

Target Price: SAR14.0/share
 Current Price: SAR13.1/share
 Upside: +7% (+Div. Yield: 2.4%)
Rating: Neutral

Retal Urban Development Company (Retal)

Growing backlog and accelerated execution; Raise TP to SAR14/sh

- Strong top-line growth (+22% CAGR over 2023-28e) driven by robust backlog, healthy project pipelines and improving execution rates.
- Gross margin to normalize gradually in the coming years, mainly due to a change in revenue mix with increased contribution from partnership projects.
- We revise our TP to SAR14.0/sh (earlier 11.3/sh) using DCF valuation, implying an upside of 7% and a Neutral rating.

2Q24 earnings beat: Retal reported a solid 2Q revenue, rising 76% y/y, largely in line with our estimate. The robust growth is primarily driven by improved development contracts revenues amid higher ongoing projects, increased completion rates, and rising contributions from funds. Subsequently, gross profit jumped 64.7% y/y, with gross margin reaching 27.8% (above our estimate of 24.8%), primarily attributed to healthy progress in high-margin Sedra projects and higher development fees related to funds projects. However, despite robust topline growth, net profit remained largely flat as Retal recorded exceptional profit from associates in 2Q23 compared to a normalized one in 2Q24. Nevertheless, overall, the net profit beats our estimate by 25.5%, with the net margin reaching 15.6%.

New project awards boost the backlog, enhancing revenue visibility: Retal has an extensive development portfolio (23 projects) across the KSA, with the ongoing projects increasing from 11 to 16 y/y by 2Q24. The combined value of ongoing and upcoming development portfolio has increased notably by 72% y/y to SAR12.9bn (9,396 units) in 2Q24, primarily driven by two large contract awards during 2Q24 (Figure 10) - one with ROSHN (offtake contract) to develop 1,962 units valued at ~SAR2.9bn, and another with NHC to develop 295 units with an estimated value of ~SAR790mn. Notably, out of the total ongoing projects valued at ~SAR6.9bn (5,617 units), only ~SAR2.8bn (40% of active projects backlog) had been recognized revenues so far by 2Q24, implying SAR4.1bn unrecognized revenue related to ongoing projects, which is likely to be realized over 2024-26e (major portion in 2025e). In addition to 7 upcoming projects, valued at SAR6bn (3,779 units), Retal is currently assessing projects worth ~SAR20bn, suggesting potential new project wins in the near future. Given the robust backlog and robust project pipeline, we anticipate the topline to grow at a CAGR of ~22% over 2023-28e (previously: +17% CAGR).

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e	2026e
Revenue	1,107	1,367	2,107	3,197	3,873
Revenue growth	2%	24%	54%	52%	21%
Gross Profit	303	379	545	808	965
Operating Profit	224	245	393	601	736
Operating Profit margin	20%	18%	19%	19%	19%
Net profit	246	202	274	466	587
Net profit margin	22%	15%	13%	15%	15%
EPS (SAR)	0.5	0.4	0.5	0.9	1.2
DPS (SAR)	0.4	0.3	0.3	0.5	0.6
P/E	26.7x	32.4x	23.9x	14.1x	11.2x

Source: Company data, GIB Capital

Stock data

TASI ticker	4322
Mcap (SARmn)	6,560
Trd. Val (3m) (SARmn)	17.8
Free float	43.5%
QFI holding	7.1%
TASI FF weight	0.13%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Kunal Doshi

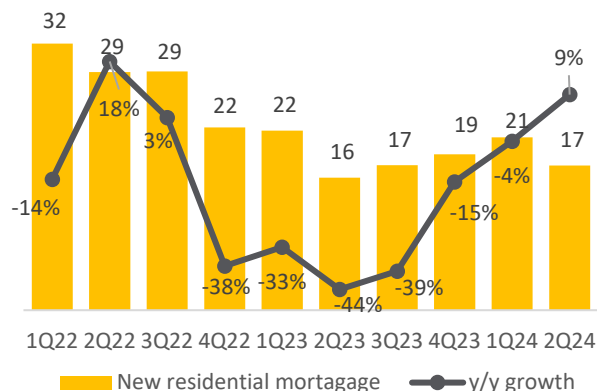
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A likely rebound in mortgage activity amid a possible interest rate cut bodes well for Retal:

