

Retain Bindawood at Neutral, on return of Hajj and Umrah activities to pre-pandemic level, and expansion plans

Bindawood reported below expected net income of SAR 34mn for the Q3-23, as compared to loss of SAR 48mn in the same period last year. The deviation to our forecasts came from lower than expected gross margins and higher than anticipated operating expense thanks to the new store openings. The Y/Y improvement in earnings is attributable to higher sales (up 14.9% Y/Y due to massive recovery in Hajj and Umrah activities) and 500bps Y/Y expansion in gross margins due to easing of inflationary pressures, better sales mix and more supplier support. We see successful roll out of customer loyalty program (which has more than 4mn members), focus on express dark stores, planned expansions and increased tourism activity in the kingdom to be the key catalysts for Bindawood. However, we highlight competition in Danube segment as a risk. We retain our recommendation on Bindawood at “Neutral” with a revised TP of SAR 7.2/share.

Bindawood posted below expected results in Q3-23 due to lower than expected margins and higher store opening costs: Bindawood reported net income of SAR 34mn for the Q3-23, as compared to loss of SAR48mn in the corresponding period last year. The result was below our and consensus forecasts of SAR 50.8mn and SAR 52mn respectively. The deviation to our forecasts came from lower than expected gross margins and higher than anticipated operating expense thanks to the new store openings. Bindawood logged in revenue of SAR1,358mn up 14.9% Y/Y (down 3.7% Q/Q), the increase in topline is owed to recovery in hajj and Umrah season in 2023, successful marketing campaigns, loyalty programs. There was sizable increase in store footfall, as reflected by 13.8% increase in number of transaction. the sequential decline in sales owed to seasonal factors. Gross margins for the company stood at 31%, up 500bps Y/Y, the improvement is owed to the easing of inflationary pressures and more support from suppliers. At operating level margins stood at 4.1%, vs -2.2% in Q3-22; operating expenses grew by 8.7% Y/Y to SAR 367mn, due to new store openings, and full impact of operating expenses of subsidiaries acquired in Q3-22.

Return of Hajj and Umrah to pre-Covid levels and branch expansions lift revenue growth to double digits in 2023: We forecast revenue to increase by 13.8% Y/Y in 2023 and 5.3% Y/Y in 2024. The double digit increase in revenue in the ongoing year is mainly owed to recovery in hajj and Umrah activities in 2023. Beyond 2023, the increase in sales is expected to closely follow the store additions. On this front, the company has added 3 super markets and 1 express store in year-to-date 2023, and plans to add one more store in Q4-23. We expect the company to add on average 4 stores per year, to take total number of stores to 97 by the end 2025 (as of 3Q23 Bindawood holding has 26 Bindawood stores and 61 Danube stores respectively). Due to increasing demand for express delivery Bindawood has added two new dark store locations in Q3-23, taking the total number to 16.

Transaction grow in double digits, however basket size shrunk due to lower consumer buying power: Restart of full-fledged religious festive activities have resulted in a mid-teen growth in transactions, which are up 14.4% Y/Y in Q3-23 to 14.3mn. However, basket size has seen some reduction, down 0.8% Y/Y in Q3-23 to SAR 90.3, due to lower consumer buying power. This phenomenon is seen industry wide, where customers are reducing basket size and increasing the number of visits/transactions. In addition to the aforementioned, for Bindawood, the increase in transactions and decline in basket size is also owed to increasing sales of fresh (fruits/vegetables) and bakery items.

| | |
|-----------------------------|----------------|
| Recommendation | Neutral |
| Target Price (SAR) | 7.2 |
| Upside / (Downside)* | 14.6% |

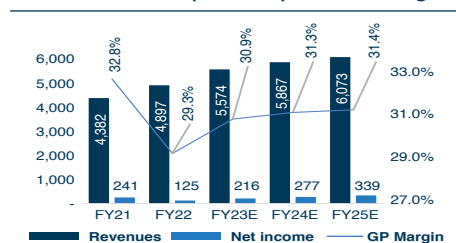
Source: Tadawul *prices as of 14th November 2023

Key Financials

| SARmn (unless specified) | FY22 | FY23E | FY24E | FY25E |
|--------------------------|--------|-------|-------|-------|
| Revenue | 4,897 | 5,596 | 5,992 | 6,282 |
| Growth % | 11.7% | 14.3% | 7.1% | 4.8% |
| Gross Profit | 1,437 | 1,743 | 1,886 | 1,984 |
| Net Profit | 125 | 230 | 297 | 323 |
| Growth % | -48.1% | 84.2% | 29.2% | 8.7% |
| EPS | 0.11 | 0.20 | 0.26 | 0.28 |
| DPS | 0.19 | 0.15 | 0.19 | 0.21 |

