

1Q21 Results Update

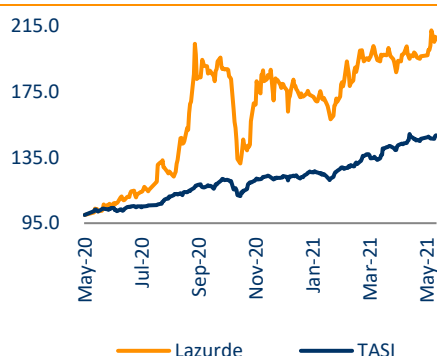
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	23.8
Target Price (SAR)	23.0
Upside/Downside (%)	(3.3%)

As of May 26, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.0
52-wk High (SAR)	24.8
52-wk Low (SAR)	11.6
Total Outstanding shares (in mn)	43.0
Free Float (%)	30.0%

Lazurde vs. TASI (Rebased)

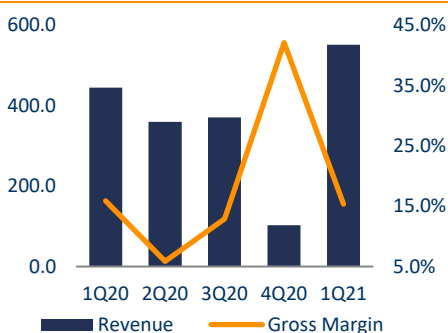


Price Performance (%)	Absolute	Relative
1m	4.6%	2.2%
6m	14.1%	(6.3%)
12m	107.1%	58.6%

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 May 26, 2021

May 27, 2021

Lazurde swings to profit in 1Q21 on higher top line and lower impairment charge

Lazurde Company for Jewelry (Lazurde) recorded a net profit of SAR 10.2mn in 1Q21 against a net loss of SAR 1.6mn in 1Q20. The company's revenue increased 23.9% YoY to SAR 551.4mn in 1Q21, mainly due to higher revenue realized by the Wholesale and Retail segments. Gross profit soared 19.9% YoY to SAR 84.6mn, whereas gross margin shrank 52 bps YoY to 15.3% in 1Q21. Operating profit surged 124.5% YoY to SAR 27.9mn in 1Q21, while Operating profit margin widened 227 bps YoY to 5.1%. Reduction in financial costs during the year supported the bottom line and resulted in a net profit margin of 1.8% against a net loss margin of (0.4%) in 1Q20.

Lazurde's performance improved in 1Q21, largely due to higher revenue recorded across its Wholesale (up 24.0% YoY to SAR 493.7mn) and Retail (up 23.1% YoY to SAR 57.7mn) segments. Revenue from operations advanced 21.4% YoY to SAR 138.9mn in 1Q21. Revenue from Wholesale operations accounted for 58.4% of revenue from operations in 1Q21 compared to 59.0% in 1Q20. Retail revenue in Egypt surged 62.1% YoY due to higher same-store sales, strong performance of the Miss L' brand, robust e-commerce growth, and opening of six new shops in the last 12 months. Wholesale revenue in Egypt surged 28.1% YoY on higher demand for gold jewelry. In KSA, Retail revenues inched up 2.4% YoY, while Wholesale revenues grew 8.6% YoY in 1Q21 due to the easing of COVID-related restrictions. Lazurde reported sharp growth in e-commerce sales to SAR 5.0mn (representing 3.6% of operating revenue and 8.6% of Retail revenue) during the quarter against SAR 0.2mn in 1Q20. The company also witnessed sturdy growth in sales of recently launched brands Miss L' and L'azurde InStyle, together contributing SAR 25.0mn in revenue and accounting for 18.0% of operating revenue in 1Q21 as opposed to 7.8% in 1Q20. The company has received approval from the Capital Market Authority (CMA) for a SAR 145.0mn capital hike through rights issue; this will help the company to expand its e-commerce operations and continue growing its Miss L' and InStyle brands. However, reduction in consumer spending due to higher VAT rates and resurgence in COVID-19 cases worldwide may create headwinds for the company. Therefore, considering these countervailing factors, we maintain our "Neutral" rating on the stock.

- Revenue increased 23.9% YoY to SAR 551.4mn in 1Q21 from SAR 445.0mn in 1Q20 on higher revenue contribution from the Wholesale and Retail segments. Revenue scaled up 435.4% QoQ from SAR 103.0mn in 4Q20.
- Gross profit (up 19.9% YoY to SAR 84.6mn) grew slower than revenue due to the 24.7% YoY increase in cost of sales to SAR 466.8mn. As a result, gross margin narrowed to 15.3% in 1Q21 from 15.9% in 1Q20.
- Operating profit soared 124.5% YoY to SAR 27.9mn in 1Q21 due to lower impairment provision which, offset the rise in total SG&A expense. Consequently, Operating profit margin widened to 5.1% in 1Q21 vis-à-vis 2.8% in 1Q20.
- Lower finance charge offset higher zakat and tax expense, and led the company to record a net profit of SAR 10.2mn in 1Q21 against a net loss of SAR 1.6mn in 1Q20. Simultaneously, net profit margin stood at 1.8% compared to a net loss margin of (0.4%) in 1Q20.
- On March 31, the company's Board recommended to not distribute a dividend to shareholders for FY20 to support the company's financial position amid the challenging conditions caused by COVID-19.
- On April 7, the CMA approved Lazurde's request to increase its share capital by 34% to SAR 575mn through a rights issue.

Valuation: We revise our target price upward to a fair value of SAR 23.0 per share and maintain a "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	551.4	445.0	23.9%	2,058.7	1,278.4	61.0%
Gross Profit (SAR mn)	84.6	70.6	19.9%	304.0	183.0	66.1%
EBITDA (SAR mn)	39.3	23.7	65.9%	126.8	21.1	501.5%
Net Profit (SAR mn)	10.2	(1.6)	NM	28.7	(120.5)	NM
EPS Basic (SAR)	0.24	(0.04)	NM	0.67	(2.80)	NM
Gross Margin (%)	15.3%	15.9%	(0.5%)	14.8%	14.3%	0.5%
EBITDA Margin (%)	7.1%	5.3%	1.8%	6.2%	1.6%	4.5%
Net Profit Margin (%)	1.8%	(0.4%)	NM	1.4%	(9.4%)	NM

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 $\geq 10\%$.

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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