

30, September 20 Results Update

December 31, 2020

Recommendation Underweight

Previous Recommendation	Underweight
Current Price (SAR)	53.1
Target Price (SAR)	25.0
Upside/Downside (%)	(52.9%)

As of December 30, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.1
52-Wk High (SAR)	58.2
52-Wk Low (SAR)	11.5
Total Outstanding shares (in mn)	20.0
Free Float (%)	61.0%

ABO MOATI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	2.1%	2.0%
6m	225.4%	204.1%
12m	183.7%	178.7%

Major Shareholders (%)

Saad Abdullah Saad Abo Moati	5.40%
Saeed Omar Saeed Basaeed	5.33%

Quarterly Sales (SAR bn) and Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 30, 2020

COVID-19 pandemic hurts Abo Moati's top line in 2Q20

Abdullah Saad Mohammed Abo Moati for Bookstores Co. (Abo Moati)'s net profit tumbled 82.0% YoY to SAR 0.8mn in 2Q20, primarily due to the economic challenges posed by the COVID-19 pandemic and the measures taken by the government to halt its spread. Revenue for the quarter dropped 34.9% YoY to SAR 60.3mn, whereas gross profit was down 30.5% YoY to SAR 12.4mn. Operating profit plummeted 66.8% YoY to SAR 2.5mn, as the lower top line counterbalanced the improvement in SG&A expenses. These factors also offset the reduction in finance charges and zakat expense and resulted in a contraction in the net margin to 1.3% in 2Q20 vis-à-vis 4.7% in 2Q19.

The company reported a weak performance in 1H20, as revenues declined 29.6% YoY to SAR 96.4mn and net profit was down 71.9% YoY to SAR 1.5mn during the period. Lower demand for office and school supplies due to corporates and schools functioning remotely may hurt the company's top line. Moreover, a higher VAT rate and lower consumer spending may affect Abo Moati's profitability. Furthermore, the rising number of infection cases and possibility of additional lockdowns before the launch of a vaccine remain key headwinds to the company. Although a steady reopening of the economy would support the company's business activities, we believe the stock has run ahead of its fundamentals. In view of the rich valuation, we maintain our "Underweight" rating on the stock.

- Revenue nosedived 34.9% YoY to SAR 60.3mn in 2Q20 owing to the economic impact of the COVID-19 pandemic and the precautionary measures to curb the virus. However, revenue rose 66.6% QoQ from SAR 36.2mn in 1Q20.
- Gross profit (down 30.5% YoY to SAR 12.4mn) declined at a slower pace than the top line due to the 36.0% YoY fall in cost of sales to SAR 47.9mn during the period. However, the gross margin for the quarter expanded to 20.6% against 19.2% in 2Q19.
- Operating profit plummeted 66.8% YoY to SAR 2.5mn in 2Q20, as lower SG&A expenses and higher other operating income were offset by the steep drop in the top line. Consequently, the operating profit margin contracted to 4.1% in 2Q20 as against 8.0% in 2Q19.
- The above-mentioned factors counterbalanced the reduction in finance charges and zakat expense during the quarter and resulted in an 82.0% YoY plunge in net profit to SAR 0.8mn. Consequently, the net profit margin slipped to 1.3% in 2Q20 compared with 4.7% in 2Q19.
- Abo Moati reported an EPS of SAR 0.04 per share during the period compared with SAR 0.22 per share in 2Q19.
- On September 17, Abo Moati announced that it will distribute a cash dividend of SAR 0.5 per share (5.0% of share capital) for FY20, worth SAR 10.0mn to its shareholders on September 22.
- On November 26, the company renewed its Islamic financing facility with National Commercial Bank worth SAR 40.0mn, which would be used for working capital requirements.

Valuation: We retain our target price at a fair value of SAR 25.0 per share and maintain our "Underweight" rating.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	60.3	92.6	(34.9%)	252.5	297.1	(15.0%)
Gross Profit (SAR mn)	12.4	17.8	(30.5%)	53.0	60.2	(11.9%)
EBITDA (SAR mn)	4.2	8.7	(51.9%)	24.8	29.1	(14.7%)
Net Profit (SAR mn)	0.8	4.4	(82.0%)	11.6	14.8	(21.5%)
EPS basic (SAR)	0.04	0.22	(82.0%)	0.58	0.74	(21.5%)
Gross Margin (%)	20.6%	19.2%	1.3%	21.0%	20.3%	0.8%
EBITDA Margin (%)	7.0%	9.4%	(2.5%)	9.8%	9.8%	0.0%
Net Profit Margin (%)	1.3%	4.7%	(3.4%)	4.6%	5.0%	(0.4%)

Source: Company Financials, FALCOM Research

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FALCOM Rating Methodology

December 31, 2020

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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