

1Q20 Results Update

July 30, 2020

| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | - |
| Current Price (SAR) | 53.6 |
| Target Price (SAR) | 53.1 |
| Upside/Downside (%) | (1.0%) |

As of July 26th, 2020

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 1.6 |
| 52 Wk High (SAR) | 57.6 |
| 52 Wk Low (SAR) | 29.1 |
| Total Outstanding shares (in mn) | 30 |
| Free Float (%) | 94.3% |

ALASEEL vs. TASI (Rebased)

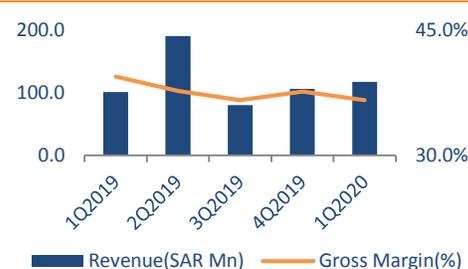


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 14.3% | 11.9% |
| 6m | 30.8% | 42.8% |
| 12m | 89.5% | 106.1% |

Major Shareholders (%)

| | |
|-------------------------------------|-------|
| Mohammed Abdullah Ibrahim Al Jedaie | 5.80% |
|-------------------------------------|-------|

Revenue (SAR bn) and Gross Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th July 2020

Al Aseel's 1Q20 profit rise on higher topline growth

Thob Al Aseel (Al Aseel) recorded a net profit of SAR 17.5mn in 1Q20, up 8.1% YoY compared to SAR 16.2mn a year ago for the same quarter, on higher sales. Revenues rose 16.1% YoY to SAR 117.5mn from SAR 101.2mn due to high demand for the company's products. Operating expense for the quarter remained in line with that for the same quarter last year. Operating income, however, grew 15.3% YoY to SAR 21.7mn in 1Q20, yet the operating margin was slightly down to 18.5% from 18.6% a year ago.

Despite the COVID-19 crisis and consequent global lockdown, Al Aseel's managed to increase its revenue by 16% YoY in 1Q20, defying all market trends. Though we expect the pandemic to hamper some of the company's growth plans, its business model and results are expected to show resilience in FY20. This could be attributed to rise in sales due to high demand for its products as well as efforts to boost sales by strengthening and diversifying channels and expanding the e-commerce customer base. In addition, the company's financial fundamentals remain strong and a capital-light model bodes well for a future expansion plans, as Al Aseel has negligible debt on its balance sheet. We remain optimistic about the company's prospects. However, in view of the recent run-up in the share price, we see limited upside potential and therefore maintain a Neutral rating on the stock.

- Al Aseel's revenue rose 16.1% YoY to SAR 117.5mn in 1Q20. This was ascribed to the increased sale of company products with the launch of new offerings and an expanding e-commerce customer base. On a quarterly basis, sales were up 10.5%.
- Gross profit advanced 7.7% to SAR 43.0mn despite a sharp rise in the average cost of sales. This led to the gross margin lowering to 36.6% from 39.4% a year ago.
- Operating profit grew 15.3% YoY to SAR 21.7mn from SAR 18.9mn a year ago. The operating margin for the period stood at 18.5% as against 18.6% last year.
- Considering these factors, the company's net profit expanded 8.1% YoY to SAR 17.5mn from SAR 16.2mn on 1Q19. Sequentially, net profit was up 64.8%, mainly due to an increase of 10.5% in sales, where the company's activities were influenced by seasonality. The net margin for the quarter stood at 14.9% in 1Q20 against 16.0% in 1Q19 and 10.0% in 4Q19.

Valuation: We maintain our target price at a fair value of SAR 53.1 per share and retain our Neutral rating on the stock.

| | 1Q20 | 1Q19 | % YoY | FY20E | FY19 | % YoY |
|-----------------------|-------|-------|--------|-------|-------|--------|
| Revenues (SAR mn) | 117.5 | 101.2 | 16.1% | 513.0 | 477.2 | 7.5% |
| Gross Profit (SAR mn) | 43.0 | 39.9 | 7.7% | 192.2 | 180.7 | 6.4% |
| EBITDA (SAR mn) | 22.2 | 19.5 | 14.3% | 101.9 | 97.2 | 4.9% |
| Net Profit (SAR mn) | 17.5 | 16.2 | 8.1% | 85.0 | 80.4 | 5.7% |
| EPS Basic (SAR) | 0.58 | 0.54 | 8.1% | 2.8 | 2.7 | 5.7% |
| Gross Margin (%) | 36.6% | 39.4% | (2.9%) | 37.5% | 37.9% | (0.4%) |
| vEBITDA Margin (%) | 18.9% | 19.2% | (0.3%) | 19.9% | 20.4% | (0.5%) |
| Net Profit Margin (%) | 14.9% | 16.0% | (1.1%) | 16.6% | 16.8% | (0.3%) |

Source: Company Financials, FALCOM Research

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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