Source: Company reports, Aljazira Capital

Revenue/Income (SAR mn) and GP Margin



Source: Company reports, Aljazira Capital

Key Ratios

| | FY22 | FY23E | FY24E | FY25E |
|---------------|-------|-------|-------|-------|
| GP Margin | 29.3% | 31.2% | 31.5% | 31.6% |
| Net Margin | 2.5% | 4.1% | 5.0% | 5.1% |
| P/E (x) | 44.4 | 31.2 | 24.1 | 22.2 |
| P/B (x) | 4.1 | 5.1 | 4.8 | 4.6 |
| ROE | 9.0% | 16.7% | 20.6% | 21.2% |
| EV/EBITDA (x) | 12.4 | 12.2 | 11.4 | 11.1 |
| Div Yield (%) | 3.9% | 2.4% | 3.1% | 3.4% |

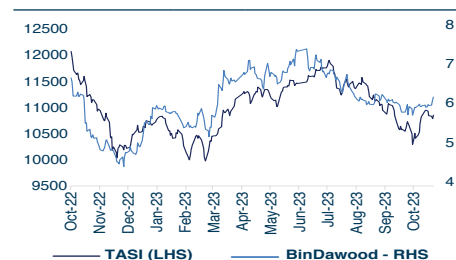
Source: Company reports, Aljazira Capital

Key Market Data

| | |
|------------------------|----------------|
| Market Cap (SAR bn) | 7.2 |
| YTD% | 29.55% |
| 52 weeks (High)/(Low) | 8.2/4.5 |
| Share Outstanding (mn) | 1,143.0 |

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

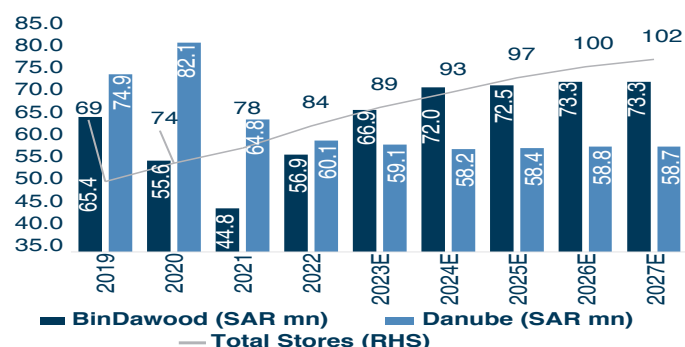
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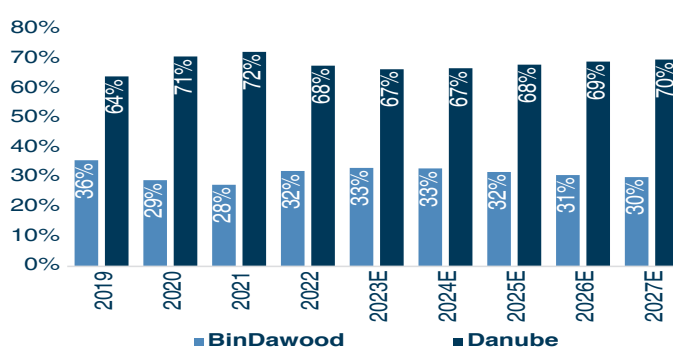


Revenue per store to improve; number of stores expected to reach 97 by FY25E



Source: Company filings, Aljazira research

Bindawood brand revenue contribution has increased as Hajj and Umrah activities recover



Source: Company filings, Aljazira research

Margins to see a modest improvement going forward due to promotional campaigns: Easing of inflationary pressure, support from suppliers and increased sales (due to recovery in religious activities) resulted in a 500bps Y/Y improvement in gross margins to 31% in Q3-23 (down Q/Q basis due to seasonal factors). We expect full year 2023 margins to improve to 30.9% as compared to 29.3% in 2022. Due to increased competition (especially for Danube brand), higher marketing expenses and promotional activities (to increase store footfall), and ramp up costs linked to planned store expansions we see modest 33/59bps Y/Y improvement in gross/net margins in 2024.

AJC View and Valuation: Bindawood's position as the number one retailer in Makkah and Madinah, helped the company grow sales in double digits in 2023, due to increase in number of pilgrims to pre-Covid levels. The retail giant also benefitted from the easing of inflationary pressures and better supplier support, and saw margins improve by 500bps in Q3-23 (despite increased marketing campaigns and new store additions). We believe successful roll out of customer loyalty program (which has more than 4mn members), focus on express dark stores, planned expansions and increased tourism activity in the kingdom to be the key catalysts for Bindawood. That said, we expect Danube to see increased competition by other large retailers in big cities.

