

April 20, 2021

FY20 Results Update

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	22.2
Target Price (SAR)	20.7
Upside/Downside (%)	(6.9%)

As of April 19, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	956.3
52-wk High (SAR)	24.2
52-wk Low (SAR)	10.4
Total Outstanding shares (in mn)	43.0
Free Float (%)	30.0%

Lazurde vs. TASI (Rebased)

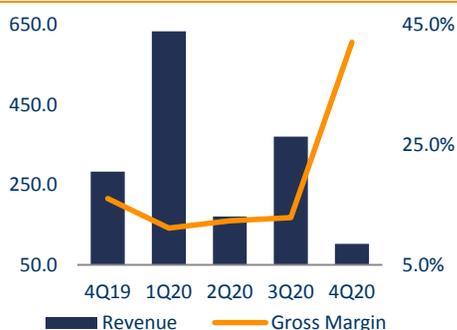


Price Performance (%)	Absolute	Relative
1m	(1.4%)	(7.9%)
6m	2.8%	(15.4%)
12m	97.5%	46.3%

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 April 19, 2021

Hike in VAT rates, higher gold prices and recall of products weigh on FY20 bottom line

Lazurde Company for Jewelry (Lazurde)'s net loss widened to SAR 120.5mn in FY20 against a net loss of SAR 17.5mn in FY19. The company's revenue declined 35.3% YoY to SAR 1.3bn in FY20, mainly due to the negative impact of the COVID-19 outbreak, tripling of VAT to 15%, and surge in gold prices. Gross profit declined 36.4% YoY to SAR 183.0mn, while gross margin shrank 24.9 bps to 14.3% in FY20. The company recorded a SAR 34.7mn loss on recall of products, which weighed on the bottom line. Consequently, the net loss margin stood at (9.4%) against a net loss margin of (0.9%) in FY19.

Weak performance in FY20 was largely due to a hike in the VAT rate from 5% to 15%, apart from the rise in gold prices in the wake of COVID-19. Both the Wholesale and Retail segments witnessed a steep decline in revenues due to the factors mentioned above. For FY20, wholesale revenues were 45.2% lower compared to the same period last year, while in Egypt, it dropped 24.0% YoY. On the other hand, retail revenues in KSA decreased 37.5% YoY, partly offset by promising results for the new Miss L' brand. However, in Egypt, retail revenues rose 24.4% YoY organically, supported by the opening of five new locations in FY20 for Miss L' and diamond jewelry. Lazurde is introducing new business segments where it sells jewelry by piece in modern trade (malls), online, and recently in gold souks. This can be ascribed to the changing trend of buying gold through modern markets in malls rather than in traditional gold markets. In FY20, the traditional wholesale business selling jewelry by weight represents a lower share of revenues compared to 2019 levels. We expect this trend to continue, which should expand the company's gross margin and reduce working capital requirements. However, we believe the higher VAT rates and consequent reduction in consumer spending, resurgence of COVID-19 cases across the world, and risk of a further rise in gold rates would be major headwinds for the company in the short to medium term. Thus, in light of these factors, we maintain our "Neutral" rating on the stock.

- Revenue fell 35.3% YoY to SAR 1.3bn in FY20 from SAR 2.0bn in FY19 on lower revenue contribution from the Wholesale and Retail segments. This is largely due to complete closure of gold souks and malls, following lockdown measures to curb the spread of COVID-19.
- Gross profit decreased 36.4% YoY to SAR 183.0mn in FY20, largely due to lower operating revenue reported in FY20, which offset the 35.1% YoY decrease in cost of sales. As a result, gross margin narrowed to 14.3% in FY20 against 14.6% in FY19.
- Operating loss stood at SAR 23.9mn in FY20 against an operating profit of SAR 64.5mn in FY19, mainly due to higher impairment provision which offset the drop in operating expenses. Consequently, the operating loss margin stood at (1.9%) in FY20 vis-à-vis an operating profit margin of 3.3% in FY19.
- Lower top line and declining margins, coupled with a SAR 34.7mn loss on recall of some of the company's products weighed on bottom line as the company recorded a net loss of SAR 120.5mn in FY20 against a net loss of SAR 17.5mn in FY19. Simultaneously, the company reported a net loss margin of (9.4%) against a net loss margin of (0.9%) in FY19.
- On March 31, the company's Board recommended withholding dividends for FY20, to support the company's financial position amid the challenging conditions created by COVID-19.
- On April 7, the Capital Market Authority approved Lazurde's request to hike its share capital by SAR 145mn through a rights issue.

Valuation: We retain our target price at a fair value of SAR 20.7 per share and maintain "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	103.0	282.9	(63.6%)	1,478.6	1,278.4	15.7%
Gross Profit (SAR mn)	43.4	45.5	(4.6%)	217.3	183.0	18.8%
EBITDA (SAR mn)	(8.6)	5.4	NM	73.8	21.1	250.2%
Net Profit (SAR mn)	(33.9)	(41.9)	NM	(19.6)	(120.5)	NM
EPS Basic (SAR)	(0.79)	(0.97)	NM	(0.46)	(2.80)	NM
Gross Margin (%)	42.1%	16.1%	26.0%	14.7%	14.3%	0.4%
EBITDA Margin (%)	(8.4%)	1.9%	(10.3%)	5.0%	1.6%	3.3%
Net Profit Margin (%)	(32.9%)	(14.8%)	NM	(1.3%)	(9.4%)	NM

Source: Company Financials, FALCOM Research

FY20 Results Update
FALCOM Rating Methodology

April 20, 2021

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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