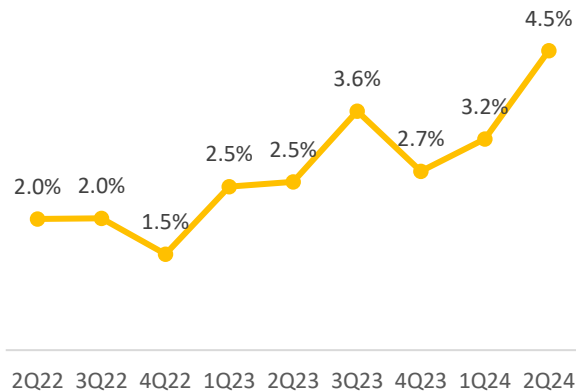
Although the residential mortgage activity has been under pressure in KSA over the recent quarters (Figure 2), it has shown a notable recovery in 2Q24, rising by 9% y/y. We expect the upward momentum to continue, supported by the prospects of an interest rate cut towards the end of 3Q24, easing pressure on finance costs (both for customers as well as for Retal). We believe that Retal is well placed to benefit from this trend because i) ~80% of its customers use bank finances, and ii) Retal has strong market positioning (mainly Riyadh, Dammam, and Jeddah, accounting for 65% of total KSA population) with expanding market share (Figure 3).

Figure 2: New residential mortgage* (SARbn)



Source: Saudi Central Bank, *Includes houses and apartments mortgages

Figure 3: Retal market share



Source: Company data, GIB Capital

Gross margin likely to normalize in coming years: In recent years, Retal's gross margin expanded significantly from 22.6% in 2021 to over 27%, driven by the rising contribution of development contract fees from Funds/JVs (over 50% gross margin) and increased contribution of high margin Sedra projects. However, considering a likely change in the revenue mix as a result of increasing contributions from low-margin partnership projects (~20-24% sustainable margins), we expect the gross margin to normalize gradually to below 26% in 2024e and further to 25% by 2025e. Overall, we expect net profit to grow at a CAGR of 21% over 2023-28e, driven by robust development revenues, and better operating leverage, offsetting a decline in gross margins.

Valuation and risks: Post revising our estimates upwards, we raise our one-year forward target price to SAR14.0/share (SAR11.3 earlier) solely based on the DCF method (9.5% WACC; unchanged). Key risks to our valuation are economic slowdown, persistently high interest rates, delays in receiving land, failure to win projects or receive incentives from the Government, and higher-than-expected increases in construction costs etc.

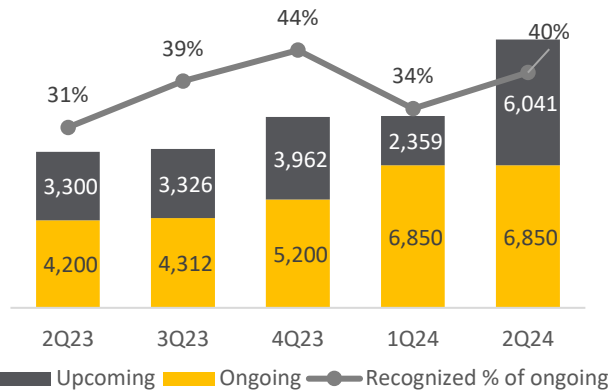
Figure 4: 2Q24 result summary

SARmn	2Q24	2Q23	y/y %	1Q24	q/q %	GIBC est.	Variance %
Revenues	464	263	76.0%	501	-7.4%	484	-4.3%
Cost of Goods	335	185	80.8%	374	-10.4%	364	-8.0%
Gross Profit	129	78	64.7%	127	1.6%	120	7.2%
Opex	27	24	12.1%	39	-30.2%	40	-31.3%
Operating Profit	102	54	88.4%	88	15.8%	81	26.1%
Net Income	72	71	1.7%	62	15.9%	58	25.5%
Gross Margin	27.8%	29.7%		25.3%		24.8%	
Operating Margin	21.9%	20.5%		17.5%		16.7%	
Net Profit Margin	15.6%	27.0%		12.4%		11.9%	

Source: Tadawul. GIB Capital

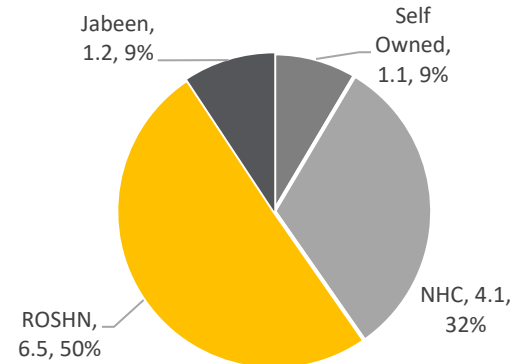
Retal's portfolio evolution

Figure 5: Total project value by status (SARmn)



