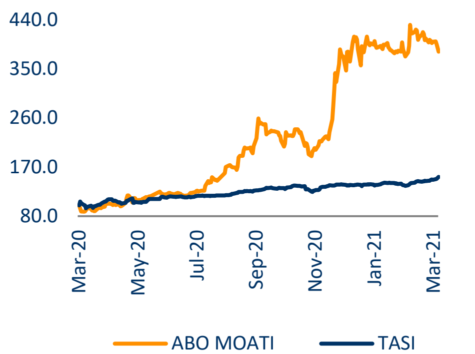
31, December 20 Results Update March 11, 2021

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	51.5
Target Price (SAR)	28.0
Upside/Downside (%)	(45.6%)

As of March 10, 2021

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	1.0
52-Wk High (SAR)	60.8
52-Wk Low (SAR)	11.5
Total Outstanding shares (in mn)	20.0
Free Float (%)	85.0%

ABO MOATI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(8.0%)	(15.9%)
6m	51.7%	32.9%
12m	281.5%	229.5%

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 March 10, 2021

Bottom line shrinks YoY in 3Q20 on reduced demand for school supplies, profit margins contract

Abdullah Saad Mohammed Abo Moati for Bookstores Co. (Abo Moati)'s net profit fell 37.3% YoY to SAR 3.0mn in 3Q19 as schools and corporates continued to function remotely during the quarter. Revenue dipped 19.2% YoY to SAR 68.4mn in the quarter owing to the impact of the COVID-19 pandemic and the resultant restrictive measures to curb its spread. Gross profit declined 19.6% YoY to SAR 13.9mn, while gross margin contracted 12.1 bps to 20.3% in 3Q19. Operating profit plummeted 21.5% YoY to SAR 4.9mn, whereas operating margin shrank 21.5 bps to 7.2% in the period. Higher zakat expense weighed on the bottom line in 3Q19, resulting in 126.7 bps contraction in net margin to 4.4%.

The company reported weaker performance in 9M20, as revenues declined 25.6% YoY to SAR 164.8mn and net profit was down 55.6% YoY to SAR 4.5mn during the period. The lower top line was driven by the decline in sales across the Wholesale and Retail (down 32.3% YoY to SAR 98.9mn) and Inks (down 12.7% YoY to SAR 65.9mn) segments. Additionally, lower demand for stationery supplies due to corporates and schools functioning remotely hurt the company's top line. We anticipate weaker demand for office and school supplies would continue to weigh on margins in the near term. Moreover, the higher VAT rate may affect Abo Moati's bottom line. Furthermore, the possibility of additional restrictions amid new variants of the virus may create headwinds for the company. Although a steady pickup in economic activity on the gradual reopening of the economy did support the company's business activities in 3Q19 vis-à-vis 2Q19, we believe the stock has run ahead of its fundamentals. In view of the rich valuation, we retain our "Underweight" rating on the stock.

- Revenue fell 19.2% YoY to SAR 68.4mn in 3Q19 as the pandemic and precautionary measures to halt the spread of the virus hurt sales during the quarter. However, revenue was up 13.5% QoQ from SAR 60.3mn in 2Q19.
- Gross profit decreased 19.6% YoY to SAR 13.9mn as the decrease in the top line counterbalanced the 19.0% YoY plunge in cost of sales to SAR 54.5mn during the period. As a result, gross margin contracted to 20.3% as against 21.1% in 3Q19.
- The lower gross profit offset higher SG&A expense, leading to a 21.5% YoY plunge in operating profit to SAR 4.9mn. Consequently, operating margin tightened to 7.2% in 3Q19 as opposed to 7.4% in 3Q19.
- Net income nosedived 37.3% YoY to SAR 3.0mn as higher zakat expense counterbalanced the reduction in finance charges during the quarter. Subsequently, net margin slipped to 4.4% in 3Q19 compared with 5.6% in 3Q19.
- Abo Moati reported EPS of SAR 0.15 during the period compared with SAR 0.24 per share in 3Q19.
- On December 31, the company renewed its Islamic financing facility with Saudi Investment Bank for SAR 70.0mn. The facility would have a tenure of one year and be utilized for working capital requirements.

Valuation: We revise our target price upward to a fair value of SAR 28.0 per share and maintain our "Underweight" rating.

	3Q20	3Q19	% YoY	FY21E	FY19	% YoY
Revenues (SAR mn)	68.4	84.6	(19.2%)	237.7	297.1	(20.0%)
Gross Profit (SAR mn)	13.9	17.3	(19.6%)	49.9	60.2	(17.0%)
EBITDA (SAR mn)	6.6	7.8	(14.5%)	23.4	29.1	(19.6%)
Net Profit (SAR mn)	3.0	4.8	(37.3%)	9.5	14.8	(35.8%)
EPS Basic (SAR)	0.15	0.24	(37.3%)	0.47	0.74	(35.8%)
Gross Margin (%)	20.3%	20.4%	(0.1%)	21.0%	20.3%	0.8%
EBITDA Margin (%)	9.7%	9.2%	0.5%	9.8%	9.8%	0.0%
Net Profit Margin (%)	4.4%	5.6%	(1.3%)	4.0%	5.0%	(1.0%)

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 ≥ 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 ≥ 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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