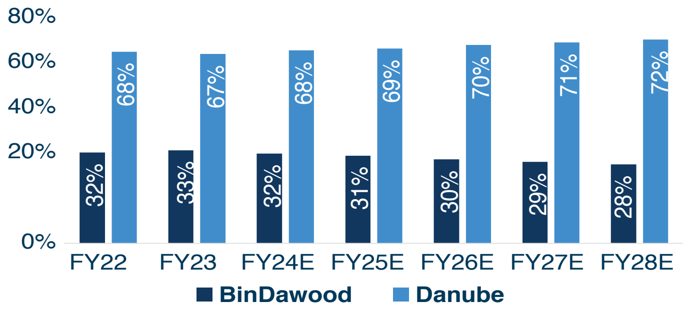
Fig 2: Revenue per store to improve; number of stores expected to reach 100 by FY25E



Source: Company filings, Aljazira Capital Research

Fig 3: Danube brand revenue contribution to increase going forward



Source: Company filings, Aljazira Capital Research

Industry experiencing weakness in LFL sales, stable basket size and more frequent visits: In general, the retail sector is experiencing weakness in LFL sales, however no. of transactions are increasing, BinDawoods' total transactions increased by 1.3% Y/Y to SAR 15.1mn in Q3-24 (up 4.5% in 9M24), while basket size saw a minor decrease of SAR 0.7% Y/Y to SAR 80.1 (-0.1% in 9M24). Basket size has been impacted by the lower consumer buying power, however the frequency of visits has increased. This phenomenon can be seen in the latest point of sales data released by SAMA which shows number of transaction have grown by 14.2% Y/Y in Q3-24 whereas sales have increased by just 8.4% Y/Y.

Broadening its retail foot print into to the pharma sector, through acquisition of Zahrat al Rawdah pharmacies co; recent acquisition of Jumairah Trading Company (JTC): Bindawood continues to expand its retail foot print by acquisitions, recently the group announced that it has signed an agreement to acquire 100% shares of Zahrat Al Rawdah Pharmacies ("Zahrat"), enabling BDH to enter health and wellness, create synergies, and become the first KSA retailer to offer in-store pharmacy services. The company said the equity valuation reached SAR 444.1 mn, adding that the transaction is subject to regulatory approvals. Zahrat Al Rawdah has 173 pharmacies based in highly attractive locations with strong brands. The company's revenues and earnings reached SAR 367.9mn and SAR 16.7mn, respectively, in 2023. We see pharmacy acquisition to create synergies through operating expenses savings and growth through expansions into existing and new Bindawood/Danube stores. Overall, we see the pharmacy business contributing SAR 0.027 per share to the bottom line by 2025. The Company is also enrolled in Wasfaty Program in FY22. BinDawood holding also entered into franchise agreement with 'The Regional Group Company' a well-known brand in Qatar to open eight BinDawood stores in Qatar, expansion supports BDH's Gulf Region Strategy. In order to have a better control over supply chain, earn distribution margin and improve profitability through cost synergies Bindawood holding acquired Jumairah Trading Company (JTC). JTC has renowned brands like Delsey, Kipling, Top toys etc under its belt. In the digital segment, company is experiencing significant growth in Ykone's middle east business.

AJC View and Valuation: Bindawood is broadening its retail foot print into to the pharma sector, through acquisition of Zahrat al Rawdah pharmacies co (subject to regulatory approvals). In order to have a better control over supply chain, earn distribution margin and improve profitability through cost synergies Bindawood holding acquired Jumairah Trading Company (JTC). The company has also entered into franchise agreement with 'The Regional Group Company' a well-known brand in Qatar to open eight BinDawood stores in Qatar, expansion supports BDH's Gulf Region Strategy. We expect company's expansion plans to pick up as they plan to open stores across Supermarket, Hypermarket and Express formats and prepares to launch mega dark store. We expect revenue's to grow by 2.8% in 2024 and at 4.8% CAGR over 2023-28. We expect the company to add 21 stores by 2028 (as of Q3-24 Bindawood had total 92 stores - 25 Bindawood brand stores and 67 Danube brand stores), and revenue per store to improve by 3.0% to SAR 67.5mn by 2028. Overall we expect earnings to grow at a CAGR of 8.6% over 2023-28.

We value Bindawood's core business on 50.0% weight for DCF (2.5% terminal growth and 9.9% average WACC), and 25% weight for EV/EBITDA (11.0x FY25E) and 25% weight for P/E (23.0x FY25E). Whereas we value Pharmacy business using industry PE ratio of 24.0x on 2025E earnings of SAR 31.12mn (SAR 0.03 per share). We maintain our '**Neutral**' recommendation on Bindawood with a revised TP of **SAR 7.4/share** implying an upside of **11.7%** from current levels.