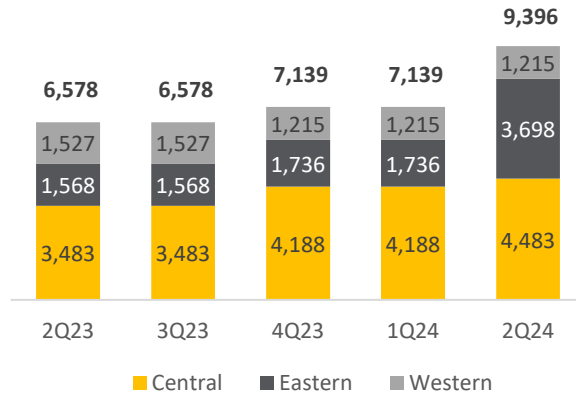
Source: Company data, GIB Capital

Figure 6: Total project value by client (SAR12.9bn)



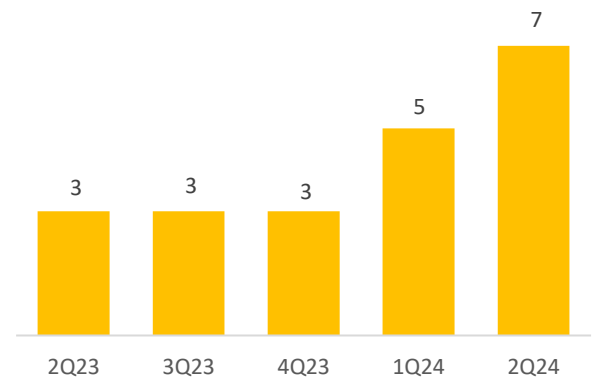
Source: Company data, GIB Capital

Figure 7: Total units by region



Source: Company data, GIB Capital

Figure 8: Fund / JVs size (SARbn)



Source: Company data, GIB Capital

Figure 9: Retal's ongoing projects as of 2Q24

SR No.	Project name	Project duration	Project Value (SARmn)	No. of units
1	Nesaj Town - Riyadh	2020-24	458	690
2	Ayala Nakheel	2021-24	187	58
3	Ewan Sedra	2022-24	265	103
4	Nesaj Town - Nargis	2022-25	381	455
5	Nesaj Town - Hassa	2022-25	428	347
6	Ewan Sedra 2	2022-25	983	372
7	Nesaj Town - Fursan	2023-25	640	759
8	Nesaj Town - Safwa	2023-25	300	356
9	Roya El-Nahkeel	2023-25	85	68
10	Nesaj Sadayem	2023-26	422	352
11	Jabeen - Jalmuda	2023-27	341	250
12	Ewan Sedra 3	2023-26	697	242
13	Nesaj Town - Assala	2024-27	235	366
14	Nesaj Town - Sadan	2024-27	514	803
15	ROYA - Sedra	2023-26	576	336
16	Ayala Jeddah	2024-26	338	60
Total			6,850	5,617

Source: Company data, GIB Capital

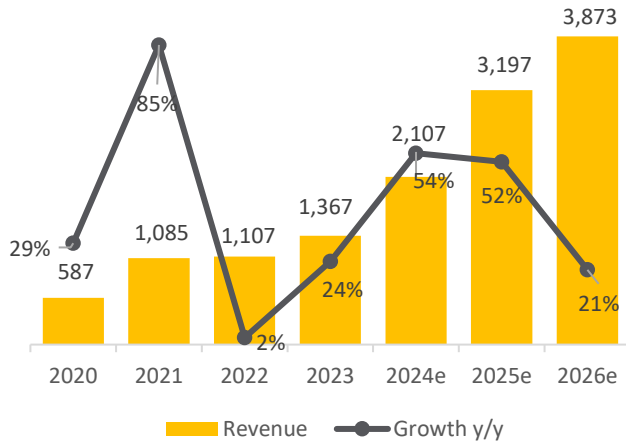
Figure 10: Retal's upcoming projects as of 2Q24

SR No.	Project name	Project duration	Project Value (SARmn)	No. of units
1	Nesaj Town - Fursan 2	2023-26	407	502
2	Ewan El-Nahkeel	2024-25	24	10
3	Ewan Sedra 4 wave 6	2024-27	1,098	363
4	Jabeen - Qozama	2023-26	262	230
5	Jabeen - Yasmeen	2023-26	568	417
6	Nesaj Town Khozamh*	2024-27	790	295
7	Roshn Development*	2024-28	2,892	1,962
Total			6,040	3,779

Source: Company data, GIB Capital, *these two projects announced in 2Q24.

