

2Q21 Results Update

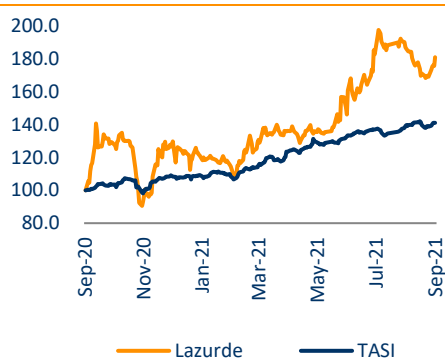
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.7
Target Price (SAR)	24.0
Upside/Downside (%)	(2.8%)

As of September 2, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.4
52-wk High (SAR)	28.8
52-wk Low (SAR)	12.8
Total Outstanding shares (in mn)	57.5
Free Float (%)	30.0%

Lazurde vs. TASI (Rebased)

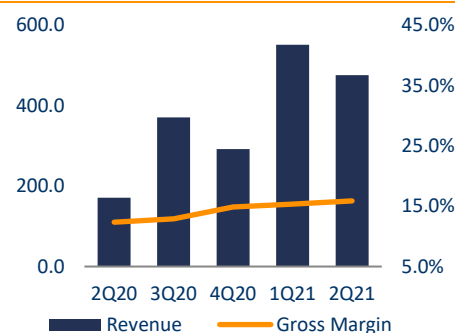


Price Performance (%)	Absolute	Relative
1m	(3.2%)	(4.7%)
6m	38.5%	16.1%
12m	81.2%	40.0%

Major Shareholders (%)

Abdul Aziz Saleh Ali Al-Othaim	11.13%
--------------------------------	--------

Quarterly Sales (SAR mn) and Gross Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 2, 2021

September 2, 2021

Lazurde records profits in 2Q21, driven by higher top line, low finance cost

Lazurde Company for Jewelry (Lazurde)'s revenue rose 178.1% YoY to SAR 475.4mn in 2Q21, driven by higher revenues in wholesale and retail segments. Gross profit swelled 257.6% YoY to SAR 75.5mn in 2Q21. Consequently, gross margin improved 353 bps YoY to 15.9% in 2Q21. Driven by a higher top line, the company reported operating profit of SAR 20.2mn in 2Q21, as against operating loss of SAR 16.2mn in 2Q20; operating margin stood at 4.2% in 2Q21. The company reported a net profit of SAR 8.0mn in 2Q21 as against a net loss of SAR 66.2mn in 2Q20, led by decline in financial costs; the net profit margin stood at 1.7% in 2Q21, as against a net loss margin of (38.7%) in 2Q20.

Driven by higher revenues in wholesale (up 187.7% YoY to SAR 423.5mn) and retail (up 119.0% YoY to SAR 52.0mn) segments, Lazurde's performance improved in 2Q21. Revenue from operations increased 147.9% YoY to SAR 121.4mn in 2Q21. The company's new initiatives Miss L', InStyle, TOUS, and E-Commerce contributed 33% to operating revenue in 2Q21. Revenue from wholesale operations accounted for 57% of revenue from operations, whereas that from retail operations and E-Commerce operations accounted for 38% and 5%, respectively, in 2Q21. Operating revenues from the company's new product lines Miss L' and Lazurde InStyle jumped to SAR 25.7mn in 2Q21 from SAR 6.2mn in 2Q20. Lazurde's cash bank loans reduced significantly to SAR 41mn in 2Q21 which led to total gold and cash bank loans of SAR 970mn, the lowest in five years. As a result, the leverage ratio improved from 4.9x to 2.6x in 2Q20. Finance cost stood at SAR 8.6mn in 2Q21, the lowest in 3.5 years. The company continued its focus on cash generation; it reported a positive cashflow of SAR 18.9mn in 2Q21. Lazurde enhanced its balance sheet with total equity increasing 30% YoY, liabilities decreasing 32% YoY and total working capital reducing 23% YoY, in 2Q21. The group succeeded in increasing its capital by SAR 145mn through rights issue in 2Q21, which will help the company to expand operations going forward. However, reduction in consumer spending due to rising inflation and higher VAT rates, and resurgence in COVID-19 cases driven by the delta variant may create headwinds for the company. Therefore, considering the abovementioned factors, we maintain our "Neutral" rating on the stock.

- Revenue rose 178.1% YoY to SAR 475.4mn in 2Q21 from SAR 170.9mn in 2Q20, aided by higher revenues in wholesale and retail segments.
- Slower rise in cost of sales led to improvement in gross profit by 257.6% YoY to SAR 75.5mn; as a result, gross margin expanded to 15.9% in 2Q21 from 12.3% in 2Q20.
- A higher top line countervailed the rise in selling and marketing expenses, with the company reporting operating profit of SAR 20.2mn in 2Q21 as against operating loss of SAR 16.2mn in 2Q20; operating margin stood at 4.2%.
- Lower finance charge following reduction in loans offset higher zakat and tax expense; as a result, the company reported a net profit of SAR 8.0mn in 2Q21 as against a net loss of SAR 66.2mn in 2Q20. Simultaneously, the net profit margin stood at 1.7% compared to a net loss margin of (38.7%) in 2Q20.
- On June 30, the company finalized all regulatory requirements related to the share capital increase and successfully raised SAR 145mn through rights issue.
- The company improved its balance sheet by increasing total equity and simultaneously reducing its working capital and total liabilities in 2Q21.

Valuation: We revise our target price upward to a fair value of SAR 24.0 per share and maintain our "Neutral" rating on the stock.

	2Q'21	2Q'20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	475.4	170.9	178.1%	2,008.6	1,278.4	57.1%
Gross Profit (SAR mn)	75.5	21.1	257.6%	311.0	183.0	70.0%
EBITDA (SAR mn)	31.8	(4.9)	NM	134.0	21.1	535.5%
Net Profit (SAR mn)	8.0	(66.2)	NM	33.5	(120.5)	NM
EPS basic (SAR)	0.19	(1.54)	NM	0.78	(2.80)	NM
Gross Margin (%)	15.9%	12.3%	3.5%	15.5%	14.3%	1.2%
EBITDA Margin (%)	6.7%	(2.9%)	NM	6.7%	1.6%	5.0%
Net Profit Margin (%)	1.7%	(38.7%)	NM	1.7%	(9.4%)	NM

Source: Company Financials, FALCOM Research

2Q21 Results Update FALCOM Rating Methodology

September 2, 2021

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.