

Initiation Coverage

July 23, 2020

Recommendation Neutral

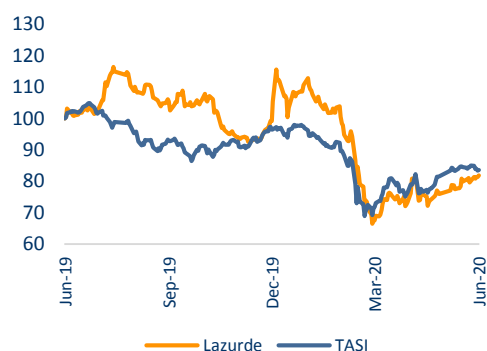
Current Price (SAR)	13.1
Target Price (SAR)	13.3
Upside/Downside (%)	1.6%

As of July 19th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR mn)	563.3
52 Wk High (SAR)	17.7
52 Wk Low (SAR)	10.0
Total Outstanding shares (in mn)	43
Free Float (%)	30.0%

Lazurde Vs TASI (Rebased)



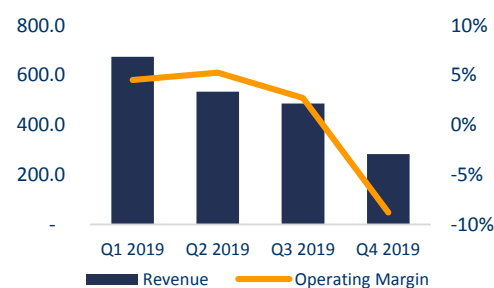
Price Performance (%)

	Absolute	Relative
1m	7.8%	5.3%
6m	(17.5%)	(4.2%)
12m	(18.1%)	(1.7%)

Major Shareholders (%)

	%
Lazurde Holding Company	51.70%
Abdul Aziz Saleh Ali Al-Othaim	14.89%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, Falcom Research; Data as of 19th July 2020

Lazurde is a leading manufacturer and seller of different kinds of gold, diamonds, and precious gem jewelry primarily based in Saudi Arabia and an increasing presence in Egypt. In FY19, the company swung to a net loss of SAR 17.5mn compared to a net profit of SAR 17.7mn in 2018 due to several one-off factors, including inventory write-down due to closure of non-profitable stores, one-off sales returns in the wholesale channel, and expiration of tax holiday in Egypt.

We initiate Lazurde with a Neutral rating as revenue is expected to decline in the coming year in view of the recent temporary store closures during lockdown and depressed discretionary spending in the aftermath of suspended economic activities. The company, however, is still well positioned with product innovation and experimentation through new business mediums.

Economic expansion and rising disposable income aid growth in key markets

Lazurde primarily operates in KSA and Egypt, where the recent economic expansion, population growth, and higher disposable income helped the company record a consistent rise in revenues. In addition, gold ornaments are traditionally considered auspicious for ceremonial and festival events in these countries, which further supported the revenue rise. The Saudi population are among the largest consumers of gold per capita. However, the current uncertainty amid COVID-19 is expected to dampen short-term prospects.

Value accretive acquisitions and technological edge bode well

Retail revenues have continued to form a higher portion of the company's total revenues. Lazurde successfully consolidated the TOUS franchise brand and added 26 new retail stores in KSA during 4Q18. Similarly, in Egypt, the company benefitted from the opening of new stores. It also introduced the Miss L range through the ecommerce platform and plans to launch the same for other brands as well. Furthermore, the company has the technological advantage to manufacture exquisite inimitable jewelry pieces that can command a premium in the market and adapt quickly to changing consumer preference.

Gold price hedge significantly relieves financial pressure

Lazurde manages risks from gold price volatility by borrowing its entire gold requirements from banks without owning any gold. This ensures the company's gold assets, represented in accounts receivable and inventory, always equal its liabilities of gold facilities. Though in 2019, the company did record some losses due to gold returns, it enjoys a considerable edge over smaller players on account of this facility.

High leverage could pose problems as discretionary spending turns low

Lazurde's debt-to-equity ratio stood at 3.0x in FY19, which can prove to be a major concern as its EBIT margins declined to 2.4% in FY19 from 3.7% in FY18 and 4.3% in FY17. Given the expected drop in revenue in the wake of the ongoing pandemic and reduced discretionary spending, the bottom line can be severely affected.

Valuation: We valued Lazurde using the DCF approach to arrive at a fair value of SAR 13.3 per share. We considered WACC at 5.7% with a terminal growth rate of 2.0%.