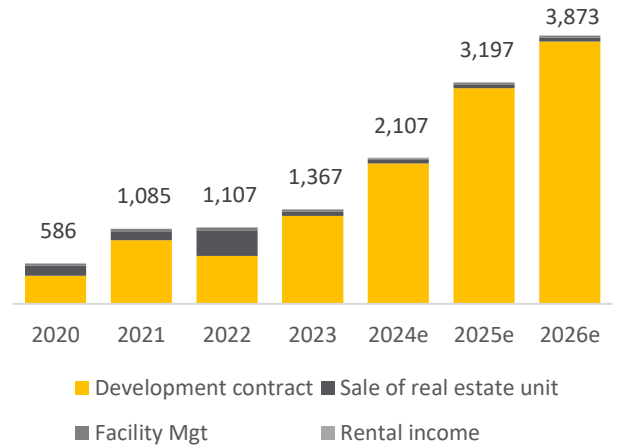
Financial analysis in charts

Figure 11: Revenue (SARmn)



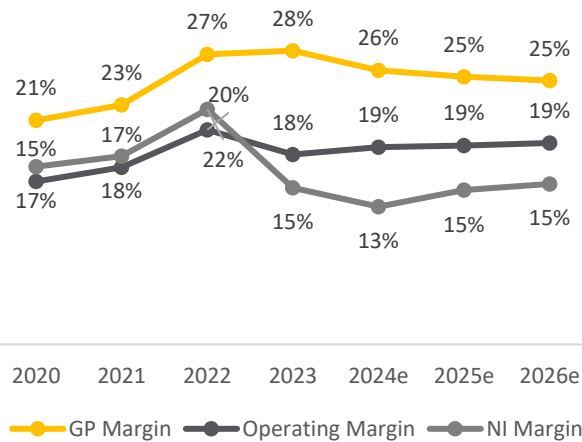
Source: Company data, GIB Capital

Figure 12: Revenue breakup by segment (SARmn)



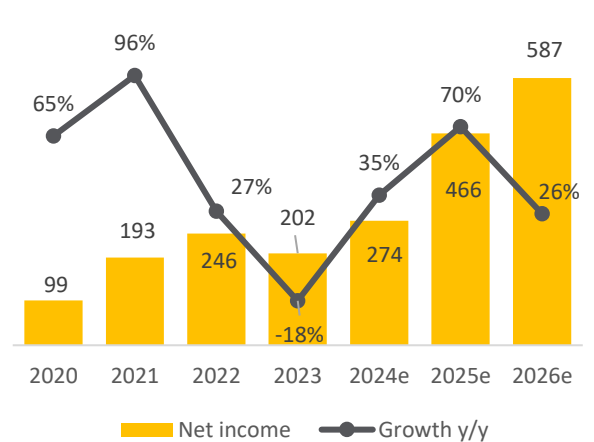
Source: Company data, GIB Capital

Figure 13: Margin trends



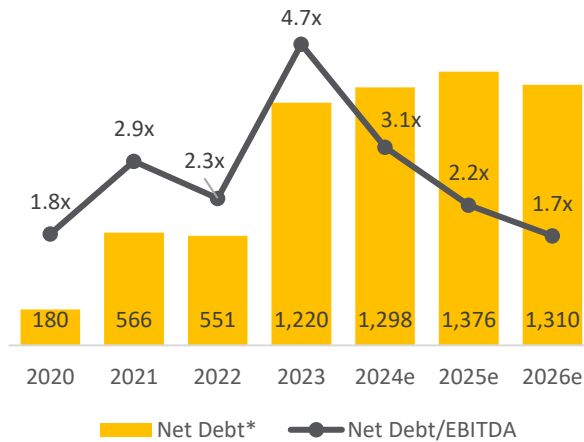
Source: Company data, GIB Capital

Figure 14: Net income (SARmn)



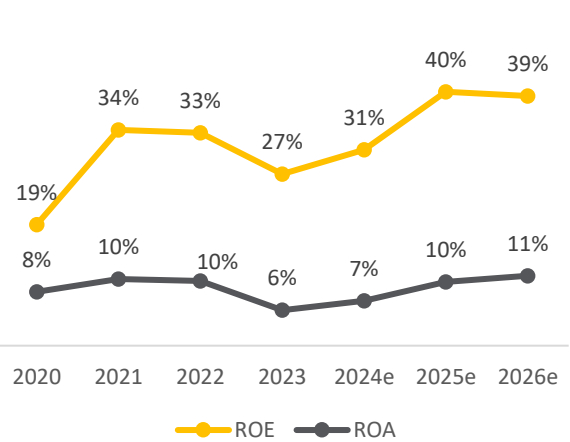
Source: Company data, GIB Capital

Figure 15: Leverage trend (SARmn)



