Equity Research report
RETAL AB Equity
12 June 2023

Target Price: SAR14.1/share
Current Price: SAR11.8/share
Upside: +23% [+Div. Yield: ~5%]
Rating: Overweight

Retal Urban Development Company (Retal)

All eyes on execution and new project sales. Maintain OW.

- Revenues in 1Q23 are lower than pro-rata revenues from the backlog because of the phased manner of sales and execution. However, most units under development have been sold and near term focus is on execution in our view.
- The company's backlog includes 18 projects (SAR7.6bn), out of which SAR1.1bn has been recognized as revenues by 1Q23 with the rest expected to be recognized over the next 3 years as per our expectations (our estimates remain unchanged).
- We maintain our target price of SAR14.1/share and Overweight rating. At 15.3x P/E (2023e) and ~5.2% Div. yield there is valuation comfort.

Revenue visibility: The backlog includes 18 projects, of which work is ongoing for 8 projects, and 10 are upcoming projects. Out of the total number of units of ~6,500 for all 18 projects, the company has already sold 2,900 units (vs 1,784 units end of 2022), almost same as the number of units under development. Thus the main revenue driver for 2023 would be execution of current projects and thereafter sales of remaining units. Thus if the current plan is executed this provides strong visibility for at least SAR6.5bn in sales with ~20% margins from backlog & pipeline projects for 2023/24/25. Land sales, price escalation and project wins from SPVs/Funds are also upside risk factors, the value of latter is ~SAR3bn. However the deciding factor for valuations may be growth from 2026/beyond. In pursuit, the company is also expanding geographically with new offices in Jeddah and Riyadh, with 8 projects in Riyadh and 4 in Jeddah.

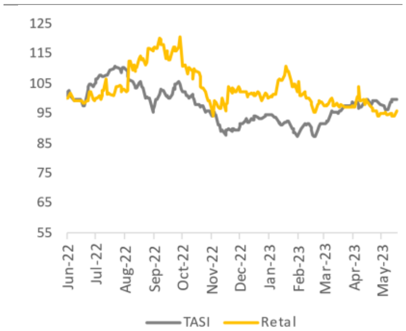
1Q23 results highlight: The Company's topline grew by 16.2% y/y, supported by a 41.3% y/y increase in development contract revenue. Due to a 21.9% y/y decline in land sales, which generally have higher margins, the gross profit margin slipped by 5.5ppt y/y to 21.9% (as expected). Operating profit margin contracted by 7ppt to 14% due to higher G&A and S&M expenses. Net profit margin decreased 10ppt y/y to 13%.

Risks: 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, higher than expected increase in construction costs, and delays in construction that may affect brand, lack of interest in real estate as an asset class in Saudi etc.

Stock data	
TASI Ticker	4322
Mkt cap (SARmn)	4,632
Trd. Val 3m (SARmn)	22.3
Free float	30.9%
QFI holding	1.9%
TASI FF weight	0.07%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	1,107	2,253	2,499	2,785
Revenue growth	*2%*	*104%*	*11%*	*11%*
Gross Profit	297	442	490	546
Gross Profit margin	*27%*	*20%*	*20%*	*20%*
EBITDA	232	350	385	428
Op. income	218	333	370	415
Net profit	246	301	346	394
Net profit margin	*22%*	*13%*	*14%*	*14%*
EPS (SAR)	6.1	7.5	8.6	9.8
DPS (SAR)	5.0	6.0	6.9	8.4
P/E	19.2x	15.7x	13.6x	12.0x

Source: Company data, GIB Capital

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

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