	2019	2020e	2021e	2022e
Revenues (SAR mn)	1,976	1,662	2,132	2,482
Gross Profit (SAR mn)	288	243	313	364
EPS (SAR)	(0.4)	0.1	0.5	0.7
Operating Margin (%)	2.4%	3.4%	3.6%	3.7%
RoE (%)	(4.2%)	0.7%	4.8%	6.7%
P/E (x)	NA	202.8x	26.5x	18.0x
P/B (x)	1.7x	1.3x	1.3x	1.2x
EV/EBITDA (x)	20.0x	13.3x	12.5x	10.9x

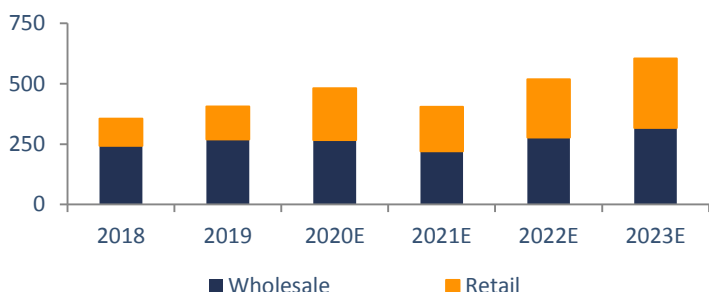
Source: Company Financials, Falcom Research

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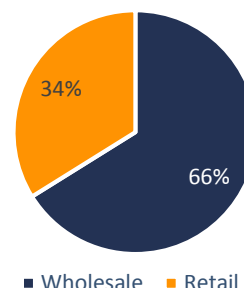
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Key Charts

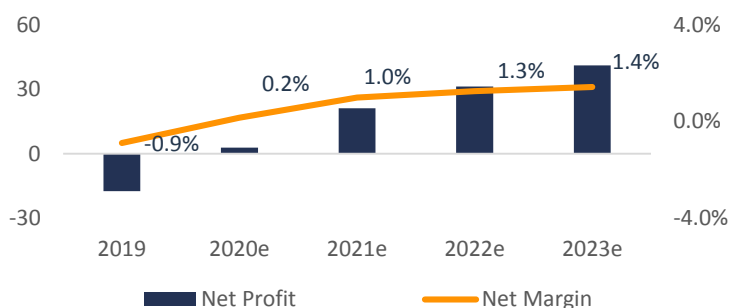
Revenue (SAR mn)



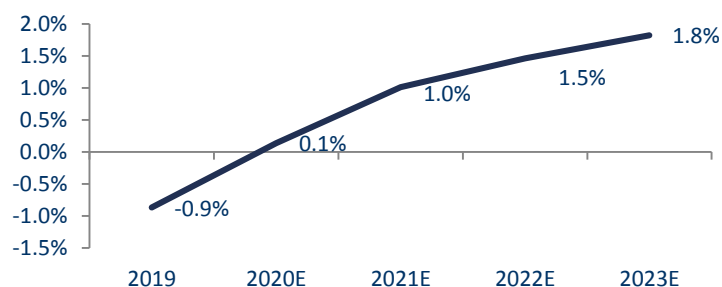
Revenue Split (2019)



