

3Q20 Results Update

Recommendation Neutral

Previous Recommendation	Neutral
Current Price (SAR)	20.5
Target Price (SAR)	20.7
Upside/Downside (%)	0.8%

As of December 28, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	882.4
52-wk High (SAR)	24.0
52-wk Low (SAR)	10.0
Total Outstanding shares (in mn)	43.0
Free Float (%)	33.3%

Lazurde vs. TASI (Rebased)

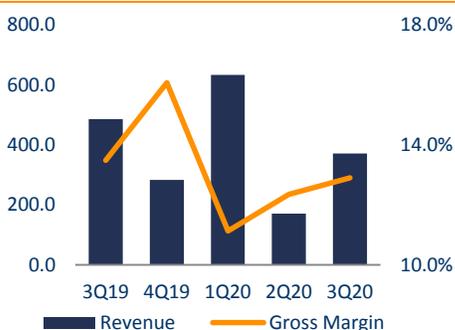


Price Performance (%)	Absolute	Relative
1m	(1.5%)	(1.8%)
6m	61.3%	41.8%
12m	28.7%	24.4%

Major Shareholders (%)

Abdul Aziz Saleh Ali Al-Othaim	14.89%
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Quarterly Sales (SAR mn) and Gross Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 28, 2020

Hike in VAT rates, higher gold prices dent 3Q20 bottom line

Lazurde Company for Jewelry (Lazurde) reported a net loss of SAR 18.8mn in 3Q20 against the net profit of SAR 0.2mn in 3Q19. The company's revenue declined 23.7% YoY to SAR 370.8mn in 3Q20, mainly due to the negative impact of the COVID-19 outbreak, tripling of VAT to 15%, and sharp rise in gold prices. Despite an 8.3% YoY decrease in operating expense, the company reported a net operating loss of SAR 0.1mn due to lower operating revenues. Lower operating income, in addition to higher financial charges and zakat expense, resulted in a net loss of SAR 18.8mn in 3Q20. Lazurde's margins contracted sharply during the quarter but improved sequentially owing to a one-off cost of SAR 34.7mn related to the recall of some of its heavy-weight products, included in the 2Q20 results.

During the quarter, a hike in VAT rates from 5% to 15%, coupled with an increase in gold prices in the wake of COVID-19, impacted the company's wholesale and retail segments. In KSA, wholesale revenues were 53.3% lower compared to the same period of last year, while in Egypt, it declined 29.6%. On the other hand, retail revenues in KSA decreased 42.8%, despite promising results for the new Miss L' brand. However, in Egypt, retail revenues soared 20.1% organically, supported by the opening of nine new locations in 2020 for Miss L' and diamond jewelry. Traditional gold markets are no longer attractive, as buying trends are moving toward modern markets in malls. Moreover, the trend of buying heavy-weight jewelry by weight is changing to buying fashionable and classic affordable gold jewelry by piece. To capitalize on this movement, Lazurde announced a revised strategy to grow and expand its business into selling gold jewelry by piece at affordable prices. The company sells these pieces through its new brands and collections, Miss L' and L'azurde Instyle in KSA and Egypt, respectively. This strategy seems to be in line with the company's efforts to diversify and expand its revenue streams. This would also help the jewelry maker reduce its working capital and the associated high cost of financing. Nevertheless, higher VAT rates and the resultant reduction in consumer spending, resurgence of COVID-19 cases across the world, and consistently high gold rates remain major headwinds for the company. Thus, in light of these factors, we maintain our "Neutral" rating on the stock.

- Revenue fell 23.7% YoY to SAR 370.8mn in 3Q20 from SAR 486.2mn in 3Q19 owing to decreased revenue contribution from both the wholesale and retail segments. Consequently, revenue surged 117% QoQ from SAR 170.9mn in 2Q20.
- Gross profit plunged 26.9% YoY to SAR 47.9mn in 3Q20, largely due to lower operating revenue reported in 3Q20. As a result, the gross profit margin for the quarter contracted 60 bps to 12.9% as against 13.5% in 3Q19.
- Despite an 8.3% YoY drop in operating expense in 3Q20, the company reported operating loss of SAR 0.1mn compared to a profit of SAR 13.2mn in the same quarter of last year. Consequently, the operating margin witnessed a sharp contraction in 3Q20 YoY.
- The company recorded a net loss of SAR 18.8mn in 3Q20 mainly due to the COVID-19 outbreak and factors mentioned above. Additionally, higher finance charges and zakat expense in 3Q20 weighed on the bottom line.

Valuation: We revise our target price upward to SAR 20.7 per share and retain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	370.8	486.2	(23.7%)	1,555.4	1,976.4	(21.3%)
Gross Profit (SAR mn)	47.9	65.6	(26.9%)	191.3	287.8	(33.5%)
EBITDA (SAR mn)	10.9	24	(54.3%)	46.1	109.3	(57.8%)
Net Profit (SAR mn)	(18.8)	0.2	NM	(94.5)	(17.5)	NM
EPS basic (SAR)	(0.44)	0.01	NM	(2.20)	(0.41)	NM
Gross Margin (%)	12.9%	13.5%	(0.6%)	12.3%	14.6%	(2.3%)
EBITDA Margin (%)	2.9%	4.9%	(2.0%)	3.0%	5.5%	(2.6%)
Net Profit Margin (%)	(5.1%)	0.0%	NM	(6.1%)	(0.9%)	NM

Source: Company Financials, FALCOM Research

3Q20 Results Update

December 29, 2020

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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