

1Q21 Results Update

June 10, 2021

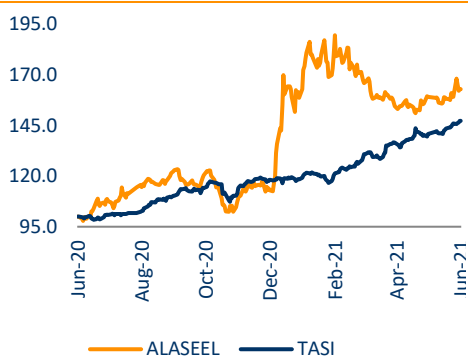
Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	79.9
Target Price (SAR)	68.0
Upside/Downside (%)	(14.9%)

As of June 10, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.4
52-Wk High (SAR)	96.0
52-Wk Low (SAR)	47.5
Total Outstanding shares (in mn)	30.0
Free Float (%)	94.3%

ALASEEL vs. TASI (Rebased)

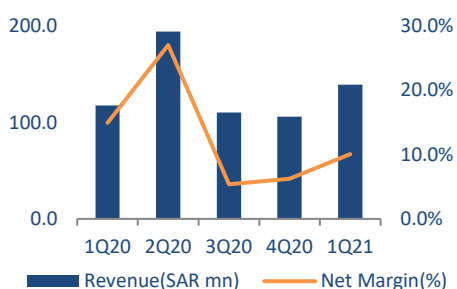


Price Performance (%)	Absolute	Relative
1m	2.3%	(2.3%)
6m	44.2%	19.6%
12m	62.9%	15.6%

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 June 10, 2021

Higher operating expenses, impairment provision weigh on bottom line in 1Q21

Thob Al Aseel (Thob) reported a revenue growth of 18.2% YoY to SAR 138.8mn in 1Q21, due to higher revenue recorded by the Thobes segment. Gross profit scaled up 10.6% YoY to SAR 47.6mn on higher top line. However, gross profit margin narrowed 234 bps YoY to 34.3% in 1Q21. Higher Impairment losses on trade receivables for the quarter led to 12.0% YoY drop in operating profit to SAR 19.2mn, while EBIT margin shrank 475 bps YoY to 13.9%. Higher zakat expense resulted in 20.2% YoY fall in net profit to SAR 14.0mn and 485 bps YoY contraction in net margin to 10.1% in 1Q20.

The company recorded a growth in top line, but higher operating expenses and impairment charge during the quarter weighed on the bottom line and profit margins in 1Q21. This could be attributed to the testing economic environment created by the COVID-19 pandemic and the subsequent restrictions, which reduced consumer spending on new clothing and fabrics. Moreover, sales of low-profit products and the launch of several promotions for customers during the quarter resulted in lower margins during 1Q21. Revenue from the Thobes segment was up 24.8% YoY to SAR 114.7mn, but was partially offset by the 5.5% YoY drop in revenue from the Fabrics segment to SAR 24.2mn in 1Q21. The company has announced plans to launch new products and sign additional contracts in the medical equipment supply field. Sound fundamentals and marginal debt on its balance sheet bode well for its growth plans in the 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. We believe the positive factors for the company have already been reflected in its recent stock performance, and it has run ahead of its fundamentals. Therefore, due to the limited upside potential, we maintain our "Underweight" rating on the stock.

- Thob's revenue rose 18.2% YoY to SAR 138.8mn in 1Q21 owing to strong growth in revenue contribution from the Thobes segment. Revenue surged 31.0% QoQ from SAR 106.0mn in 4Q20.
- Gross profit (up 10.6% YoY to SAR 47.6mn) grew at a slower pace than revenue, owing to the 22.6% YoY rise in cost of sales to SAR 91.3mn in 1Q21. Due to this, gross profit margin contracted to 34.3% in 1Q21 from 36.6% in 1Q20.
- Higher total SG&A expense and Impairment losses on trade receivables resulted in a 12.0% YoY drop in operating profit to SAR 19.2mn in the quarter. Subsequently, operating margin narrowed to 13.9% in 1Q21 from 18.6% in 1Q20.
- Lower margins and higher zakat expense offset the dip in finance costs, resulting in a 20.2% YoY fall in net profit to SAR 14.0mn in 1Q21. Consequently, net profit margin shrank to 10.1% from 14.9% in 1Q20.
- Net profit soared 110.7% QoQ from SAR 6.6mn in 4Q20, owing to higher top line due to the seasonality factor of the company's business activities.
- Thob reported a drop in EPS to SAR 0.47 in 1Q21 from SAR 0.58 in 1Q20.

Valuation: We revise our target price upward to a fair value of SAR 68.0 per share, but maintain our "Underweight" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	138.8	117.5	18.2%	606.4	527.3	15.0%
Gross Profit (SAR mn)	47.6	43.0	10.6%	222.8	188.5	18.2%
EBITDA (SAR mn)	19.6	22.3	(12.2%)	120.9	101.1	19.6%
Net Profit (SAR mn)	14.0	17.5	(20.2%)	99.7	82.4	21.0%
EPS Basic (SAR)	0.47	0.58	(20.2%)	3.3	2.7	21.0%
Gross Margin (%)	34.3%	36.6%	(2.3%)	36.7%	35.7%	1.0%
EBITDA Margin (%)	14.1%	19.0%	(4.9%)	19.9%	19.2%	0.8%
Net Profit Margin (%)	10.1%	14.9%	(4.8%)	16.4%	15.6%	0.8%

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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