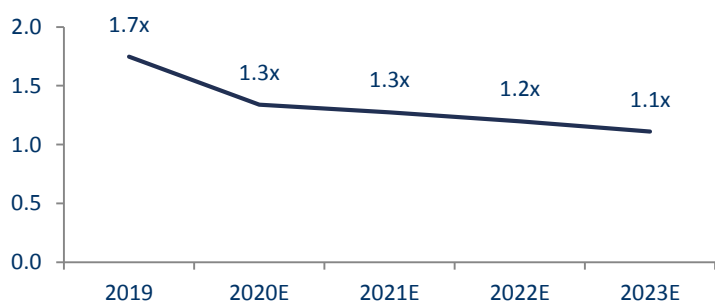
Net Profit & Margins



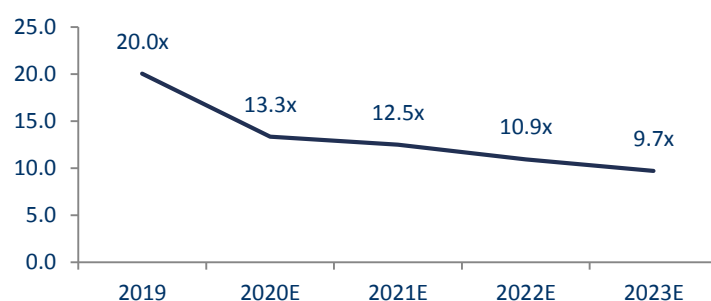
Return on Assets



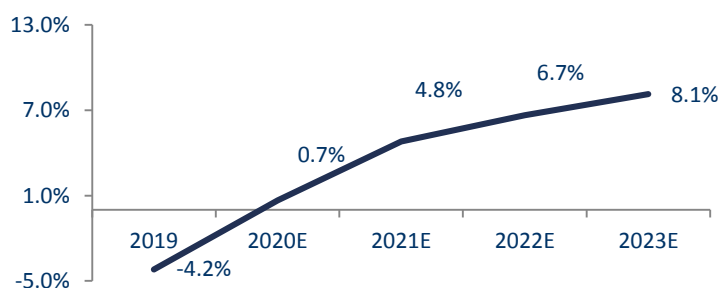
Price to Book



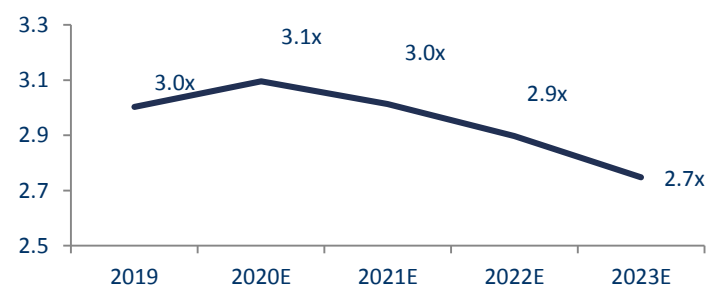
EV/EBITDA



Return on Equity



Debt/Equity



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Summary Financials

P&L (SAR mn)	2019	2020e	2021e	2022e
Sales	1,976	1,662	2,132	2,482
Gross Profit	288	243	313	364
EBITDA	66	73	92	107
EBIT	47	57	76	91
Net Interest	(51)	(50)	(48)	(49)
Other Income	1	1	1	1
PBT	(3)	8	29	43
Zakat	(11)	(4)	(7)	(11)
Income Tax	(3)	(1)	(0)	(1)
Net Income	(18)	3	21	31
EPS	(0.4)	0.1	0.5	0.7

BS (SAR mn)	2019	2020e	2021e	2022e
Cash	54	160	203	283
Current Assets	1,737	1,736	1,829	1,864
Fixed Assets	87	84	84	85
Intangibles	141	141	141	141
Total Assets	2,015	2,011	2,103	2,141
Current Liabilities	1,417	1,414	1,489	1,501
Short term debt	1,118	1,169	1,202	1,236
Long term debt	75	71	68	64
Shareholders Equities	418	421	442	470
Total Liabilities	1,597	1,590	1,661	1,671

CF (SAR mn)	2019	2020e	2021e	2022e
Working Capital Changes	(23)	104	25	58
Cash Flow from Operating Activities	30	123	63	105
Capex	(12)	(12)	(16)	(18)
Cash Flow from Investing Activities	(12)	(13)	(16)	(18)
Changes in Debt	(14)	(4)	(4)	(3)
Dividends	(2)	-	-	(3)
Cash Flow from Financing Activities	(16)	(4)	(4)	(7)

Source: Bloomberg, Company Financials, Falcom Research

Growth	2019	2020e	2021e	2022e
Revenue	3.3%	(15.9%)	28.3%	16.4%
EBITDA	(19.7%)	11.2%	26.1%	16.8%
Operating profit	(33.2%)	21.4%	33.9%	20.5%
PBT	NM	NM	261.7%	50.6%
Net Income	NM	NM	665.3%	47.4%

Ratios (%)	2019	2020e	2021e	2022e
Gross Margin	14.6%	14.6%	14.7%	14.7%
EBITDA Margin	3.3%	4.4%	4.3%	4.3%
EBIT Margin	2.4%	3.4%	3.6%	3.7%
Net Margin	(0.9%)	0.2%	1.0%	1.3%
ROE	(4.2%)	0.7%	4.8%	6.7%
ROCE	(2.9%)	0.5%	3.5%	4.9%
ROA	(0.9%)	0.1%	1.0%	1.5%
Debt/Equity	3.0x	3.1x	3.0x	2.9x
Net Debt/EBITDA	18.0x	15.4x	12.1x	9.9x
FCF Yield	8.4%	12.6%	15.4%	21.5%
Dividend Yield	0.3%	0.0%	0.0%	0.6%

Valuation	2019	2020e	2021e	2022e
P/E	NA	202.8x	26.5x	18.0x
P/B	1.7x	1.3x	1.3x	1.2x
EV/EBITDA	20.0x	13.3x	12.5x	10.9x
EV/EBIT	30.2x	17.1x	15.1x	12.8x
EV/Sales	0.9x	0.6x	0.5x	0.5x

Peer Valuations	P/E	EV/EBITDA
Tse Sui Luen	6.9x	4.0x
Poh kong Holding	5.7x	5.0x
tomei cons	7.3x	5.3x
goldiam intl	4.6x	0.6x
Emperor watch	9.4x	3.2x
New Art Holdings	6.4x	3.4x
Fitaihi Holding Group	NA	67.1x
Fawaz Abdulaziz	39.1x	7.3x
Lazurde	NA	17.5
Sector Average	11.4x	11.4x
Premium/ (Discount)	NA	53.5%

Falcom Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

- Overweight:** The Target share price exceeds the current share price by $\geq 10\%$.
- Neutral:** The Target share price is either more or less than the current share price by 10%.
- Underweight:** The Target share price is less than the current share price by $\geq 10\%$.
- To be Revised:** No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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