

Retal Urban Development Co. (RETAL)

Target Price: SAR 10.1/share

Upside: 10.0%

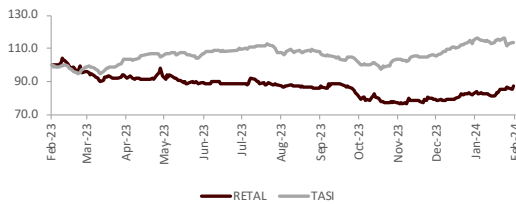
Recommendation

Buy

Current Market Price (SAR)	9.2
52wk High / Low (SAR)	10.9/7.8
Mkt. Cap. (USD/SAR Mn)	1,219/4,575
Shares Outstanding (mn)	500.0
Free Float (%)	43.5%
3m Average Vol. (000)	1,969.3
3m Avg Daily Turnover (SAR'000)	16,143
Dividend Yield '24e (%)	5.4%
P/E'24e (x)	14.9

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	1,085	1,107	1,167	1,390
Gross profit	245	297	323	384
GPM (%)	23%	27%	28%	28%
EBIT	182	218	238	283
EBIT margin (%)	17%	20%	20%	20%
EBITDA	196	232	254	301
EBITDA margin (%)	18%	21%	22%	22%
Net Income	193	246	215	265
Net margin (%)	18%	22%	18%	19%
EPS (SAR)	4.86	6.14	0.48	0.59
RoE (%)	35%	38%	31%	36%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Al Fozan Holding Company 52.98%

Source: Bloomberg, Yaqeen Capital

Earnings declined due to decreased revenue and increased expenses

- Net profit for Retal plummeted by 62.7% YoY (-52.9% QoQ) to SAR 33mn in 3Q2023, attributed to reduced revenue, increased SG&A, and higher finance costs. The net income margin saw a YoY decrease of 12.2ppts (-17.0ppts QoQ), reaching 10.0%.
- 3Q2023 revenue witnessed a drop of 17.3% YoY (+27.6% QoQ), totaling SAR 336mn. This decline was primarily due to a 98.9% drop in revenues from the sale of real estate units/lands to SAR 2.57mn, offset by a 91.3% increase in revenues from development contracts to SAR 321mn, reflecting a rise in ongoing projects.
- Gross profit for 3Q2023 fell by 21.7% YoY and 17.1% QoQ to SAR 92mn, driven by a lower drop in the cost of sales compared to sales. The gross margin experienced a decrease of 1.6ppts YoY (-2.4ppts QoQ), reaching 27.3%.
- Operating income recorded a 43.1% YoY decline (+4.2% QoQ) in 3Q2023. This was mainly due to a 109.3% increase in General & Administrative Expenses to SAR 26mn, reflecting the company's efforts to accommodate strategic growth plans. Selling & marketing expenses rose by 61.6% to SAR 9mn. operating profit margin declined by 7.6ppts YoY (-3.7ppts QoQ) to 16.7%
- Finance costs surged by 265.6% to SAR 27mn in 3Q2023, driven by an increase in the Saudi interbank offered rate (SIBOR) and total debt.
- For 9M2023, net income experienced a 20.3% YoY decline, totalling SAR 146mn, primarily influenced by lower revenue and higher SG&A expenses. The net income margin for 9M2023 decreased by 6.6ppts YoY, reaching 15.9%.
- 9M2023 revenue increased by 12.7% to SAR 919mn compared to SAR 815mn in 9M2022. This growth was primarily fueled by an 87.6% increase in revenues from development contracts to SAR 839mn, despite an 87.4% decrease in revenues from the sale of real estate units/lands to SAR 42mn.

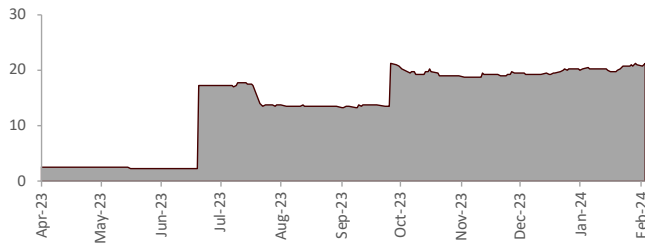
Outlook & Valuation: In the ever-changing landscape of urban development in the KSA, Retal stands out as a beacon of opportunity and promise. The company's financial performance is expected to continue to grow steadily in the coming years, with more than 7,000 units under construction and 6,000 completed units. Although short-term challenges like escalated financial charges and general & administrative expenses may pose a temporary setback, the company's long-term outlook remains positive. Revenue visibility remains strong, with 11 ongoing projects as well as an additional 8 projects valued at SAR 3.3bn in the pipeline. Based on DCF valuation, we arrive at a fair value of SAR 10.1/share, with a strong upside of 10.0% from the current level. Hence, we recommend a Buy rating on the stock.

Financial Summary

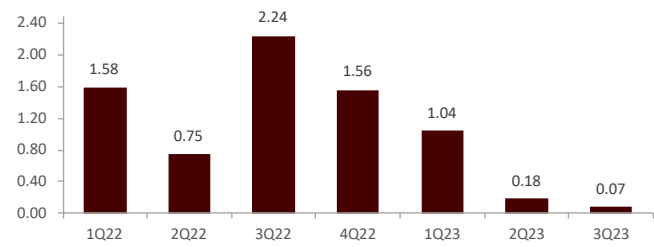
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	336	406	-17%	263	28%
Gross profit	92	117	-22%	78	17%
GPM (%)	27%	29%		30%	
EBIT	56	99	-43%	54	4%
EBIT margin (%)	17%	24%		20%	
Net Income	33	90	-63%	71	-53%
Net margin (%)	10%	22%		27%	
EPS (SAR)	0.07	2.24	-97%	0.18	-58%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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