Source: Company data, GIB Capital, * including lease and payable to MOH

Figure 16: Profitability ratios



Source: Company data, GIB Capital

Financials

Figure 17: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e	2026e
Revenue	1,107	1,367	2,107	3,197	3,873
revenue y/y	2%	24%	54%	52%	21%
COGS	804	988	1,562	2,388	2,908
Gross Profit	303	379	545	808	965
Gross Profit margin	27%	28%	25.9%	25.3%	24.9%
Sales & Marketing	20	47	46	64	74
G&A	59	87	106	144	155
ECL	0	0	0	0	0
Operating profit	224	245	393	601	736
Operating margin	20%	18%	19%	19%	19%
Finance costs	21	100	119	104	90
Profit/(loss) from associates/JV	35	65	35	36	36
Other income, net	19	8	7	5	5
PBT	257	218	316	537	687
Zakat	11	10	15	27	34
Minority Interest	0	6	27	44	65
Net income	246	202	274	466	587
Net margin	22%	15%	13%	15%	15%
y/y	27%	-18%	35%	70%	26%
EPS	0.5	0.4	0.5	0.9	1.2
DPS	0.4	0.3	0.3	0.5	0.6
Payout	81%	79%	58%	50%	55%
EBITDA	238	258	417	625	761
Net debt (w/o lease liabilities)*	548	1,183	1,261	1,339	1,273
Net debt (w/ lease liabilities)*	551	1,220	1,298	1,376	1,310

Balance Sheet	2022a	2023a	2024e	2025e	2026e
Inventories	16	24	31	47	58
Accounts and Notes Receivable	243	238	317	482	584
Prepaid Expenses and Other	114	283	277	358	436
Contract Assets	91	201	310	470	569
Development Properties	353	705	753	912	1,111
Investment at FVTPL	24	0	0	0	0
Cash and Equivalents	523	706	687	826	992
Total Current Assets	1,364	2,157	2,376	3,096	3,749
Right of Use Assets	3	35	35	35	35
Property Plant & Equipment - Net	124	160	166	172	177
Intangible Assets	10	13	13	13	13
Investment in Associates	330	395	430	466	502
Investment Properties	122	310	310	310	310
Other	467	563	563	563	563
Total Non-Current Assets	1,057	1,475	1,517	1,558	1,600
Total Assets	2,421	3,632	3,893	4,654	5,349
Current Liabilities	1,193	1,779	2,163	2,748	3,213
Non-current Liabilities	494	1,104	839	739	639
Equity	734	750	891	1,168	1,497
Total Equity and Liabilities	2,421	3,632	3,893	4,654	5,349
BVPS	1.5	1.5	1.8	2.3	3.0

Cashflow	2022a	2023a	2024e	2025e	2026e
Cashflow from Operations	0	-148	275	502	619
Cashflow from Investing	83	-87	-30	-30	-31
Cashflow from Financing	32	418	-263	-333	-423
Total Cashflows	115	183	-18	139	165

Source: Company, GIB Capital. * Including lease and payable to MOH

Figure 18: Key ratios

Key ratios	2022a	2023a	2024e	2025e	2026e
Profitability ratios					
RoA	10%	6%	7%	10%	11%
RoE	33%	27%	31%	40%	39%
Sales/Assets	46%	38%	54%	69%	72%
Net margin	22.2%	14.8%	13.0%	14.6%	15.2%
Liquidity ratios					
Current Assets/ Current Liabilities	1.1	1.2	1.1	1.1	1.2
Debt to Total Equity	1.1	1.9	1.5	1.1	0.8
Receivable Days	80	64	55	55	55
Inventory Days	7	7	7	7	7
Payable days	124	166	100	100	100
Debt ratios					
Net Debt/EBITDA*	2.3	4.7	3.1	2.2	1.7
EBIT/Interest	10.6	2.5	3.3	5.8	8.2
Debt/Assets	0.3	0.4	0.3	0.3	0.2
Valuation ratios					
P/E	26.7	32.4	23.9	14.1	11.2
P/B	7.1	8.7	7.4	5.6	4.4
EV/EBITDA	30.1	27.8	17.2	11.5	9.4
Div. yield	3.0%	2.4%	2.4%	3.6%	4.9%
FCF yield	0.4%	NM	5.4%	8.7%	10.3%

Source: Company, GIB Capital, * Including lease and payable to MOH

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