

2Q21 Results Update

August 2, 2021

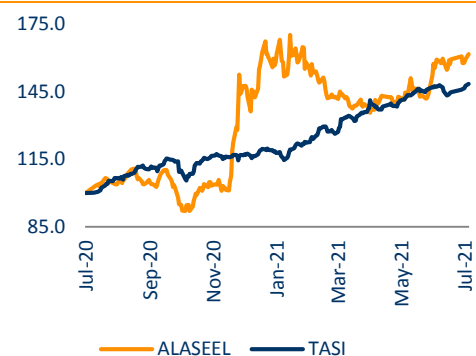
Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	88.3
Target Price (SAR)	70.0
Upside/Downside (%)	(20.7%)

As of August 1, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.6
52-Wk High (SAR)	96.0
52-Wk Low (SAR)	50.0
Total Outstanding shares (in mn)	30.0
Free Float (%)	94.3%

ALASEEL vs. TASI (Rebased)

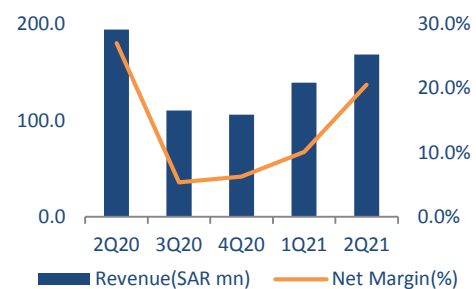


Price Performance (%)	Absolute	Relative
1m	1.5%	0.7%
6m	(1.0%)	(28.2%)
12m	61.7%	13.3%

Major Shareholders (%)

Mohammed Abdullah Ibrahim Al Jedaie	5.56%
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Revenue (SAR mn) and Gross Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 1, 2021

Lower sales, unfavorable product mix weigh on bottom line in 2Q21

Thob Al Aseel (Thob) reported a 13.3% YoY revenue drop to SAR 168.1mn in 2Q21 due to lower revenue recorded by the Thobes segment. Gross profit slipped 18.5% YoY to SAR 61.0mn, while gross margin narrowed 231 bps YoY to 36.3% in 1Q21. Higher SG&A expense led to a 29.3% YoY slump in operating profit to SAR 40.6mn in 2Q21, while EBIT margin shrank 545 bps YoY to 24.2%. Higher finance and zakat expenses led to a 34.1% YoY plunge in net profit to SAR 34.5mn and a 647 bps YoY drop in net margin to 20.5% in 2Q21.

The company's performance dipped in 1H21 as Thob recorded a drop in top line (down 1.4% YoY to SAR 306.9mn) and bottom line (down 30.6% YoY to SAR 48.5mn) during the period. Sales growth in 1H21 was impacted by higher revenue base in 1H20 due to the signing of a new medical supplies contract in the year ago period. Revenue from the Fabrics segment was up 13.0% YoY to SAR 49.8mn, but was offset by the 3.8% YoY drop in revenue from the Thobes segment to SAR 257.0mn in 1H21. The above result could be ascribed to the challenging economic conditions created by the COVID-19 pandemic and subsequent restrictions, which could have led to reduced consumer spending on new clothing. Moreover, an unfavorable product mix during the quarter weighed on the bottom line and profit margins in 1H21. The company has previously announced plans to launch new products and sign additional contracts in the medical equipment procurement space and is assessing the market conditions for the same. The company has also received approval from the Board to raise SAR 100mn additional capital to support its growth plans in this segment. However, high operating costs and low profit margins remain a concern for the company in the near term. Furthermore, prolonged restrictions due to the rise in cases may hamper demand for the company's products and weigh on profitability. Therefore, considering these factors, we maintain our "Underweight" rating on the stock.

- Thob's revenue dropped 13.3% YoY to SAR 168.1mn in 2Q21 owing to high base in 2Q20 as the company signed a new contract for the supply of medical supplies in 2Q20. However, revenue surged 21.0% QoQ from SAR 138.8mn in 1Q21 due to the seasonality factor of the company's business activity.
- Gross profit fell 18.5% YoY to SAR 61.0mn due to the drop in top line. Subsequently, gross margin contracted to 36.3% from 38.6% in 2Q20.
- Higher total SG&A expense due to the launch of a promotional campaign resulted in a 29.3% YoY plunge in operating profit to SAR 40.6mn in the quarter. Consequently, operating margin narrowed to 24.2% in 2Q21 from 29.6% in 2Q20.
- Lower margins and higher finance and zakat expenses resulted in a 34.1% YoY plummet in net profit to SAR 34.5mn in 2Q21. Consequently, net margin shrank to 20.5% from 27.0% in 2Q20.
- On June 29, the company's shareholders approved the Board's recommendation to distribute interim dividends on a semi-annual or quarterly basis for FY21.
- On July 15, Thob's Board recommended a SAR 0.75 per share cash dividend for 1H21 worth SAR 22.5mn (7.5% of the company's share capital).
- On July 15, Thob's Board recommended a 33.3% increase in share capital to SAR 400mn by issuing 10mn bonus shares. The company aims to utilize the capital in expansion of business and maintaining financial solvency.

Valuation: We revise our target price upward to a fair value of SAR 70.0 per share, but maintain our "Underweight" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	168.1	193.8	(13.3%)	590.6	527.3	12.0%
Gross Profit (SAR mn)	61.0	74.9	(18.5%)	212.6	188.5	12.8%
EBITDA (SAR mn)	46.4	57.8	(19.8%)	119.7	101.1	18.4%
Net Profit (SAR mn)	34.5	52.3	(34.1%)	98.4	82.4	19.4%
EPS Basic (SAR)	1.15	1.74	(34.1%)	3.3	2.7	19.4%
Gross Margin (%)	36.3%	38.6%	(2.3%)	36.0%	35.7%	0.3%
EBITDA Margin (%)	27.6%	29.8%	(2.3%)	20.3%	19.2%	1.1%
Net Profit Margin (%)	20.5%	27.0%	(6.5%)	16.7%	15.6%	1.0%

Source: Company Financials, FALCOM Research

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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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