We value Bindawood on 50.0% weight for DCF (2.5% terminal growth and 7.5% average WACC), and 25% weight for EV/EBITDA (11.0x FY24E) and 25% weight for P/E (23.0x FY24E). We retain our **"Neutral"** recommendation on Bindawood with a revised TP of **SAR 7.2/share**, implying an 14.6% upside from current levels.

Blended valuation summary

| All figures in SAR, unless specified | Fair value | Weights | Weighted average |
|---|------------|---------|------------------|
| DCF based value | 8.4 | 50% | 4.2 |
| P/E | 6.0 | 25% | 1.5 |
| EV/EBITDA | 6.1 | 25% | 1.5 |
| Weighted average 12-month price target | | | 7.2 |
| Expected Capital Gain | | | 6.3 |
| Expected Capital Gain | | | 14.6% |

Source: AlJazira capital research



Key Financial Table

| Amount in SAR mn, unless otherwise specified | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E | FY26E | FY27E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Income statement | | | | | | | | | | | |
| Revenues | 4,766 | 4,554 | 4,844 | 5,156 | 4,382 | 4,897 | 5,596 | 5,992 | 6,282 | 6,564 | 6,743 |
| Y/Y | | -4.5% | 6.4% | 6.5% | -15.0% | 11.7% | 14.3% | 7.1% | 4.8% | 4.5% | 2.7% |
| Cost of Sales | (3,763) | (3,001) | (3,199) | (3,485) | (2,943) | (3,460) | (3,853) | (4,106) | (4,298) | (4,484) | (4,607) |
| Gross profit | 1,004 | 1,553 | 1,645 | 1,672 | 1,439 | 1,437 | 1,743 | 1,886 | 1,984 | 2,079 | 2,136 |
| Other operating income | 546 | 13 | 11 | 9 | 10 | 9 | 8 | 8 | 9 | 9 | 9 |
| Selling & distribution exp | (996) | (1,047) | (1,007) | (1,003) | (1,009) | (1,099) | (1,199) | (1,268) | (1,329) | (1,389) | (1,427) |
| General & administrative exp | (150) | (127) | (131) | (164) | (165) | (196) | (230) | (247) | (259) | (270) | (278) |
| Operating profit | 403 | 392 | 518 | 515 | 275 | 151 | 322 | 380 | 404 | 429 | 441 |
| Y/Y | | -2.7% | 32.3% | -0.7% | -46.6% | -45.0% | 113.3% | 17.9% | 6.5% | 6.1% | 2.8% |
| Other income/(expenses) | 14 | 7 | 8 | 45 | 72 | 84 | 21 | 30 | 31 | 33 | 34 |
| Financial charges | - | - | (96) | (96) | (88) | (85) | (93) | (91) | (89) | (88) | (87) |
| Profit before zakat | 417 | 398 | 430 | 463 | 258 | 150 | 250 | 319 | 347 | 374 | 388 |
| Zakat | (3) | (0) | (11) | (15) | (18) | (25) | (20) | (22) | (24) | (26) | (27) |
| Net income | 414 | 398 | 419 | 448 | 241 | 125 | 230 | 297 | 323 | 348 | 361 |
| Y/Y | | -4.0% | 5.4% | 6.8% | -46.3% | -48.1% | 84.2% | 29.2% | 8.7% | 7.8% | 3.7% |
| EPS (SAR) | 0.36 | 0.35 | 0.37 | 0.39 | 0.21 | 0.11 | 0.20 | 0.26 | 0.28 | 0.30 | 0.32 |
| DPS (SAR) | 0.22 | 0.18 | 0.21 | 0.28 | 0.13 | 0.19 | 0.15 | 0.19 | 0.21 | 0.23 | 0.24 |
| Balance sheet | | | | | | | | | | | |
| Assets | | | | | | | | | | | |
| Cash & bank balance | 95 | 123 | 215 | 232 | 484 | 509 | 238 | 194 | 96 | 172 | 271 |
| Other current assets | 905 | 1,016 | 1,231 | 1,411 | 1,324 | 1,359 | 1,501 | 1,627 | 1,719 | 1,823 | 1,903 |
| Property & Equipment | 1,078 | 1,065 | 940 | 820 | 740 | 714 | 758 | 830 | 942 | 911 | 859 |
| Other non-current assets | 0 | 1 | 2,357 | 2,307 | 2,083 | 2,220 | 2,141 | 2,049 | 1,942 | 1,840 | 1,745 |
| Total Assets | 2,078 | 2,204 | 4,744 | 4,770 | 4,631 | 4,803 | 4,639 | 4,700 | 4,699 | 4,746 | 4,778 |
| Liabilities & owners' equity | | | | | | | | | | | |
