

### FY20 Results Update

March 08, 2021

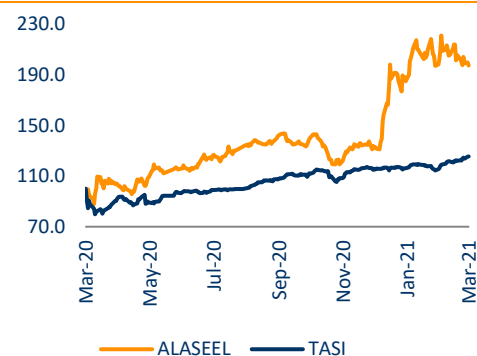
Recommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	83.0
Target Price (SAR)	60.0
Upside/Downside (%)	(27.7%)

As of March 08, 2021

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.5
52-Wk High (SAR)	96.0
52-Wk Low (SAR)	37.0
Total Outstanding shares (in mn)	30.0
Free Float (%)	94.3%

#### ALASEEL vs. TASI (Rebased)

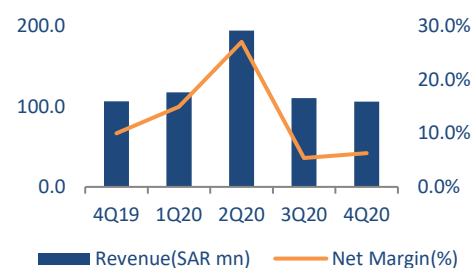


Price Performance (%)	Absolute	Relative
1m	(2.4%)	(10.3%)
6m	39.5%	22.7%
12m	97.4%	71.8%

#### Major Shareholders (%)

Mohammed Abdullah Ibrahim Al Jedaie	5.80%
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#### Revenue (SAR mn) and Gross Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 08, 2021

#### Top line and bottom line increase in FY20, but margins deteriorate

Thob Al Aseel (ALASEEL) reported a 10.5% YoY rise in revenue to SAR 527.3mn in FY20, due to higher revenue contribution from the Thobs segment and the signing of a new medical equipment supply contract in the year. However, revenue dipped 0.3% YoY and 3.7% QoQ to SAR 106.0mn in 4Q20. Gross profit was up 4.3% YoY to SAR 188.5mn; gross profit margin narrowed 212.5 bps to 35.7% in FY20. Due to a decline in G&A expenses, operating profit surged 3.3% YoY to SAR 99.1mn during the year. Net income scaled up 2.5% YoY to SAR 82.4mn due to a higher top line, but net margin shrank 121.9 bps to 15.6% in FY20.

The company recorded steady growth in top line and a marginal increase in bottom line in FY20, despite the testing economic situation created by the COVID-19 pandemic. It plans to launch new products and sign additional contracts in the medical equipment supplies field, going forward. Sound fundamentals and marginal debt on Thob's balance sheet bode well for its growth plans in the segment. However, the company's profit margins contracted in FY20 owing to low-margin product mix and the launch of a new incentive package for its customers. This contraction in margins resulted in only a slight increase in bottom line and remains a concern for the company in the near term. In our opinion, the positive factors for the company have already been reflected in its recent stock performance and, therefore, there is limited upside potential. As a result, we revise our rating to "Underweight" on the stock.

- ALASEEL's revenue rose 10.5% YoY to SAR 527.3mn in FY20 owing to the 15.5% YoY growth in revenue from the Thobs segment to SAR 440.8mn. Revenue dropped 0.3% YoY to SAR 106.0mn in 4Q20.
- Gross profit (up 4.3% YoY to SAR 188.5mn) grew at a slower pace than revenue, as cost of sales surged 14.3% YoY to SAR 338.8mn in FY20. Due to this, gross profit margin contracted to 35.7% in FY20 from 37.9% in FY19.
- Lower G&A expenses offset the increase in selling and marketing expense and impairment charge, resulting in a 3.3% YoY surge in operating profit to SAR 99.1mn in the year. However, operating margin narrowed to 18.8% in FY20 from 20.1% in FY19.
- Higher top line offset the increase in financial and zakat expenses, resulting in a 2.5% YoY rise in net profit to SAR 82.4mn in FY20. Nevertheless, net profit margin shrank to 15.6% from 16.8% in FY19.
- Net profit plunged 37.6% YoY to SAR 6.6mn in 4Q20 owing to lower top line and higher operating expenses during the quarter.
- EPS inched up to SAR 2.75 in FY20 from SAR 2.68 in FY19. However, it contracted to SAR 0.22 in 4Q20 from SAR 0.35 reported in 4Q19.
- On February 15, the company's CEO Ahmed Al-Sultan stated that ALASEEL plans to venture into the medical equipment supplies segment and seeks to sign more agreements and launch new products in this field.

**Valuation:** We increase our target price upward to a fair value of SAR 60.0 per share and revise our rating to "Underweight" on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	106.0	106.2	(0.3%)	606.4	527.3	15.0%
Gross Profit (SAR mn)	39.1	40.0	(2.2%)	230.4	188.5	22.3%
EBITDA (SAR mn)	9.7	15.7	(38.2%)	137.5	101.1	36.0%
Net Profit (SAR mn)	6.6	10.6	(37.6%)	114.5	82.4	39.0%
EPS Basic (SAR)	0.22	0.35	(37.6%)	3.8	2.7	39.0%
Gross Margin (%)	36.9%	37.6%	(0.7%)	38.0%	35.7%	2.3%
EBITDA Margin (%)	9.2%	14.8%	(5.6%)	22.7%	19.2%	3.5%
Net Profit Margin (%)	6.3%	10.0%	(3.7%)	18.9%	15.6%	3.3%

Source: Company Financials, FALCOM Research

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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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