Fig 4: Blended valuation summary

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	7.9	50%	4.0
P/E	6.3	25%	1.6
EV/EBITDA	6.5	25%	1.6
Core business value			7.2
Pharmacy business			0.3
12-month price target			**7.4**
Expected Capital Gain			**11.7%**

Source: Aljazira Capital Research

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement							
Revenues	4,897	5,603	5,760	6,156	6,501	6,786	7,069
Y/Y	**11.7%**	**14.4%**	**2.8%**	**6.9%**	**5.6%**	**4.4%**	**4.2%**
Cost of Sales	(3,460)	(3,793)	(3,861)	(4,121)	(4,345)	(4,528)	(4,710)
Gross profit	**1,437**	**1,810**	**1,899**	**2,036**	**2,156**	**2,258**	**2,359**
Other operating income	9	9	11	15	17	19	21
Selling & distribution exp	(1,099)	(1,199)	(1,225)	(1,303)	(1,370)	(1,426)	(1,479)
General & administrative exp	(196)	(266)	(313)	(334)	(356)	(375)	(395)
Operating profit	**151**	**354**	**372**	**413**	**447**	**476**	**507**
Y/Y	**-45.0%**	**134.6%**	**5.0%**	**11.0%**	**8.2%**	**6.4%**	**6.5%**
Other income/(expenses)	84	28	20	19	23	27	31
Financial charges	(85)	(89)	(97)	(96)	(95)	(94)	(93)
Profit before zakat	**150**	**293**	**295**	**337**	**375**	**408**	**444**
Zakat	(25)	(18)	(27)	(22)	(26)	(29)	(29)
Net income	**125**	**275**	**268**	**315**	**349**	**380**	**415**
Y/Y	**-48.1%**	**120.5%**	**-2.6%**	**17.4%**	**10.8%**	**8.8%**	**9.4%**
EPS (SAR)	**0.11**	**0.24**	**0.23**	**0.28**	**0.31**	**0.33**	**0.36**
DPS (SAR)	**0.19**	**0.20**	**0.20**	**0.21**	**0.23**	**0.25**	**0.25**
Balance sheet							
Assets							
Cash & bank balance	509	521	265	181	301	420	609
Other current assets	1,359	1,535	1,599	1,807	1,924	2,024	2,106
Property & Equipment	714	773	855	979	963	946	908
Other non-current assets	2,220	2,156	2,403	2,294	2,190	2,095	1,998
Total Assets	**4,803**	**4,986**	**5,122**	**5,261**	**5,378**	**5,486**	**5,621**
Liabilities & owners' equity							
Total current liabilities	1,333	1,519	1,545	1,619	1,669	1,703	1,735
Total non-current liabilities	2,088	2,008	2,078	2,065	2,044	2,023	2,002
Paid -up capital	1,143	1,143	1,143	1,143	1,143	1,143	1,143
Statutory reserves	123	-	27	58	93	131	173
Retained earnings	101	266	278	326	378	435	518
Other	14	51	51	51	51	51	51
Total owners' equity	1,382	1,459	1,499	1,577	1,665	1,759	1,884
Total equity & liabilities	**4,803**	**4,986**	**5,122**	**5,261**	**5,378**	**5,486**	**5,621**
Cashflow statement							
Operating activities	746	776	762	585	702	741	812
Investing activities	(346)	(249)	(739)	(428)	(299)	(314)	(309)
Financing activities	(376)	(521)	(278)	(242)	(283)	(308)	(314)
Change in cash	24	6	(256)	(84)	120	119	189
Ending cash balance	**509**	**521**	**265**	**181**	**301**	**420**	**609**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.4	1.4	1.2	1.2	1.3	1.4	1.6
Quick ratio (x)	0.7	0.7	0.5	0.5	0.6	0.7	0.8
Profitability ratios							
GP Margin	29.3%	32.3%	33.0%	33.1%	33.2%	33.3%	33.4%
Operating Margins	3.1%	6.3%	6.5%	6.7%	6.9%	7.0%	7.2%
EBITDA Margin	12.0%	14.3%	13.6%	13.4%	13.3%	13.3%	13.5%
Net Margins	2.5%	4.9%	4.7%	5.1%	5.4%	5.6%	5.9%
Return on assets	2.6%	5.6%	5.3%	6.1%	6.6%	7.0%	7.5%
Return on equity	9.0%	20.0%	18.9%	21.3%	22.3%	23.0%	23.6%
Market/valuation ratios							
EV/sales (x)	1.5	1.6	1.6	1.6	1.4	1.4	1.3
EV/EBITDA (x)	12.4	10.9	12.1	11.6	10.9	10.3	9.5
EPS (SAR)	0.1	0.2	0.2	0.3	0.3	0.3	0.4
BVPS (SAR)	1.2	1.2	1.3	1.3	1.4	1.5	1.6
Market price (SAR)*	4.8	6.2	6.7	6.7	6.7	6.7	6.7
Market-Cap (SAR mn)	5,532	7,075	7,612	7,612	7,612	7,612	7,612
Dividend yield	3.9%	3.2%	3.0%	3.1%	3.4%	3.7%	3.8%
P/E ratio (x)	44.4	25.7	28.4	24.2	21.8	20.1	18.3
P/BV ratio (x)	4.1	5.1	5.3	5.0	4.7	4.5	4.2

Source: Company filings, AlJazira Capital Research

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RESEARCH DIVISION

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1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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