| Total current liabilities | 1,179 | 1,110 | 1,168 | 1,087 | 1,029 | 1,333 | 1,252 | 1,271 | 1,211 | 1,191 | 1,153 |
| Total non-current liabilities | 76 | 80 | 2,389 | 2,370 | 2,192 | 2,088 | 1,947 | 1,914 | 1,893 | 1,873 | 1,853 |
| Paid-up capital | 530 | 530 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 |
| Statutory reserves | 90 | 130 | 42 | 87 | 111 | 123 | 146 | 176 | 208 | 243 | 279 |
| Retained earnings | 204 | 355 | 1 | 83 | 157 | 101 | 137 | 181 | 229 | 282 | 336 |
| Other | - | - | - | - | - | 14 | 14 | 14 | 14 | 14 | 14 |
| Total owners' equity | 823 | 1,014 | 1,186 | 1,313 | 1,411 | 1,382 | 1,440 | 1,514 | 1,595 | 1,682 | 1,772 |
| Total equity & liabilities | 2,078 | 2,204 | 4,744 | 4,770 | 4,631 | 4,803 | 4,639 | 4,700 | 4,699 | 4,746 | 4,778 |
| Cashflow statement | | | | | | | | | | | |
| Operating activities | 645 | 381 | 678 | 658 | 599 | 746 | 540 | 614 | 585 | 641 | 665 |
| Investing activities | (352) | (143) | (36) | (46) | (84) | (346) | (376) | (390) | (416) | (282) | (274) |
| Financing activities | (287) | (210) | (550) | (595) | (263) | (376) | (434) | (269) | (267) | (283) | (292) |
| Change in cash | 6 | 28 | 92 | 17 | 252 | 24 | (271) | (45) | (98) | 76 | 100 |
| Ending cash balance | 95 | 123 | 215 | 232 | 484 | 509 | 238 | 194 | 96 | 172 | 271 |
| Key fundamental ratios | | | | | | | | | | | |
| Liquidity ratios | | | | | | | | | | | |
| Current ratio (x) | 0.8 | 1.0 | 1.2 | 1.5 | 1.8 | 1.4 | 1.4 | 1.4 | 1.5 | 1.7 | 1.9 |
| Quick ratio (x) | 0.2 | 0.3 | 0.5 | 0.6 | 1.0 | 0.7 | 0.6 | 0.6 | 0.6 | 0.7 | 0.9 |
| Profitability ratios | | | | | | | | | | | |
| GP Margin | 21.1% | 34.1% | 34.0% | 32.4% | 32.8% | 29.3% | 31.2% | 31.5% | 31.6% | 31.7% | 31.7% |
| Operating Margins | 8.4% | 8.6% | 10.7% | 10.0% | 6.3% | 3.1% | 5.8% | 6.3% | 6.4% | 6.5% | 6.5% |
| EBITDA Margin | 11.6% | 12.0% | 14.0% | 13.2% | 10.0% | 12.0% | 13.1% | 13.2% | 13.0% | 12.9% | 12.8% |
| Net Margins | 8.7% | 8.7% | 8.7% | 8.7% | 5.5% | 2.5% | 4.1% | 5.0% | 5.1% | 5.3% | 5.3% |
| Return on assets | 21.7% | 18.6% | 12.1% | 9.4% | 5.1% | 2.6% | 4.9% | 6.4% | 6.9% | 7.4% | 7.6% |
| Return on equity | 55.6% | 43.3% | 38.1% | 35.8% | 17.7% | 9.0% | 16.7% | 20.6% | 21.2% | 21.7% | 21.3% |
| Market/valuation ratios | | | | | | | | | | | |
| EV/sales (x) | NA | NA | NA | 3.0 | 2.9 | 1.5 | 1.6 | 1.5 | 1.4 | 1.4 | 1.3 |
| EV/EBITDA (x) | NA | NA | NA | 22.5 | 29.4 | 12.4 | 12.2 | 11.4 | 11.1 | 10.6 | 10.2 |
| EPS (SAR) | 0.4 | 0.3 | 0.4 | 0.4 | 0.2 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| BVPS (SAR) | 0.7 | 0.9 | 1.0 | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 |
| Market price (SAR)* | NA | NA | NA | 11.4 | 9.6 | 4.8 | 6.3 | 6.3 | 6.3 | 6.3 | 6.3 |
| Market-Cap (SAR mn) | NA | NA | NA | 13,019 | 10,950 | 5,532 | 7,167 | 7,167 | 7,167 | 7,167 | 7,167 |
| Dividend yield | NA | NA | NA | 2.4% | 1.3% | 3.9% | 2.4% | 3.1% | 3.4% | 3.6% | 3.8% |
| P/E ratio (x) | NA | NA | NA | 29.1 | 45.5 | 44.4 | 31.2 | 24.1 | 22.2 | 20.6 | 19.9 |
| P/BV ratio (x) | NA | NA | NA | 9.9 | 7.8 | 4.1 | 5.1 | 4.8 | 4.6 | 4.4 | 4.1 |

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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